

# TEACHING ECONOMICS IN HUNGARY AFTER THE CRISIS<sup>1</sup>

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In the wake of the economic crisis, a question arises increasingly often: what is the role of economic culture in overcoming the crisis? Since the mid-2000s, leaders of developed countries have kept pointing out that fostering political and economic education is a driver of growth and development. Curricula are being overhauled; new modules are appearing in the study programmes of secondary schools, colleges, and university-level undergraduate courses; significant curriculum developments have been launched at the world's leading universities in the last few years. Hungarian higher education cannot exclude itself from this process.

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## 1. Introduction

The goal of curriculum development is to attain a higher level of economic culture, which means more than the promotion of a few separate subfields. One cannot blame the lack of certain financial competences, or the wrong consumer or producer decisions alone on the crisis of the past decades. The crisis brought along the fall of economic schools: it is a crisis of neoconservative-neoliberal economics as well: the school that has defined the last twenty years. An approach, an overarching framework, which has dominated economic thinking and teaching material since the mid-seventies, lost its validity.

The Hungarian educational reform must relate to this phenomenon. This does not mean of course that the knowledge which constitutes an organic part of economics and microeconomics should cease to be taught. The palette of economic tools has expanded, but its basis has remained the same. The cause for the stability of this set of tools is that in the 20<sup>th</sup> century a transition to the new world order took place within economic science as well, without anyone announcing it outright. The specific conditions of the transition demanded it this way. The framework of approach is being transformed, though: today the idea of a new world order is openly announced, and the transition to the new world order must be accommodated. As Joseph Stiglitz put it (Stiglitz 2004): the 90s were characterised by bad incentives, and in the 2000s we must turn towards good incentives. Economics –including microeconomics and macroeconomics – is, among other things, a science of economic incentives. One part of this is the technology, the set of tools, the methods which (broadly defined) economic policy uses to incentivize players of the economic field, another part is to know what these players are incentivized to do by economic policy. Telling right from wrong is another task of the science of economics.

Neoliberal economics has neglected this point of view in the last twenty years, particularly in Hungary. It pretended as if value judgements had not been part of the science, as if the theory had not been influenced by the set of values which steer society. Economics was torn from morality and values, and it was considered to be a closed and inalterable system.

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Neoliberalism claimed that closing up the development gap with the West meant the adoption of the current, Milton Friedma-type Western standards, and reforming economic education equalled accepting the definitive versions of micro- and macroeconomics. This approach is flawed: it was the ideological trap of the transition and the Cold War's last phase. It seemed that the Western economic and social scientific paradigm was identical with the neoliberal idea of capitalism, yet, in the West, the rule of law, freedom, democracy, and market values have never ceased to co-exist within one package. Every subject can and must be developed; one needs every bit of professional culture to implement a set of values. Hungarian economics must not forego this approach, as it would equal to the elimination of the profession, and giving up a Hungarian economic policy in the process of adapting to globalisation. While Rawls talked about “justice as fairness”, neoliberalism lacked “fairness”.

## **2. Crisis and economics**

There is a vivid debate going on within the profession today, on whether the economic crisis has influenced economics and its education. This debate appeared on Hungarian professional fora as well, for instance on the pages of *Közgazdasági Szemle*, Hungary’s leading economics journal. A paper by Benczúr et al. (2013), published in the journal in June 2013, is part of the discourse.

The paper’s first statement is that economics as a science is not in crisis. This is proven, above all, by the fact that only the functioning of the financial sector was questioned in the past few years. “The crisis has, of course, impacted one part of economic science, but fundamentally, it did not push either science or education into or anywhere near a crisis. It impacted science in a way that it made it obvious that the financial sector plays a much bigger role in passing on the shocks which impact the economy than it had previously been assumed based on the existing theories and models” (Benczúr et al. 2013: 729)

We are of the view that the crisis is a landmark between two eras. Leaving the information society and the neoliberal epoch behind, the world steps into the knowledge-based economy. A knowledge-based economy means knowing how to assert moral and community values, how to translate them to the language of individual interest. A professional knowledge on how to explain in practice the values of security, freedom, democracy, welfare, on how to create harmony between the values in areas which are very specific fields of professional interest for an economist: in economic culture and in economic policy. The neoliberal consumption and production model went into crisis, a model which took selfishness to be the drive of the economy, and considered exploitation and alienation as natural states of being.

The crisis is not a crisis of imbalance between consumption and production. The imbalance which is no doubt present both at a national and an international level, is only a symptom of the crisis. The crisis cannot be simplified to an explanation that certain social groups consume too much and others consume too little. Although the excessive consumption of certain social groups cannot be denied, what is really at hand today is a change between consumption and production cultures. Both the developed and the developing world switch over to the production and consumption culture of the knowledge-based economy from the production and consumption culture of the information society. The two eras are characterised by the consumption and production of different goods and services: procedures which determine development. New key sectors appear, and the key sectors of the previous era are on the decline.

No doubt, the notion of a key sector has undergone a reassessment recently. It seems to be the case now that not one single specific technology ensures increases in productivity, but rather the views and the culture of economic players in approaching different techniques and technologies. It is the change of culture itself which is the drive of development, and technological-technical evolution is subordinated to this change. Such a setting was not characteristic of any previous era. A few times in the economic history of the 20<sup>th</sup> century, or even before that, in traditional capitalism, it was always a specific technological innovation which prompted the change of culture. The last time it was information technology, before that it was automotive manufacturing, household electronics, artificial lighting, etc. From the 2000s onwards, however, the attention of economic political leadership has shifted more and more towards education and the health sector. The evolution of economic culture enables public services to be administered more efficiently and more effectively, it speeds up automation and it leaves space for more extensive creative work.

The crisis of the world economy determines the evolution of economic science, too: the transition from the neoliberal theoretical framework to the new world order takes place within the science. The new world order brings with it a framework approach which serves as the basis for the producer and consumer culture of the knowledge-based economy. This does not mean that the whole discipline of economic science became obsolete, it is only the theoretical approach characteristic of the last twenty to twenty-five years which has lost its validity.

## **2. The renaissance of formation theory**

The change of approach brought about a renaissance of formation theory. The statement which was considered to be rock solid by economists, or at least by the neoliberal school of economists in the last twenty to twenty-five years, that the debate between socialism and capitalism had been settled once for all, and capitalism has gained eternal victory, needs to be re-evaluated. The crisis of the world economy is also considered as the crisis of capitalism: therefore, the idea of capitalism has once again become a subject of research. Periods in the history of capitalism, attempts to make order and draw up a hierarchy between the notions of the rule of law, democracy and capitalism, or rather, between the rule of law, democracy, and the market economy have become subjects of research, too.

A renaissance of formation theory is justified not only by the ongoing political economic processes, but also by the neoliberal theory's inaccuracy in its assessment of the Eastern Bloc's collapse. This was the time when the tenet "the end of history" was put to paper, which contained valid and false elements alike. Its observations were valid in the sense that a new historical era began, the "world order without world war", an era where global political restructuring may take place without a global war. Two sets of proof are already at hand to confirm this: the collapse of the Eastern Bloc, the Soviet Union's disintegration without a world war, and China's peaceful evolution. Not only did the single-pole world come to life, global partnership is taking shape in an entirely peaceful fashion.

The tenet was false, however, in that it simply defined the new social-economic format as liberal democracy and capitalism. This is not true, because a system based on the rule of law and on the primacy of human dignity is not a feature of capitalism; liberal democracy alone cannot uphold such a system. Not every liberal democracy is able to grant everyone their human dignity: it was not a general trait in 19<sup>th</sup> century capitalism, either. To consistently assert human dignity, a social democratic tradition is necessary.

This argument is supported by the Marxist renaissance which has become more and more prevalent in the current academic discourse. The discovery and reinterpretation of Marx and of Marxism is one of the most important current trends in social science, which leads to its inclusion into universal cultural history, and into economic science as well (Balibar 2013).

The primacy of human dignity (Sandel 2012) also means that long-term political values take precedence over the economy: a change described by formation theory. It is no more sufficient to describe globalisation as a unified world market, although it is a part of it; globalisation is a period in the construction of global governance (Habermas 2012). The global level direction of economic processes and stakeholders is part of globalisation, and teaching economics cannot ignore this fact.

Therefore, Fukuyama, one of the leading researchers of formation theory begins his latest book, *The Origins of Political Order*, with a presentation of the Chinese political evolution. Fukuyama, in unison with Henry Kissinger (1994) or Fareed Zakaria (2008), does not only see an economic challenger in China, but a political-economic model as well, which may serve as an example in the era of globalisation. China was able to create and uphold a large territory, an empire throughout a longer period in world history – even in the face of colonisation –, it represents a tradition which creates the possibility for harmony, for unity and adjustment of oppositions, cooperation in partnership. This tradition is given a significant role in the era of global partnership. Every continental and subcontinental organisation shared the fate that they could only partly reconcile stability with mobility. They had to restrain their territories, they had to stop territorial expansion in order to preserve political and economic unity.

Historical evolution may be divided into three eras: the continental-subcontinental era, the era of colonisation, and the new world order. Colonisation is not only a European phenomenon, although it cannot be denied that Europe was successful at it. Still, it was also characteristic of Islam or Mongolian compulsive expansion. Europe's success was founded on turning the economic system to its own purposes: this was the key to keeping up the dynamics of colonisation. Colonisation brought along the creation of a political and economic unity. Fukuyama fails to include this development period in his analysis. He devalues Europe and the North-Atlantic cooperation. This blind spot is due to the fact that he is somewhat biased against Marx. Although he argues with Marx in his book, which is already a leap forward, compared to the previous era where Marx was completely ignored, yet, the Marxist tradition is not sufficiently elaborated. Marx's objective was to lay down the basis for a consistent expansion of freedom. He took the contradiction between colonisation and capitalism as a starting point, and instead of reinstating the continental-subcontinental format, he talked about the necessity of expanding freedom to the world of labour, and asserting it on a global level. This is the idea of world capitalism and communism appearing on the world stage. That is why Marx is a turning point: he explored the political function of economy, and this is the point which is missing from Fukuyama's formation theory. What remained valid from the idea of communism lives on, transformed, in the theory of globalisation.

Teaching economics cannot do without a formation theory approach. It never could. It is enough to take a look at the economics textbooks which set the trends after the world war, and it becomes evident that courses on political economy started with establishing a conceptual distinction between socialism and capitalism; with defining the related social-economical formats; and gauging their levels of development on both sides of the Iron Curtain. In the

West just as well as in the East: Samuelson's textbook *Economics*, for instance, to name only the most widespread work, clearly defines the difference between planned economy and mixed economy, and he proves that mixed economy is the more developed one. Mixed economy created a harmony between freedom and security within the confines of its era – not entirely without contradictions, yet, in a way that made a lasting impact on economic theory.

The neoconservative-neoliberal era, from the mid-seventies onwards, changed this view: it let go of the mixed economy, and it placed the laissez faire market economy in opposition with the socialist system (Berend 2010). While Samuelson gave a role to planning and to the state in his theory, neoliberal economy neglected this role and it only emphasised freedom (although it must be pointed out that without security, the notion of freedom cannot be complete), it denied the role of planning, foresight, and the role of the state in the economy. In doing so it revived the tradition of the original capitalism (and not that of the original political economics). In the Hungarian economic education this approach was present until the beginning of the 2000s. It was in the subsequent period that formation theory was gradually pushed to the background, and economics was reduced to the study of methodological correlations. It was some sort of development, of course, because the “wrong” formation theory was cast away, yet, the up-to-date formation theory, which expressed the new world order, was not yet included in the curriculum.

This was undoubtedly in tune with the crisis phenomena (the 2001 and 2007 crises), but it did not solve the problem. Today's ongoing professional debates in Hungary and abroad forecast the end of this era, and formation theory is very likely to be given a role in teaching economics in the future.

### **3. Market, politics and economy**

Globalisation has transformed the concept of the market as well. Michael J. Sandel, an influential American moral philosopher (whose book *Justice: What's the Right Thing to Do?* was published in Hungarian) wrote in his latest book (Sandel 2012) arguing that market results are not necessarily desirable. The communities must find the means, the institutions which make a moral and value-based judgment on market products, and move the market into the desired direction. Sandel's book is vividly debated in economic circles, but the debate is not on the moral questions, rather on the qualities of the institutional system which is in the position to make value judgements while respecting the freedom of the economy's stakeholders. While Sandel would close the market out in certain instances, economists rather talk about regulation of the market. The market is a good servant, but a very bad master, as the old saying goes. Overcoming the neoliberal market model cannot yield ground to anti-market ideas. What is needed is a modern, social market economy which complies with the requirements of culture and the rule of law. A value-based regulation takes the place of bureaucratic regulation.

In Hungary, as the country was captive in the ideological trap of the Cold War, the relation between the market and the plan, between the base and the superstructure was considered an antagonism, an irresolvable opposition. The market was identified as the manifestation of freedom and effectiveness, while the plan could only be imagined in its impracticable, centrally instructed version. The market was the base in this vulgar-Marxist interpretation, while democracy belonged to the superstructure, thus democracy did not become part of the market. Yet, this was the key to Western development: the market became a part of the democratic system of institutions in the 20<sup>th</sup> century. Democracy could become the source for

effectiveness, leaning on several factors: freedom of access to the market, mass production, new price calculation methods, and in general: a strengthened participation. These altogether constitute the social market economy, which is the formation theory manifestation of the Western European development after the Second World War. At the same time, in Hungary, the dominant approach was the antisocial market economy.

Microeconomics and economics are, in the end, the science of regulation. They do not simply describe the market output, but they determine its causes, and the means which may lead to harmony between the results and the aspirations of the economic policy. Microeconomics is a science because it asserts norms in a professional manner. We hold this statement valid: economic science and microeconomics are behavioural sciences, and as a consequence, they formulate views on the right economic behaviour and on the incentives leading to that behaviour.

The difference between social market economy and Keynesian demand stimulation is the value-based approach. Wading out of the crisis, economists often argue that what we need is global Keynesianism. This is partly true: it is imperative to decrease income discrepancies, to provide the lower social groups with extra income. Yet, this is only a tool in asserting the norms of the rule of law, and this assertion is part of the renovated concept of the social market economy. Social market economy in this interpretation means creating the social-economic conditions for human dignity. Economic policy should be used to stimulate the production and the purchase of goods and services which facilitate this process. Creating jobs and boosting consumption has a goal: human dignity. If the economic policy neglects this goal, it gives ground to tyranny, exploitation, and makes a lordly grace out of the very thing, human dignity, which is everyone's right in the new world order. Rejecting this view is the key difference between social market economy and Keynesianism.

It is not the microeconomic set of tools which has changed as a consequence of the crisis – although some of its elements have developed – but the direction that decision-makers took using these tools. This is why we think it important to connect economics and microeconomics in new ways. In the last twenty to twenty-five years, especially in Hungary, the dominant view was that the market can be left alone. Values, norms play no part in the functioning of the economy. This perception followed the model of the “antisocial” market economy, evoking the world of traditional, 19<sup>th</sup> century capitalism. It considered selfishness as the only impetus of economic behaviour in economic science, and denied the role of values, long-term political considerations, and the possibility to make plans. Today however, the goal of economic policy is to establish values, and to create an economic culture which is based on cooperation and on the respect for these values.

As science always evolves through debates, economic science, too, is developing in face of the neoliberal approach, by constantly debating with it. Economics does not equal the neoliberal school. We do not share those views which forecast the end of economics, the end of science. The results of economics from the 20<sup>th</sup> century and from earlier on may and must be acknowledged: we need to revive them and not to deny them. Today's task is reinterpretation, not annihilation.

During the course of reinterpretation, we do not think that confronting the financial and the real sectors is the solution, as Benczúr and his co-authors (2013) do, and we do not hold that a separation of financial and production capitalism is fruitful. To create the economic culture that suits the knowledge-based economy, financial and real incentives are both needed. The

financial sector has been given more attention in the last twenty five to thirty years, no doubt, but these days the production sector must be given more consideration, even in education. It is worth concentrating on technology or the physical-natural attributes of resource appropriation. This is nothing more than a change of proportions, though, not pushing one sector or other completely to the background. Economic science explores the harmony between real and financial incentives. Changing the neoliberal direction of monetarism does not mean a return to Keynesianism. It is not the fiscal institutions that are put emphasis on against the banking sector. Rather, a value-based partnership is created between the monetary and fiscal system of institutions. Economic policy applies a non-bureaucratic, value-based leadership and relies on the institutions of trust.

Robert Shiller's last book, *Finance and Good Society* is highly approved in this regard (Shiller 2013). The author underlines the importance of the democratisation of finances and the boost in the transparency of financial innovation. Financial innovations are just like technological innovations, he argues; their objective is to stimulate the market. It was only characteristic of the neoliberal era that financial relations were presented in an opaque, alienated form, while the financial system of the 20<sup>th</sup> and 21<sup>st</sup> century strived to dissolve this alienated nature. It is vulgar Marxism to blame only the financial sector for this crisis, and to say that if we support the producers against the financiers, the crisis will be resolved. This opposition was an attribute of Germany in the thirties, and it is in our fundamental interest to avoid this phenomenon. In the new twists and turns of the FED's monetary policy the aspects of stability and growth are given ample space. Growth includes incentivising an expansion of employment. This is the responsibility of the whole financial system of institutions, and not only of the central bank. A new banking culture is taking shape in the developed countries. In summary: the dictatorship of the banking sector is followed by a banking system which operates according to democracy and the rule of law.

#### **4. The scientific nature of economics**

The second argument cited in relation to the crisis is its limited capability for forecast. "It is easy to establish that forecast in its hard scientific form is often not possible here. The main reason for this is that, as opposed to forecasts of natural phenomena, economic forecasts influence the phenomena themselves that we wish to forecast" (Benczúr et al. 2013: 729). They claim that economics is never going to reach the level of accuracy of natural sciences, because the forecast influences the output: talk about the crisis contributes to resolving the crisis, and so the forecast will not come true.

In our view, the Benczúr et al.'s (2013) argumentation is not right, because they mix the notions of natural law and philosophical law. Natural law really is a relation where the subjects of the law cannot assert their will, while philosophical law, described by the social sciences, enables a harmony between the wills of its subjects. Freedom is created if the stakeholders in the economy follow the values unconditionally; straying from the values is a source of the crisis.

The laws of the economy are the common experience of applying these values: laws which help to make an independent and moral judgement. One part of this is establishing common norms and objectives, which, if accepted, create accord between the stakeholders. Another part is demonstrating that deviating from the norms lead to certain crisis symptoms, and to show how harmony could be restored. Modern infrastructure and technology are the factors which enable an effective assertion of the value system. This is what takes the place of unjust

economic pressure and old-style state aggression. The era of traditional capitalism did not allow for this: that era was more characterised by the lack of consideration, a lack of infrastructure (which is easily available in the 21<sup>st</sup> century), therefore the values of the rule of law could not be asserted. We can say in general that technology is not only a simply force of production, but also a means to effectively uphold a set of values. In the new world order, lawful violence is part of persuasion, and persuasion is an agreement to use lawful violence. However, in the 20<sup>th</sup> and 21<sup>st</sup> centuries the stakeholders are more educated, therefore, the role of the forecast is becoming more important. Forecast in itself has become an institution. Economics as a social science pursues and asserts fairness, and in doing so, contributes to the creation of social-economic harmony.

Neoliberalism did not accept the role of fairness (it denied the idea of fairness outright). This approach is unacceptable today. A valid scientific thesis may only be stated on the basis of justice and fairness. Furthermore, dogmatism must be avoided at all costs, and one may only accept real justice and fairness. Neoliberalism revived a doubt which rejected fairness, therefore it is labelled as a self-liquidating formula. Asserting fairness is the basis for planning, this is what makes economic policy calculable and reliable on both short and long term.

What role the crisis plays in creating this harmony is a separate question. The crisis may be a tool which compels large groups of society to change, but change can be achieved without crisis too, if consideration and reason suffices to influence stakeholders' decisions. Economic science, and particularly microeconomics are not only the theory of crisis, but they can also demonstrate how the wrong decisions lead into the crisis. It also explains, though, that the right decisions lead to harmony. This latter is economic culture.

Strengthening the idea of economic culture is important in teaching economics because economic conflicts may be avoided, or their risks mitigated if the stakeholders can rely on this education. The subjects of economic science are the long-term effects, the forecasting of unintended consequences, and creating a knowledge that is needed for common action. The crisis drew attention to the importance of economic science, we agree with Benczúr et al. (2013) in this, but only because a need to direct the economy on a scientific basis appeared more widely and more strongly than before. For the same reason, the topics of infrastructure, sector structure and technology should be included in education (Berend 2013).

According to the neoliberal view, leadership meant belonging to some sort of a “network”, an “elite”. The crisis has changed this view significantly: there has been a growing need to assert norms in a professional way, to create trust, and to provide a wide audience with scientific knowledge. Economists often face the requirement that they should be able to explain economics in a way that is easily understandable for all. Clear economic policy objectives are needed, along with the best possible economic institutions and incentives that belong to them.

## **5. Market and state**

Knowing all the above, it is not right to look at the market and the state as confronting categories, as it is often done in debates on economic policy. The state, which in this case means the property of public administration, cannot make better decisions than the market players on their own, just as the market left alone does not strive to realise the common good. The market and the state are different tools and institutions for promoting economic culture. Which is applied in a particular situation depends on which serves better the needs of the



society in that given moment.

Therefore, overcoming the global economic crisis is not about swinging between the market and the state. The way forward is not putting more emphasis on state solutions against radical market solutions. The way forward is a system of economic policy institutions which respect the freedom of the market players, and in the same time serve the common good. Leadership based on trust and a solid set of values is the solution for this bad antagonism and dichotomy.

The theoretical and practical mistake which is often made in Hungarian economic policy goes back to a faulty interpretation of property. After the fall of communism, Hungarian economic science put unnecessarily great emphasis on the role of private property in the Western social-economic model, and the theoretical significance of property was in general pushed to the background.

Private property in its unconstrained form has only briefly characterised Western development. Legal acts, technology and culture influenced private property and put forward the common good in every era. True, the 19<sup>th</sup> century property owners tended to perceive common good as a constraint, and they tried to go around it, and used common resources in their private pursuits. In the 20<sup>th</sup> century, the New Deal turned the tide in the United States, while the post-war era brought important changes in Western Europe. From that period on, private property has been consistently subjugated to the common good. Social-economic conditions were created, which brought economic freedom in line with the public interest. This was the turn which was disregarded by Hungarian economists when they interpreted the victory of the West as a proof that private property takes precedence over public property, over the common good. The Western forms of property, however, are better described by the following concepts: globalisation, rule of law, trust, social market economy, participation, freedom, democracy, unity of the common good and private property, democratic and legal control of private property.

Ownership is itself the social form, Marx argues. Ownership was expelled from the teaching of economics because the social form was not considered to be a part of economic science. Yet, its analysis would have helped in overcoming the crisis more quickly and more effectively, because in the 21<sup>st</sup> century the rule of law is the form of ownership. Nobody who owns property can disregard the requirement to respect legal norms and human dignity. They cannot use their resources and their power in a way that contradicts the rule of law. What follows from this is that capitalism is subordinated to the rule of law, and if it is not, it is not capitalism any more. This is what neoliberal economics wanted to eliminate from education.

Traditional capitalism and neoliberalism made serious concessions in their assertion of values. It is enough to think about the revival of Bernard Mandeville's theoretical tradition. John Rawls' criticism of utilitarianism demonstrates the significant difference between neoliberalism and Western neoconservatism. Rawls consistently rejected the idea of sacrificing workers for social profit. Western economic science joined this view from the end of the nineties onwards, among them Amartya Sen, Joseph Stiglitz, George Akerlof, etc. They used the microeconomical apparatus to argue for freedom, democracy and the common good, once again.

## **6. Utility, optimisation, and profit**

Every earlier economic concept gains new content within the knowledge-based economy.

Maximising profits does not mean the incessant accumulation of sensual pleasures, as the neoliberal economics interpreted, and it is not a mere mathematical category, either (profit is what we maximise—some would put it). It is the joy over the right consumer choice. The results of behavioural economics, the new incentive models (Thaler, Sunstein, Rabin, etc.) demonstrate that the creation of the institutional framework of consumer optimisation stands in the centre of attention. The consumer has their sovereignty only if they follow the rules of rationality. The task of economic policy and economic science is to facilitate this sovereignty. Arbitrary decisions must not be accepted; therefore, the “consumer is king” thesis does not mean that the consumers may do as they please. Consumer sovereignty is asserted through learning how to wield this power. The acquired utility is therefore the material interest vested in the application of values.

Not only behavioural economics gives ammunition to the interpretation of the idea of utility in the knowledge-based economy, but the philosophical switch of traditions as well. The early enlightenment's concept of utility, which has come to the forefront of philosophical discourse, teaches that utility is the method for bringing sensual existence into harmony with reason. Utility is the result of knowledge and education, and not their starting point. In order to be able to enjoy any goods, it is indispensable to master the culture of how to use them. This includes technical culture as well. Neoliberalism considered pleasure, what is more, the most radical element of pleasure to be the manifestation of utility, and it completely disregarded the cultural element. Yet, a distinction must be made between false and true pleasure. According to Plato, true pleasure and happiness is derived from knowledge. Conveying, transforming this knowledge was the task that intrigued the philosophers of the early enlightenment. What is happening today is the rediscovery and the inclusion of this view in the economics of the 21<sup>st</sup> century (Platón 2011; Pascal 1978).

The sensation of happiness is the result of finding the optimum. Optimisation plays a role in post-crisis economics too, but its interpretation is transformed, and conveying the new content is the task of economic education. Optimisation has a normative role as well: it sets the conditions for the construction of the right institutional order for the economy. Optimisation is the unity, or the unification process, of the subjective and the objective. During optimisation the consumer applies the set of values alone, and the sensation of utility occurs when they can make the right decisions.

Neoliberalism considered the consumer's optimum to be the balance of Epicureanism and Stoicism. On one side, the consumer does not want anything else but to increase their pleasure; they only pursue joy; therefore, economic policy had to constrain them. This was the role of the budget line. However, the essence of the knowledge-based economy is conscious consumer behaviour, and part of the consciousness is practising moderation, overcoming the bad opposition of Stoicism and Epicureanism.

The concept of profit is reinterpreted in relation to the maximisation of profit, too. It is a cliché that profit is the difference of income and expense, and the real scientific question is where the profit comes from. Neoliberalism had no problem with exploitation and with violating moral constraints. It did have a theory of ethics, but this was no more than “gangsters' code”. In other words, it accepted any rule that the parties had previously agreed to. Today, however, enterprise and production theory teaches us that the institutional order must bind profit to moral behaviour. The company's task is to assert the principle of performance, or in microeconomical terms: the harmony between the marginal product and the fulfilment of social needs. This is what Michael Porter refers to when he talks about

corresponding social values to economic values (Porter – Kramer 2011). Profit is the result of applying the fundamental values, and not the other way round: it is not profit that determines the values. The company is not the basic unit of production, only a player in the production process.

This change of views is particularly apparent in the transformation of the employee-employer relationship. The employee is not the object of exploitation any more, but the vehicle of human capital. They are not a machine who can be substituted by real machines, but a partner in the production process, who must be cooperated with in order to harness a collective effectiveness. Clearly, this change of approach impacts production theory more than consumption theory, since the basic concepts of production theory—technology, production factors, etc.—merit a more thorough overhaul. Neoliberalism drew an equation between employment and subordination, in the face of the vulgar “full employment”. In the new era, however, dependence does not mean subordination, because the basic concept of employment is the principle of performance. This is manifest in the individual, knowledge-based application of the set values by every employee. The new company models, above all Google, represent this approach (Girard 2009). They overcome the enterprise model of the previous era, whose most iconic representative was Wal-Mart.

## **7. New academic directions**

In post-crisis economic science new academic directions took shape, which are shown in the table of contents of the leading economic journals. These directions are not to be underestimated. Three main new fields appeared in the profession (supported by scientometric data): political economics, development theories, and the research into the emergence and treatment of poverty.

a) Political economics and development theories came to the forefront as a reaction to the crisis. As opposed to the earlier approaches centred on growth, the question now is “what is the goal of growth?” What is the format, the institutional system that is desirable to society? Development theory, therefore, is a kind of formation theory: there is no clear boundary between political economics and development theories.

The large categories: capitalism, socialism, new world order constitute one of the most important parts of economic thinking. It is only the neoliberal view that, rather undeservedly, pushed this problem to the background. It is indispensable to give a clear definition to the concepts, if we would like to solve the current task of global economic policy: bridging the gap between societies. We can only understand what role China, India, Brazil, and Russia are playing if science comes to terms with the concept of welfare. Similarly, this is the only way to decrease or eliminate poverty in Hungary. Setting the level of welfare which is necessary to attain a “good life” for a citizen, and creating this welfare, while respecting freedom, democracy and security is the task that lies ahead of economics.

b) Neoliberal economics did not consider poverty and closing the social gap to be a part of economics. The dominant approach was that poverty was a social and not an economic question. Social market economy was talked about, but it had no normative content, therefore, what came to pass was really an antisocial market economy. This interpretation failed in the last few years, and a new process has begun: an adoption to the new social market economy, which’s institutional framework is the rule of law. Closing the gap means providing the conditions for a life according to the norms of the rule of law.

The rule of law can only be realised in its entirety if it is realised on a global scale. The statement which many formulate in academia, is that economics is global in nature, is absolutely true. The reason for it is that economic policy leadership is global. The objective of the global institutional system of economic policy is to convey the norms of the rule of law, to assert its set of values. National economic policy can be successful only as part of the global institutional system, and not against it. The objective of economic science is to contribute to the theoretical frameworks of the economic policy which fit into globalisation.

The important task of Corvinus University and the Faculty of Economics is to promote thinking in an international context. In the current period of closing up to the more developed regions of the European Union, our university's calling is to support the adaptation of the national and regional theoretical economic heritage to the European set of values, and to adapt the European values to the Hungarian and regional relations. It is a set requirement to solidify stance of the European values in the region. For this, acquainting the stakeholders of the economy with the values of the rule of law is indispensable.

## **8. Thinking in concepts**

Benczúr et al. (2013: 730) put it this way: “the language of this profession has become the formalised and analytic economics which is taught in the English-language institutions, and it is by and large independent of the local institutions”. The definition which sees the unity of economics in the formalised, quantitative and analytic way of thinking, is rather narrow, because these categories will only be filled with life if they are interpreted in accordance with long-term economic policy objectives.

It is true that economic science is formalised, i.e. it works with clear and well-defined concepts. The analysis of these concepts, perception of their changes is the subject of the science. The significance of this conceptual change cannot be grasped if we interpret it only as a language. It has a substantive content: and this is the rule of law. The basis of the conceptual order is the set of values, this aspect must not be disregarded. Similarly, it is not enough to emphasise the analytic relation, because the synthetic element is just as important. Analytic, in that it separates causes and effects, but synthetic as well, because the proposed solution impacts the entire economy, and the behaviour of every market stakeholder. The holistic approach, the idea pertaining to the whole cannot be excluded from economic science, although it is true that a harmony is needed between methodological individualism and methodological holism.

Synthetic statements are needed because science is not only tasked with establishing positive correlations, but also with making normative judgments. Pluralism, the basis of global partnership is that every territory and region takes part in global governance. Although the economic political will is united, it does not result in the denial of pluralism. Local languages do take part in global procedures, everyone can participate in shaping a global professional public opinion.

Constant development of the conceptual apparatus does not only take place at an abstract level, but in practice as well. Three examples are elaborated below: a) scarcity, b) diminishing returns, and c) perfect competition.

a) Scarcity, one of the key concepts of 20<sup>th</sup> century economics, assumes that desires are insatiable, and assumes that there is a financial (or other) constraint which limits desire. Optimisation is therefore a constraint, the least bad option. In turn, one of the key concepts of economic policy in the 21<sup>st</sup> century is sustainable development, i.e. the creation of an economic culture which is in accordance with the Earth's capacity to support us. It follows from the model of sustainable development that the cause for the decrease of consumption is conscious apprehension. Therefore, in today's economics the concept of scarcity is complemented by the concept of decision. Desire and constraint are not the two forces standing against each other, but a necessity to find the right decision. Optimisation is therefore not the least bad option, but a tool to find the good.

b) The principle of diminishing returns expresses economical and effective management of resources, above all labour. In the era of automatisisation, this principle gets a new interpretation, because production is happening to the push of a button, and work becomes more and more creative work, which is governed by different laws than monotonous activity. One of the most important questions of business practice is how to keep up a level of motivation. It is the task of the managers to ensure that work is a source of pleasure. It implies that the whole system of production is being transformed, and the production- and enterprise theory of economic science adapts to the change. Clearly, not many initiatives came to life in Hungarian economic science, but on the international stage the reinterpretation of production theory underwent significant changes.

c) Finally, the interpretation of perfect competition as a norm becomes the centre of attention. Neoliberal economics confused the concepts of free and perfect competition. It thought that the result of the uncontrolled market is perfect competition, and not free competition. Yet, perfect competition must comply with a set of conditions which economic policy must be acquainted with, and which it has to create and recreate from time to time. It is not a one-time act, but an institutional system which steers the market. Therefore, the market is the unity of politics and economy, and not the economy alone.

## **9. Widening the field of education**

The crisis, and the theoretical crisis within is not about eliminating the totality of economics. Yet, it is beyond doubt that the 20<sup>th</sup> century history of economics is about to end. The somewhat futile debate on whether Keynes or Friedman is right, shows the symptoms acutely. A wider professional horizon is needed to bring about a renewal, which includes the traditional political economics as well as the entirety of social scientific culture.

### **9.1. The traditional political economics**

Traditional political economics established the economic laws of capitalism and republicanism. Asserting the rule of law means overcoming this paradigm. One of the main problems of 20<sup>th</sup> century development was that due to the Cold War, this relation could not be elaborated in its full conceptual framework. A coherent analysis of the concept of capitalism was missing, therefore, the relations to Smith, Ricardo, and Marx were not clear and obvious. With the end of the Cold War, however, an opportunity arose to make clear distinctions between the rule of law and the republic; to grasp the meaning of the jump between capitalism and the rule of law. By doing so, an opportunity presented itself to understand the 20<sup>th</sup> century's peculiar, transitional nature. This point is particularly important in unwary and in the closing up countries, because without a methodological basis, the direction of this closing up

cannot be understood.

The reinterpretation of traditional political economics in the 21<sup>st</sup> century can be successful, if it is not only seen as the first step of a separate discipline, but also a period of philosophical-social scientific evolution. The theories relating to the economy did not begin with Smith: they are to be found already with the pre-Socratics, with Plato and Aristotle. Including philosophical culture into economics is one of the most important characteristic of the evolution of science in the 21<sup>st</sup> century. Nothing proves this more eloquently than the growing number of studies (even in Hungarian sometimes) concentrating on the connection of philosophy and economics.

## **9.2. The transformation of methodology**

Besides the expansion of the field of culture within our profession, the other new element is the methodological renewal. There is an ongoing debate—above all in Hungary—on the role of mathematics within economics. We partly consider this to be a pseudo-debate which leads the profession astray. Science, economic science necessitates methodological thinking. Without it, it is nothing but idle chit-chat. Mathematics is one form of methodological thinking, therefore its role is indispensable in economics. It is another question, that within mathematics there has been a change of emphasis towards game theory, which is followed by the Hungarian academia, too. This evolution draws the attention to substantive consequences as well. In game theory, the players are individual decision makers: they create strategies and behave accordingly. They are no longer the objects of optimisation, but participants of the common thinking. The latest results of economic science in this field show that individual decision does not contradict with the assertion of common values, what is more, the best way to follow a rational strategy is to harmonise the players' behaviours. Science formulates the unity of democracy and effectiveness in methodological format.

The other way of methodological thinking, dialectics, is part of the philosophical approach. A necessary element: it is impossible to own the entirety of science without it. Confronting the two approaches (mathematics and dialectics) is wrong and harmful, in our view. Yet, our personal experience is that those with inferior mathematical skills deny most vehemently the necessity of philosophical thinking. Mathematics and philosophy complement each other, as we saw it with Descartes, Pascal, Leibniz, or Spinoza.

The debate on “verbal and formal” economics is relevant in that the normative nature of mathematics and philosophy is complemented by the positivist mass of knowledge and comprehension of reality. One tool for this is psychology, behavioural science. We have seen a renaissance of this approach in the last few years, and this is the direction that the university and the faculty took, and the direction it should continue to move forward to. Positivist comprehension, however, requires normative knowledge. Normative approach and positivist knowledge cannot be separated from each other.

From the relationship of the positivist and the normative follows the establishment of the ratio between statistics and theory. We are often confronted with opinions that consider statistics to be the starting point of economic science.<sup>2</sup> In economic science, measurement is truly

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<sup>2</sup> There was a reform initiative at Corvinus University which suggested that training should be launched with statistics, and only after half a year of statistics could the teaching of economics begin. In the end it was the Department of Statistics which initiated reversing the reform and asked that the original order of taught modules be reinstated.

important, but we think that it is excessive to reduce the scientific nature of economics to measurement, and to the establishment of quantitative correlations. To gather knowledge about reality, we need norms, because the fulfilment and the measure of the norm is the object of research.

## **10. On the pedagogical renewal**

Although not only connected to teaching economics, it is necessary to discuss the pedagogical methods used in education. The competitive advantage of the Western institutions partly derives from this, and it is caused by economic differences as much as by pedagogical ones. On the one hand, students would like to acquire practical knowledge, on the other, the basic goal is to prompt and encourage students to formulate their individual opinions.

Students who have just left high school and started afresh in university look for secure jobs, regardless of the scientific field they are pursuing. Their indirect experience is unemployment and existential insecurity. They would like to acquire knowledge which they think will make them better professionals, and which ensures that they will find a job upon graduation. They do not have time, and more importantly, they do not have patience for theory. The logic of the university and the academia in Hungary prefers the exact opposite, of course: it would require from students to master deep and thorough theoretical analyses, which may be completed with practical experience in the last years of education. In our view, the discrepancy between students' expectations and the university sector's requirements is caused by a change in the relation between theory and practice.

Theory is not an abstract and unnecessary collection of concepts, as it has been advertised by neoliberalism in the last twenty years. It serves as the foundation for later practical decisions. Our students are right, because it is practice, i.e. professional decisions which enable us to master theoretical concepts effectively and efficiently. They can reach the totality of professional education through their own experience, and the task of the educational institution is to help them in exploring this experience. Neoliberalism in Hungary did not understand the accordance between theory and practice, although it lies in the core of the Bologna process. It tore theory and practice apart, which led to the depreciation of theory and spontaneity on one side, and abstract and unnecessary speculation on the other.

To find the accord, two conditions must be met: more interactivity, and teaching self-reliance. This is where maybe our biggest lag lies in comparison with the Western institutions. Including students, encouraging them to work, supporting their creativity is missing significantly from the pedagogical set of tools of the Hungarian economic education. Clearly, it is easier to teach without student interaction, to give only lectures. A large number of students think that foregoing their independence is a condition for security. If they do not cause any problems, they certainly comply with the norms. Few of them would like to get more, few of them would like to excel, or at least much less than their Western colleagues. Unfortunately, this approach is the reason why Hungary cannot join the knowledge-based economy, therefore, such an approach is unacceptable. We must establish educational methods which prompt everyone to take a stand in professional matters, which enforce joint work and elicit the joy of exploration.

It is not a real debate whether to provide theoretical knowledge or to stimulate the capacity to think. You cannot think without theoretical knowledge, and knowledge can only come as the result of thinking. The debate on theoretical knowledge is more about the teacher who does

not want to adapt to the thoughts of the students, the teacher who rejects democracy and opts for the wrong pedagogical method. It is the encouragement to engage in conversation which is missing from economic education, while in the developed countries a fair number of professional journals discuss the matter. “Learning by writing”, i.e. the students must write a short text, and by doing so they learn the economic relations; creative homework, conducting polls, experiments in the classroom, including works of art in the curricula—all these are organic parts of economic education in the United States. Yet, in Hungary, these methods have often been pushed aside. This can only result in conserving our backwardness.

## 11. Summary

Adapting the education of economics to the requirements of the 21<sup>st</sup> century is one of the most important elements of the work of closing up the gap between Hungary and Western Europe. The objective of economic education is not to enable a few people to participate in debates on global economic policy issues, but to develop the whole economic culture in Hungary, to convey the global economic culture to Hungarian audiences. If for no other reason, because this is the condition for the Hungarian economic stakeholders to take part in the market competition in Hungary and abroad.

There are a few professional conditions for conveying this economic culture in Hungary: building a solid foundation from a set of values, using the results of formation theory and prompting adherence to the norms of the rule of law. The most effective tools in achieving this are the tools of education. The economic tools are not the new elements in this equation—although there are novelties in the field which are worth following—the new element is the discussion of the framework in which this set of tools is applied.

Finally, renewing the pedagogical methods is part of the reform, too. Focussing on practice, on economic decisions, strengthening interactivity is part of a world-standard university education, one we cannot do without, either. These two elements are indispensable in creating an economic and political culture in Hungary which fits well in the knowledge-based economy.

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