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Financialisation or the Management Philosophy of Globalism

Thoughts on debt servicing and on the changed role of the financial sector and the state

Summary: The philosophy of globalism is neoliberalism. It has become prevalent due to the financialisation of the economy. During the twenty-five years of the so-called Fordist growth regime the interests of the real sector were served by the financial sector. This situation has changed in the last few decades. The financial sector has become the ruling force. Both the macro and the micro economy have become dependent on financing. The reasons for this include general indebtedness and the incentive system of modern managers. Financialisation has brought about changes both in macro-level and micro-level management. The interests of management are linked to asset growth. Competing individuals see themselves as human capital. They control themselves within the company and can be outsourced. Outsourcing turns hierarchical relations into horizontal ones. As a result, however, employees become more defenceless and solidarity among employees diminishes considerably. The underlying principle of good governance in macromanagement is that the state is one of the market players seeking maximal efficiency. Neoliberalism does not intend to reduce or overshadow the role of the state but it wants to change the state's role. This changing role essentially means reforms aimed at reducing expenditure along with strengthening the regulatory role of the state. Their main task is to ensure that the highly indebted state can pay all its debts to the financial sector at all times.[1]

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KEYNESIAN ECONOMIC POLICY AND "FORDISM"

The period between 1929 and 1933 was crucial for the development of the United States in the twenty-five years after the crisis. When reading the memoirs of leading American economists (Parker, R., 2002), we can see that nearly all of them admit how big an impact the time of the Great Depression had on their professional career. Every one of their ideas was meant to avoid getting into the same situation again. This was what gave rise to the strong wave of regulations under *Roosevelt* that was to determine the development of both the American and world economy in the twenty-five years to come. (Yergin–Stanislaw, 2002; Botos, K., 2004) The regulatory dumping in the US after the Great Depression ensured that the financial system served the interests of

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the economy. The regulation of the FED, the major banks and big business was in perfect harmony. Suffice it to mention a few instances of regulation here: the Banking Act in 1933, then in 1935, the Securities and Exchange Act in 1934; the establishment of the FDIC to guarantee the security of deposits and the Glass–Steagall Act which set up a firewall between commercial and investment banking activities; Regulation Q, which limited interest rates on deposits, and several other regulations which were made by institutions with a supervisory role over banks. Essentially they were meant to enforce the requirement of transparency and ensure prudent business practice. (Biedermann, Zs. 2011) Market segmentation and comprehensive regulation guaranteed that a collapse similar to the Great Depression could be avoided.

Certain analysts (Dardot–Laval, 2013) referred to this quarter of a century as the "age of Fordism." By this they mean that certain groups of society, especially employees should have a sufficient income. This is how demand can be created for goods and desirable profits can also be generated. In fact, certain enlightened entrepreneurs realised that a reasonable wage rise is in the interest of both workers and capitalists. *Ford* himself put it like this: "I raise the wages of my workers so they can buy the car they are making..." (Dardot–Laval, p. 201). This is how this age received its name.

Naturally, what is crucial here is not what individual capitalists had realised. The redistribution of income at the macro level was accomplished through the fiscal system as a result of the Keynesian economic policy. In the private sector, the struggle for better wages regulated by law ensured the best possible distribution of income between work and capital. Thus, both sides had a proportionate share of the extra income. Both stakeholders were interested in economic growth and in achieving extra earnings. However, as *Isenberg* (2000) pointed out, the agreement between work and capital was made possible by the fact that business activity "was being carried out in a financial environment which did not have any disruptive effect and which facilitated growth in industrial production by funding" (p. 248). Several authors (D'Artista, 1994, Epstein, 1994, Goodhart, 1989) support the view that the financial system clearly assisted and served the real economy during the Fordist time of growth – obviously in accord with its own aspirations to make a profit. All this provided the basis for well-balanced economic growth on a global scale for about a quarter of a century. This system "provided autonomy for managers in the entrepreneurial sector, making them relatively independent from the banks and freeing them from the pressure that may come from shareholders" (Orhangazi, p. 30).

However, the Fordist economic growth came to a halt by the beginning of the 1970s. "The golden years of the fifties and the silver years of the sixties" were over (Van der Wee, 1980). The Arab countries drastically increased the price of oil. To put it differently – and I believe this point represents an important change in the development of economics – another member of the trio of work, capital and land (that is, nature) emerged as a factor that demanded its own share of income. Moreover, it could be regarded as capital itself. Earlier, newly created value was distributed between work and capital as a result of wage disputes between employee and employer consultations – often with the help of the state. Now it turned out that there was another player that wanted to have its own share! This old/new player was *nature*, the scarce natural resources themselves. A natural rather than a 'personal' player. The agents of the natural factor were the energy producers, the *oil states.* This change appeared on the surface as a price issue in international trade. The oil exporters were the winners, and the oil importers were the losers on the world market. Certain countries made a profit while others made a loss on the terms of trade (Botos J., 1982). Since the unexpected extra expenditures had to be covered in foreign currency, international indebtedness had become widespread. This was the time of the debt crisis in the 1970s and 1980s (Botos, K., 1987).

International debts had to be settled in a foreign currency used in international trade, the US dollar in the case of oil, which led to desperate competition for export markets. Every country was struggling for a greater share in the global market. In many countries economic policy had become export-driven. Obviously the share of different countries in international trade had radically changed after the Second World War. This process gained even more momentum in the 1970s. The USA's 21 per cent fell to 12 per cent by 1980, Japan's share of hardly over 0 per cent climbed to 7 per cent, while the share of the European countries accounted for nearly half of international trade (Botos J., 1982). Europe had always been dependent on foreign markets before in every respect, both because of the need to import energy resources and because it was driven by the necessity to improve productivity. This had now become even more intense. The share of COMECON – the group of Eastern European countries which constituted a separate block at that time – was also about 12 per cent. The rest was divided among the developing countries (Botos J., 1982).

Fordist growth was still largely based on domestic markets. After the oil crisis most of the economies began seeking trading opportunities in foreign markets. In many countries a growth model based on foreign resources became prevalent. Academician *József Bognár* called it the beginning of a new era in world economy (Bognár, J., 1975). And so it was. Competition began for external funding resources. The ability to attract capital required most of the economies to become competitive. They had to be able to attract capital so that they could pay their external debts. This is how they were able to meet technical challenges on the one hand – by attracting direct capital investments – and to stay solvent by acquiring loan capital on the other. The budget in several countries was struggling with severe debt service due to overspending. Most of it was external debt. The indebted economies had to be able to find the resources to service their debts. This gave rise to austerity measures in the welfare states, which had emerged in the fifties and the sixties, in order to 'make room' for interest service in the expenditure of the budget.

Politicians and theoretical economists (especially in the US) argued that the model of the welfare economy had become the enemy of efficiency. It makes people complacent, holding back entrepreneurial ambitions, although it is the enterprises that can generate the income which can be shared in the future. Conservative government programmes began to emerge, with *Thatcher* and *Reagan* being the politicians to implement this political ideology. Some of the cardinal elements of the Reagan *policy mix* included monetary tightening and radical interest rate hikes in order to curb demand and drive down inflation. The rate hikes ensured that the US dollars seeking investment opportunities all over the world returned to the US because the interest rates were the best there. Investments in US dollars in the US had practically no risk at all. Amounts of money could be moved easily without any exchange loss, and there was no concern as to the ability to service debt payment obligations. However, the rate hikes had spread over to the international capital markets as well, since if debtors did not want to lose their creditors they had to pay competitive interest rates. And we saw that many countries were in need of loans provided by the international currency markets. Due to the higher US dollar interest rates, international financing cost colossal amounts of money.

The financial sector of the American economy – and later that of world economy too – introduced a series of financial innovations as a response to these austerity measures (Botos, K., 1987; 2013; Magas, I., 2010; Gál, Z., 2009; Ferguson, N., 2008; Rajan, R., 2010; Posner, R., 2008). One of the most important innovations was the introduction of loans with crawling band interest rates. Another major innovation was the removal of the interest ceiling in the US for deposit financial institutions as well as the emergence of various hybrid financial institutions in the financial sector. They provided alternative funding opportunities in the economy, making the most of the special features of the capital market. At the same time – due to the special characteristics of securities – they also involved greater risks.

The processes outlined above resulted in the explosive strengthening of financialisation.

FINANCIALISATION

What is meant by this concept? For the time being, there is no proper equivalent for it in Hungarian. (There is no notable literature on it in Hungarian yet, although *Iván Bélyácz* published a paper in the *Hitelintézeti Szemle* presenting this concept (Bélyácz, I. 2014) after the writing of the present study).

Essentially, it means that the financial economy strongly penetrates business life, well beyond what its traditional function of financial mediation would entail. So, on the one hand, the concept involves the spreading of the financial sector at the expense of the real economy and, on the other hand, the increasing *intertwining* of the financial and the real sectors. It means a sort of financial imperialism. Those who want to define this concept do so on the basis of the following indices: (Orhangazi, 2008) how big is the financial sector and its income as compared to GDP, that is, what percentage of GDP is generated within the financial sector? To what extent does the financial sector use up the income of companies and invest capital in the companies of the real economy? To what extent do companies in the real economy (so-called non-financial institutions) pursue financial activities in addition to their core business? How much of the total realised earnings of companies come from financial activities? And finally, how much of their earnings are transferred to the financial sector, whether paid as interest (thereby reducing their pre-tax profit) or invested in financial assets from their net income?

Let us now look at a few figures! Since 1980 the financial markets in the world have grown with enormous speed. The global stock of financial assets (the value of shares, government and corporate bonds and bank deposits) accounted for 109 per cent of global GDP in 1980. This ratio climbed to 338 per cent by 2005 [Farell et al., 2007, p. 8. (quoted by Orhangazi, p. 11)]. In the US this ratio was 303 per cent in 1995, increasing to 405 per cent by 2005. This index includes only the major, most typical financial assets. The financial innovations created several other new forms too. If they were also added, we would get a much larger value.

The earnings generated in the financial, insurance and real estate sectors in the US as compared to the total GDP have been growing steadily since 1980. (It should be noted that American statistics treat the real estate sector as well as the financial sector together with the banks, the insurance companies and the brokers. The justification for this was to be shown by the financial crisis in 2008.) We will continue to use US data to illustrate our point. The ratio of the financial sector fluctuated between 12–14 per cent between 1952–1980. In 2000 it came close to 20 per cent. The profitability of the sector increased, so its share also grew. This is clearly shown by the fact that the earnings of the financial sector compared to the so-called non-financial sector increased considerably. It was between 10–20 per cent from 1952 to 1980, jumping to 75 per cent by 2002. It slightly decreased between 2000–2006 since the profit of the companies working in the real economy also increased considerably, but it was still over twice as much as the average before the 80s (Orhangazi, 2008, p. 12). The importance of the financial sector is also characterised by the number of people employed in the sector. This number went up to 5 per cent in the 1980s from the annual 3 per cent rate in 1952; then fluctuated between 4–5 per cent after 1990. The wages in the sector also increased considerably, becoming twice as much by 2005 as the average between 1952 and 1980. In other words, the financial sector accounted for a significant share of the total personal income generated in the national economy. In another survey, the so-called annuity income is calculated by adding the interest income of non-financial and non-governmental players to the earnings of the financial sector. The value doubled in this category too between 1960 and 1999 (Orhangazi, 2008, p. 13). Incidentally, the profit of the financial sector was not the same in every country. While the trend was increasing in the US, France and Japan, it was declining in Italy and was relatively stable in the FRG. This was partly due to the macroeconomic environment of the given economy and partly to the significantly different regulation system (Orhangazi, 2008, p. 22).

When looking at the turnover of the financial sector, the increase is even more remarkable. The average number of shares traded daily on the New York Stock Exchange grew from 3 million to 45 million between 1960 and 1980. This number was 200 million shares per day in 1980, one billion by the end of the 1990s, and continued to increase in the 2000s. The increased turnover also shows that shareholders hold on to their shares for a shorter period. The same applies to other instruments as well. The daily turnover of government securities also increased sharply: as compared to 1992 (USD 95.7 billion) to USD 497.9 billion by 2004 (Grahl and Lysandrou, 2006, p. 975, quoted by Orhangazi, 2008, p. 14). Similar international figures can be seen in several Hungarian publications too. (Gál, Z., 2009; Magas, I., 2010).

The ratio of financial assets within the total amount of assets was practically the same at the companies operating in the real economy up to the 1980s, when a strong increase began to emerge. By 2000 the ratio of the financial sector was the same as that of real assets! Moreover, the content of the category is also unclear since the statistics records most of this category under so-called 'mixed assets.' (According to certain opinions even the experts of the FED do not exactly know what this category is composed of) (Orhangazi, 2008, p. 14).

The earnings of certain companies coming from financial investments (Orhangazi cites the retail company Sears as an example) account for up to one half of their total net income. The 2006 April issue of World Economic Outlook also mentions similar examples. This publication reported that the companies in the G7 countries which were in a net debtor position in the 1980s became *net creditors* by the beginning of the 2000s. The extra savings in the sector reached a historically record level of 2.5 per cent of GDP in the G7 countries (Orhangazi, 2008, p. 23).

The interest paid by the companies operating in the real economy to the financial sector during the 1980–2000 period also increased considerably as compared to the previous period. This is understandable since the beginning of this period was the time of the explosion of interest rates under *Reagan's* presidency mentioned before (when FED governor Volcker increased the central bank's interest rate to an astronomically high level of 20 per cent.) This rate was of course decreased later). The process of rate cuts in the 2000s further contributed to the establishment of lower interest rates. It was also instructive how significantly non-financial companies increased their dividend payout to their shareholders in the 1990s. The companies also used the option of share redemption to influence prices. We can say that from the beginning of the 1990s – except for the first few years – the stock exchange was the place for the *withdrawal* rather than the investment of capital because companies wanted to pay a handsome dividend to their shareholders (Orhangazi, 2008, p. 19).

All this was closely related to intensifying financialisation. The shortening of time horizons, the increased endeavours to meet the interests of shareholders and the shift of investments towards financial-type assets all suggest that *management tasks* have fundamentally changed in the era of globalisation. Financial knowledge, the technique of asset management and the assessment of risks have become more important. Yet the new era has brought about changes *in the area of human management as well.*

MICRO-LEVEL MANAGEMENT

In his *New Industrial Estate* (Galbraith, 1970) *J. K. Galbraith* points out that a new social class was created in capitalist society, the class of managers who often represented different interests from those of capital owners. Both self-fulfilment and profitability are important for them; they want to reach the highest possible level in their career. They are by no means mere mediators between employees and capitalists but in some sense they control both since, so to speak, the return the capitalists can get largely depends on the skilfulness and suitability of the managers. Therefore, the managers enjoy a beneficial position in both respects and have enormous power.

Due to the neoliberal ideology of globalisation, the situation seems to be slowly changing.

There are two tools which can be used to maintain this position. The stick and the carrot. On the one hand, capital owners control managers by enforcing company management principles that focus on finances. The incentive system of the managers are gradually made dependent on the growth of corporate capital value. The remuneration system related to the growth of corporate capital value is clearly and obviously used to win the support of the managers, or rather, to make them subordinate to the owners.

While according to the previous corporate management practice the managers had to achieve the goals in as reasonable a way as possible, the new philosophy subordinates the objective itself to a general principle. Efficiency itself becomes an end for the management. What they should do or what they should produce becomes secondary. The most important thing is that they should do it effectively. Only efficient entities can stay on their feet on the international competitive market – which has really reached a world scale by now, thanks to globalism. Investors are not really interested in the content of services, only in their effectiveness. People, the employees are themselves entrepreneurs in the process of generating income and are constantly trying to improve themselves. They are constantly required to prove that they can contribute to the improvement of the company's efficiency by improving their own efficiency.

This is how the positive incentives for the managers can reconcile their interests with those of the owners, while at the same time the assessment of their performance, which is related to the performance of the stock exchange, also reduces their autonomy. The stock options executive remuneration system creates harmony between the power of financial capital and the management. On the other hand, the fact that their job may be in danger also urges the managers to act like this. In fact – as has been shown by the 2008 financial crisis – the managers cannot 'quit' this fatal hunt for profit and manage their company in any other way even if they can see the tragic consequences (Rajan, 2010; Bélyácz, 2014). They can lose their lucrative job in no time. They have to make desperate efforts to safeguard the asset value of the company; otherwise it can easily fall victim to hostile takeover. This, however, is a negative incentive, the stick in addition to the carrot in the system… In extreme cases it may lead to a scandal we saw at the beginning of the 2000s when Enron was using creative accounting techniques and other manipulations (Stiglitz, 2003).

However, there is a lot more to it than just the incentive system of managers. The entire methodology of corporate management and organisation has changed (Kocsis–Szabó, 2000). Enterprises are being created within companies and various activities are being outsourced. The well-known, instruction-based relations within the company are being replaced by contractual relations. A new management philosophy is emerging which is based on the enterprising man (Dardot–Laval, 2013). The employees of companies are re-qualified as entrepreneurs. Undoubtedly, the prevalence of contractual relations involves some risks for the management too, since it can only enforce its contractual rights through legal means, networking and corporate management on the basis of enterprises also gives it greater flexibility.

The enterprises within companies strongly disrupt employee solidarity, practically making the employees competitors of one another. The situation of employees is becoming more difficult in the neoliberal age. The employees who are no longer protected by the unions and are working on the basis of private contracts find themselves in fierce competition. The employees of globalism are under tremendous pressure by the masses of workers with low wages who enter the global labour market from the emerging Asian countries. Using the threat of taking their business to developing regions, the capitalists of globalism manage to keep wages low and curb any efforts to achieve higher wages. International analyses show that although the difference between countries in terms of GDP per capita has decreased on the world market, the differences of income within countries have continued to rise. It is worth directing a look at the US data again. Is this claim true for the market economy considered to be the richest in the world? *Raghuram Rajan* provides some data to support this claim. While in 1976 the richest 1 per cent of households had only 8.9 per cent of the total income in the US, this ratio rose to 23.5 per cent by 2007. That is, 58 cents out of every extra US dollar generated during 1976–2007 went into the hands of the richest 1 per cent! Hedge fund manager *John Paulson's* 'salary' was 75,000 times more than the median income of US households (Rajan, 2010, p. 8). There is hardly any more striking proof of the huge differences between incomes within a country. But even if we say that this is just an extreme case, it is still true that the pace of increase in the income of white- and blue-collar workers with average earnings falls far short of the income of the upper 10 per cent. And this can be clearly felt in everyday life too.

Rajan also explains this phenomenon by tracing it back to the skill level of the workforce. He believes that there are not enough people who can afford to pay the high tuition fees for training which could enable them to apply for higher paid jobs. The insufficient labour market supply for these better paid jobs keeps the wages at an excessively high level. Can we say, then, that each individual is responsible for making the most of their own potential? Is it really true that it is entirely up to them how they can succeed? This is what the neoliberal philosophy emphasises. As we will see, it does not have enough reason to do so.

Since the employees of globalism constantly try to prove their competitiveness, the supervision of employees on the basis of external control is gradually being replaced by a management built upon a special kind of self-control in corporate governance. The structure of production has undergone significant changes in the modern age. The economy of post-industrial society is gradually building more upon highly qualified white-collar workers instead of blue-collar workers performing mechanical tasks. The employees themselves create a small profit centre of their own, often with tailor-made tasks and remuneration. Constant comparison with the benchmark ensures constant adaptation to the pattern to be followed. This can eliminate the need for middle-level managers. The employees supervise themselves. As put by *Peter Druckner*, Bentham's principles have come true: the employees do their job as if it were really in their own interest (Dardot–Laval, 2013, p. 310, footnote).

Thus, neoliberalism, the philosophy of the 'enterprising man' penetrates into everyday life. It is not prevalent only at the workplace. Nearly all the time we are measuring, calculating where and how we can gain: "*... it is no longer possible to see a man who is not calculating, who is not seeking opportunities*" (Dardot–Laval, p. 304). The behaviour of citizens is driven by the false illusion of freedom. The ethos of the freedom of choice leaves its mark on advertisements and marketing channels. This idea of the calculating man fundamentally changes the state's management tasks as well.

COLLECTIVE MANAGEMENT: GOOD GOVERNANCE

The governance practice of neoliberalism is characterised by pushing the principle of solidarity to the background as much as possible. Its collective management philosophy is influenced by the following idea: man himself is a little asset, and life is nothing but asset management. Failures, bad luck and unhappiness mean lack of success in the management of this life asset. The task of the state is not to resolve these failures but merely to 'educate' its citizens and get them accustomed to responsible behaviour, smart 'asset management.' So, it does not rely on universal human rights under which goods should be redistributed in some way, but it calls for responsible action: individuals should achieve the results in their 'enterprise' that entitles them to assert a claim for a certain level of prosperity. Students are responsible for making their choice: whether to pay additional costs for education or whether to start working; patients are responsible for how much they contributed to the development of their condition. Smokers or overweight people, for example, are also responsible for their own health problems. More and more people – at least those in official economic policy – think that self-financing should have a greater role. They argue that individuals should pay a larger part of their education and healthcare costs.

Ultimately, nobody can say that responsible behaviour is not desirable. It is a different question as to what extent this view can be exaggerated. It can be hardly denied, for instance, that people's prosperity also depends on some external factors, and it is not always fair to put the blame entirely on them for failure.

However, neoliberalism always starts out with the express assumption that man is an individual who can and is ready to make independent judgements and that freedom is more important than anything else. People make autonomous decisions – at least that's what they think – in every aspect of their life. The key task of governance is to provide as much assistance for it as possible. People should provide for themselves in every area of their lives. Life is an enterprise and every citizen is an entrepreneur in every possible respect. If you do not have a job, you should do everything to become suitable for employment. You should not expect the paternalist state to think instead of you. You should not rely on national solidarity, which is regulated by bureaucratic institutions, but rather on family and local, collective solidarity in communities where people know one another and can filter out those who are deceitful or lazy. This is precisely the kind of cooperation within a small community that is ruined by the reliance on the large, impersonal state systems. The reduction of state-level solidarity can actually result in more solidarity within the local community – this is how the new theory formulates its paradox.

We cannot claim that there is no truth in this view. For example, heavy reliance on the solidarity of the state may lead people to the wrong conclusion that it is an unnecessary sacrifice to have children. The pension system will still ensure that we can we can make ends meet when we get old, since we will be able to buy the best services for our money when the time comes. We don't even need to be thankful to anybody for it. Those who will look after us make a business deal; they will not do a favour for us.

This kind of reasoning fails to take into account that in addition to savings for pension, human resources are also required, which should be provided by somebody. It would definitely be not fair if people's pension were determined purely on the basis of the contribution they paid, without regard to this requirement, as it is currently the case. In that case – from a social perspective – individuals undertake a double obligation to ensure their old age income. The costs of raising their children and the obligation to pay their contribution. A child is not just a private matter – although that is how it is viewed by neoliberals – but it is part of our public goods (Andorka, R., 2006; Botos, J., Botos K., 2009). The entire society needs the children raised by individuals. It is a private matter only in terms of how much joy one can find in their children in return for their personal sacrifice. In fortunate cases, parents worry about their children just as much as they enjoy the positive experiences related to them. But the raising of children is a public interest. Just like their education. This is why *Gary Becker's* view is not wrong; moreover, it is essentially right, when he claims that the family is the basic cell for reproducing human capital (Becker, G., 1993). It cannot even be objected to if the state in some sense treats families like an investor, since it contributes to the costs of raising children, to education and healthcare. In order to prevent population decrease, it is in the interest of the powers that be to ensure that children are born in the desired number and are properly trained to become members of the labour market. This is how they can become contribution- and tax-paying citizens whose payments will be needed to run the big systems smoothly. Human life is getting longer and longer. Society is ageing. If not enough offspring are born, the big provision systems cannot be financed. Problems will also arise if offspring are not trained in accordance with the needs of the modern age. They will not be able to find a job, and for lack of income, they will not be able to pay any contributions or taxes. So, the development of human capital is in the interest of both the individual and the state.

Will this approach make the role of the state in the operation of these big systems redundant? (Pension, healthcare, education.) In the sense of the Washington Consensus, neoliberalism urges for privatisation in every area. On the other hand, even in a country like the United States, where education and healthcare services are organised and provided on a private basis, there are those who call for the state to take a greater role. They are not necessarily calling for more state schools but would like to make it possible for students with a poor background to catch up with their peers. It is quite remarkable that this view has been represented recently by a person like *R. Rajan* (often cited in this paper), the former senior economist of the IMF. In his view, it is a huge waste at the national level if only the children of wealthy parents can get a better education. This, he argues, reproduces the elites. Those who cannot pay higher tuition fees either work during their studies–and therefore obviously cannot delve deeply enough into their subject area – or leave the education system early without any opportunity to ever go back. This will not only determine their ability to make personal income for the rest of their lives but it will further increase the income differences that is wasteful and detrimental for society as a whole, as has been seen before.

Rajan suggests that the state should issue education vouchers which these students could use at an academic institution regarded among the best. This is strongly criticised by the French authors, *Dardot and Laval* in their work cited before. They see it as a mere substitute action and call for the state to take a more direct role. The literature contains similarly disparate views on access to healthcare services. Advocates of neoliberal ideology often cite the costs of 'supporting' free riders as a reason for rejecting the extension of healthcare services. At the same time, several renowned authorities on economics (Krugman, 2008; Rajan, 2010) stress it is a disgrace that tens of millions are excluded from basic healthcare services in the most developed country of the world. This also means wasting human capital since people's ability to perform as employees depends largely on their health condition. (Obviously, this view was translated into a political programme under Obama's presidency.) Social solidarity is then necessary; what can be the topic of dispute is its extent and range. For example, *Anthony Giddens* interprets solidarity as support concentrated on focal points of poverty. The rest of society should actively seek their own ways of getting along rather than expecting the state to solve their problems. He also agrees that any support or aid provided for 'people living in a special situation' (such as senior citizens, people with a low pension, single mothers raising children) should be linked in some way to work in order to avoid 'dependence on benefits.' The social democrat ideologist argues as follows: *"Social democrats have to shift the relationship between risk and security involved in the welfare state, to develop a society of 'responsible risk takers' in the spheres of government, business enterprise and labour."* (Giddens, A., 1999, page 78). This quotation also shows that the entire political and economic elite has become an advocate of the new idea.

The language of public parlance – irrespective of political affiliation – is dominated by words like reality, modernisation, fiscal austerity and reforms. The former Eastern European countries are also characterised by politicians coming from the former socialist elite who are the loudest advocates of 'modernisation', 'privatisation' and 'public private partnership' (PPP). The governments in these economies also contribute to making the labour market more flexible. According to this ideology, flexibility has become much more important in the modern knowledge-based economy than in the previous systems. All this is coupled with the principle of lifelong learning since this is the only way in which the individual's life enterprise can adapt to the constantly changing challenges. According to the new governance example, which is regarded as more modern, the state should not be turning the steering wheel but rather should hold firmly onto it. The real challenge is to find the right extent of state participation that is absolutely necessary for supervision. Neoliberal theory says that an economy is characterised by good governance if it opens its markets and implements the desired structural adjustments. Who are these people who desire such measures? Well, they are the international creditors and capital market players since these steps are a precondition for efficient integration into the international economy. As a result, the concept of 'good governance' is slowly replacing the notion of sovereignty (Dardot–Laval, 2013). In other words, the notion of sovereignty in some respect becomes meaningless.

QUESTIONS

How did the international financial world get into such a dominant position? The book entitled *Világméretű pénzügyi egyensúlyhiány* (Global Financial Imbalance) (Botos, K., 1987) was published twenty-five years ago in 1987. This work pointed out that practically all the countries, including developed, emerging and underdeveloped economies alike, that is, both capitalist and socialist planned economies, were struggling with fiscal deficit even at that time. Due mainly to the scarce internal savings, especially in the developing and the socialist countries, this deficit had to be financed by foreign sources. (Eichengreen uses the term 'original sin' for growth which is financed by debt in foreign currency...) (Eichengreen and Hausmann, 2005). International indebtedness, which is ultimately the result of overspending by the governments, made it possible for the creditors to take control.

Inevitably, we need to ask another question: Why did all this happen? It happened because this process urged governments to follow their momentary interests in an area in which democratic expression of opinion is a key factor to ensure that the ruling parties stay in power. Vote-buying campaigns create a favourable situation during election time the costs of which have to be paid in the future. Governments were unable to convince people to accept the challenges that go along with the austerity measures stemming from changing circumstances, and instead advocated the illusion of perpetual growth. When governments have to manage huge negative assets and refinance debts which grow year after year because of the fiscal deficit, it is no wonder that international financial capital gains increasing influence over economic policy.

When we analyse the 2008 crisis we can clearly see the power of the financial sector in how it persuaded the states (especially the USA) to use a financial solution for recovery from the crisis. It is well-known that the government prevented the danger of a crisis similar in scale to the one during the 1929–1933 period by undertaking huge debts. The influence of private organisations, banks and rating agencies on the states can be seen all over the world. On the other hand, the financial institutional system needs a strong rather than a weak state, because the governments must be able to get the people and the various powers to accept the required measures in order to save players in the financial sector. So neoliberalism is not striving to reduce the role of the state by all means. Instead, it seeks to change this role. It wants to see a guarantee that debts can be serviced under any circumstances. Some analysts point out how dangerous the intertwining of the state and private organisations, the personal 'passage' between the state and private companies can be when bailout packages are introduced (Galbraith, 2008; Rajan, 2010; Posner, R., 2009). In such cases it is easy to see that the state is actually satisfying private interests.

So, *good governance* first of all means serving the interests of capital. However, the time horizon of market mechanisms is too short to be able to ensure the smooth operation of the economy. Therefore, a new public management system should be developed, which is different from the exclusively enterprise-centred logic. This new model cannot be based purely on the people degraded to be entrepreneurs. Although the view that citizen should see themselves as extremely valuable human capital is right, we still need to consider values that go beyond market considerations; we still need solidarity in the governance of society and the economy.

First of all, we need to rely on the principle formulated by *Adam Smith* in his work entitled *The Theory of Moral Sentiments.* According to this principle, people see the benefit of others as a precondition for their own well-being. Empirical facts do not always support this view. The state undoubtedly has important regulating functions. For example, by recognising the challenges of the ageing society it should find adequate institutional solutions for lifelong financial planning. Advance saving through the payment of social security contribution required by law is one example of this. (One of the most important preconditions for this is to ensure that the value of money remains stable, for who would be saving for the long term if the value of their savings gets lost over time? This is another interesting coincidence between systems based on solidarity and one of the key monetary principles of neoliberalism! This demonstrates that neoliberalism undoubtedly does have some positive content.)

It is also equally important to find a modern solution in economic policy for the remedy of unemployment caused by advanced technology. For the time being, personal and social financial management is impossible without a job and an income being earned from a job. At the same time, technological advances make many working hands redundant, and this is another challenge we have to face. We need to find opportunity to make ends meet for people who are driven out of the labour market. In all probability, the final solution will be to provide some assistance for social groups with less or no training, which is often the main obstacle for these people to get a job. Intellectual activities will have plenty of opportunities in the future too. However, there is more to it than that. It is obvious that we need to find fields of activities for society which do not put additional burdens on the natural environment, which make work 'ethereal', intellectual. It can mean more proportionate development in terms of space and providing more opportunities for small and medium-sized enterprises as well as self-sufficient economies that are in a harmonious relationship with nature. The emergence of *W. Röpke's* ideas again and again is a clear sign in this context (Röpke, 1996). For example, economic policy cannot subordinate the funding of investments into human capital to the criteria of creating fiscal balance in the long term. It remains to be seen what concrete form this system of solidarity will take in a service-based society and how capital owners who prefer the neoliberal approach can be made to accept it, although it is also in their interest to provide more generous financing for science, education and culture. One thing is sure: the way out should definitely be built upon broader education and a stronger cultural base. For this public management needs to prepare an economic policy which contains measures to be taken in order to build a knowledge-based society.

SUMMARY

Neoliberalism introduced the concept of the enterprising man and made it the basis of society. This has brought about essential changes both in corporate and in public management. Neoliberalism has become the comprehensive ideology of globalism, which resulted in the financialisation of the economy. With indebtedness emerging both at the micro- and the macro-level and financial processes becoming dominant over real economic processes, the management of the economy has come under the influence of the financial institutional system.

Neoliberalism is presented as a technocrat theory free from politics. It has set the role of man as an entrepreneur as central and universal. At the micro-level, it has turned traditional, instruction-based organisational structure into contractual relations. Employees who constantly had to meet requirements became more defenceless in the competitive situation than workers who had previously enjoyed the protection of the unions. The new theory pushed the redistributive function of the state into the background and, at the same time, strengthened its regulating role. Contrary to public opinion, the role of the state strengthened rather than weakened, and although dependent on the international financial markets, it had to pursue an economic policy that could meet their expectations. The major goal was to ensure that the debts of the overspending state are properly serviced, in a given case even at the price of having to reduce spending on other items of budgetary expenditure. This kind of restructuring is regarded as good governance, although it does not necessarily serve the long-term interests of society.

Note

[1] The present study is the revised and expanded version of a lecture entitled "Management innovations in business and non-business" (presented in Szeged, GTK, 2014).

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