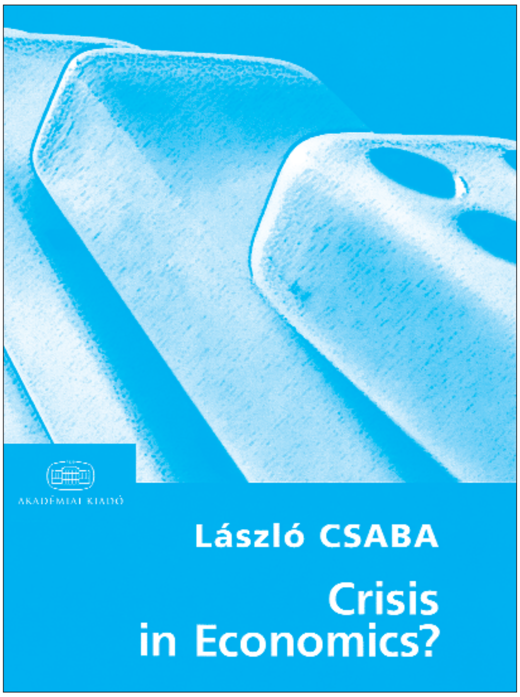
László Csaba

Crisis in economics? Studies in European political economy



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The works of *László Csaba* are always awaited with interest by those interested in economics since the author chooses to discuss important and debated issues and writes in an enjoyable style, characterised by a special irony. A volume of his recent writings completed in autumn 2008 was published by *Akadémiai Kiadó* in a most exciting period, in spring 2009.

Today, the word 'crisis' makes one think of the convulsions in the international financial system and the real economic decline following as a consequence, but it is justified and timely to ask, as the author does in the title of the book: what is the situation with economics? Has it also got into crisis by now? It is the introduction and the second study in the volume devoted to the situation of economics, although the validity and reliability of the discipline are discussed in other chapters as well. The two studies in Part Two focus on the transition in our region and the current slowdown and halt of the transition process; on the reasons of macroeconomic populism. The writings corresponding the subtitle of the book make up Part Three, with the progress of the European integration process (and, once again, its stagnation) as the central topic. In the closing chapter, the author examines the conditions of balanced growth in this region.

This is a broad selection of topics, giving the reviewer the right to choose according to his taste. In what follows I will highlight upon three main question clusters from the book: to what degree is economics apt for today's economic reality; for what reasons was the modernisation and catch-up of our region and especially of Hungarian society and economy within that, more successful before and appears to be less successful now; and finally: where is the European integration process heading to (and does it make any advance).

The state of economics

As regards the *state of economics,* it does not follow from the analysis of László Csaba that there is as deep, fast and paradigmatic a change round the corner as the one triggered by the 1929–1933 world crisis. Even though it is true, at the same time, that the time factor here is even more critical than usual: his analysis presented in March 2008, which served as a basis for this chapter, could not yet count with the new world economic situation to set in soon. Indeed, after September 2008, there was a lot to change in the public thinking about the economy, in the economic political practice, compared to just some six months before. Let us just consider the facts what huge state aid package the conservative Bush government brought forward in its last weeks of office to bail out private money institutions and insurance companies, or that in Germany, for the first time for sixty years, a bank has been nationalised, and that protectionism has once again reemerged among member states of the European Union. Several European governments have tried to spur the economy by budget expansions of an unusually large scale, almost in an orthodox Keynesian way. By this, it is the *Keynes* seeming to return to the mainstream of economic political thinking (but not of economic theory) who questioned the validity of the then economic doctrine 80 years ago by his epoch-making work *General Theory of Interest, Employment and Money.*

This unique return of the economic and finance politicians of the developed world to Keynes, does not necessarily say much about the valid view system of economics as an academic science and discipline. And indeed: this sudden practical turn does not for the time being couple with a turn in the discipline. Bank of issue leaders often emphasise nowadays that, with regard to the unique situation, they apply unconventional methods as well, failing to reveal, however, why, once there is a new situation, a conventional theory (i.e. one adequate according to the monetary theory; verified and accepted as reliable and relevant) tailor-made for this situation, which could be a secure basis for a new set of tools, has not yet appeared.

It is a fact in any case that a work comparable to Keynes' magnum opus published in 1936 has not been written yet. It is illuminating that the work of *Galbraith* on the Great Depression in America *(The great crash),* a book of major influence, was written twenty five years after the event. At the same time, even prior to the unfolding of the current international financial crisis it was absolutely justified to ask the question chosen as the title of this book on the situation of economics. Even without a magnum opus by a new Keynes there is a chance for economics, by following the general examples of paradigm change in scientific disciplines, to undergo a crisis bringing quality change. In this chapter, it is certain processes of this change that László Csaba indicates, revising the mainstream line of thought of economic theory.

In the case of economics, comprising several economic theoretical books and trends, it is not easy to determine what actually the mainstream is. The author avoids charges of subjectivism by reviewing articles of *The Journal of Economic Literature* and *The Journal of Economic Perspectives.* Scientometrics has produced a citation culture, in which, in turn, it is publication in high prestige and frequently referred to (mainly American) journals that counts. As for the other hard-to-attack indicator of this branch of science, this is the *Nobel Prize in economics;* the oeuvre of the Nobel winner scientists also authentically marks the peaks of the discipline. The two indicators do not correspond, however; László Csaba points out exactly on the basis of the list of Nobel Laureates that, in recent times, there has been a growing number of scientists given the award who are outside the mainstream, the *Zeitgeist*.

The Zeitgeist of economic theory, the author points out, has been characterised by a *technicist orthodoxy* since the end of the nineteenth century already. One reason for this was probably the effort of the cultivators of economics to make the discipline similar to the high-prestige natural sciences of the age. The Keynesian oeuvre was influential in replacing the trend ruling in the first decades of the twentieth century which, as a mainstream, clearly proved irrelevant in the interpretation and solution of the world economic crisis, yet, according to László Csaba, the process of the methodological homogenisation of economics could only be slowed down by Keynes. By emphasising human motivations, expectations and other psychological factors in the 1930's and 1940's, he indeed introduced several factors into economic theory which later were represented rather by institutional economics and other non-mainstream trends. Yet, the Keynsianism developing from the work of the followers of Keynes (or of those making references to his oeuvre) itself merged into the mainstream that can be referred to as technicist, not independent of the fact that, after World War II, economic theory based on several national schools was replaced by the US dominant economics with its own methodological hegemony. By time, the Nobel Prize in *economics* started to show a remarkable geographical concentration in that it was a few American universities and the USA by all means that were home to the operation of most Nobel winners.

The American overweight in the discipline is clearly to be connected to the dominant role of the American economy. In fact, the period of a unique methodological and thematic concentration in economics which, the author argues, has gradually led economics, striving at technical sophistication and model-orientedness, to be drifted away from economic and societal reality by today, lasted from the 1960's to the turn of the millennium. The increasingly nuanced models became independent exactly from the relations of real life. It is the positive (i.e. non-normative, avoiding advice-giving), sterile economics that became dominant and has stayed dominant in the editorial offices of leading journals and at the most important (American) universities until today.

In finances, at the same time, certain models failed exactly at critical times even before the current crisis. It is no surprise therefore that critique against the mainstream has been flowing from various directions now. The growing number of inner contradictions in the American economy, the problems accumulating in the system of world finances and the related shakiness of market economies will, over time, clearly affect the prestige of the ruling trend in economics: the mainstream is starting to lose space.

László Csaba calls attention to the fact that, in recent years, several scientists who are outside the usual methodological trend (he mentions the names of Thomas Schelling, Daniel Kahneman and Douglass North) have received a Nobel Prize, while about *Paul Krugman* he notes that, by the new economic geography he has brought back a dimension to economics which had been long lost through the victory of the “formalisation revolution”. He underlines the advance of neuroeconomics and economic psychology, the real-life research findings of which have revealed a human image much different from the one *(homo oeconomicus)* the usual microeconomic preconceptions of the methodological individualism are based on.

Today, when influential and standard setting circles, too, blame excessive greediness, the misrealisation of risks and the weakness of institutions controlling individuals and enterprises for today's problems, what is needed is an intensifying activity of trends within economics which treat the discipline as a social science beyond doubt. As a science that does not explain (and predict) models independent of space and time but which takes the historical and geographical determinedness of human economic activity into account.

Systemic change and its doctrinal background

The second major issue discussed in the book is the systemic change and its doctrinal background. László Csaba highlights upon the contradiction that, as a result of two decades' fast transformation process, former planned economies have shown up surprisingly great differences by today. What is more, today's differences between the countries are often of a very different nature than what would follow from the logic of path (course) dependence.

The simplified, unilinear development concept of international financial institutions (like EBRD) does not offer a really good explanation for today's dissimilarities and divergent development paths. EBRD gives good transition index values to economies that open to a great extent towards the world economy, strongly liberalise and privatise and are vanguards in involving foreign operating capital. In the world of transition indexes, the Hungarian economy had very good marks in the 1990's, as did the three small Baltic economies later on. In the meantime, however, Slovenia, with its economic policy not lacking even neo-corporative elements and opening towards the world more carefully, became, in reality, the most successful of all in many respects. It is the GDP per head that indicates the success of the unique (almost third way) Slovenian development model; it is by no chance at all, either, that Slovenia was the first in the region to join the Euro zone.

Based on the decisive economic indicators the author does not only confirm that the former planned economies do not form a homogeneous block (the way there was no real "Eastern block" in the economic or societal sense). He establishes various country groups, at the same time; and in the fact which countries belong to which groups, course dependence, i.e. past similarities and the development level at the outset, is decreasingly relevant as time passes. In the evaluation of László Csaba, the trio of Hungary, the Czech Republic and Poland, plus Slovenia, belong to one and the same group. Based on the common growth pattern, the three Baltic states plus Slovakia make up another group. The third group comprises the Bulgarian, Romanian and Croatian economies, while the Newly Independent States may be defined as the fourth group.

As a commentary it could be added to the above that in the past years, we have seen sudden rises and, unfortunately, similarly fast declines within historically short times. An example for this was the change of directions in Slovakia: when the social elite realised that the country would not be admitted into the EU with *Meciar* and his policy, following their well recognised interest, they successfully got rid of the leader and his populist trend. The economic growth and convergence of the Baltic states was historically fast but, as the current events in Latvia reflect, a growth pattern based on FDI makes an economy extremely vulnerable. Furthermore, the relatively fast fall behind of Hungary in the past half a decade is an interesting, and, for us, sad illustration proving how diverse and versatile transition can be. It is comforting to see, on the other hand, that just as there are examples for the fast loss of positions, we can similarly draw the other conclusion from the (so far not so long) history of the transition that it is indeed possible to change directions within a few years in this region.

From the examples of populism, a phenomenon not rare in the region, the author highlights upon the case of Hungary after 2002: with the massive state budget overexpenditure, Hungary is categorised as a country of oldfashioned type populism. It is strange indeed how massively high, and even rising, state redistribution has been in the period, while, say, in Slovakia, the rate of budget redistribution has radically moderated in the same years. Poland, which has never been an example of financial orthodoxy, under the leadership of various politicians mocked in Hungary, got very close to meeting the Maastricht requirements before the crisis and the situation of the Polish budget is downright enviable compared to that of Hungary. The questions why it is exactly Hungary where populism has been set loose and for what reason to such a great extent, will surely be debated for a long time ahead.

The essay at the end of the book *(Economic conditions for shared growth)* is also devoted to interpreting transition, the economic theoretical bases thereof and the reform tasks to be carried out in most of the former planned economies. The author's call for the realistic evaluation of the earlier state of education and knowledge in the region (and, within that, in Hungary) is especially worth paying heed to, since, unfortunately, earlier clichés on the allegedly cheap and well-trained Hungarian work force have not been justified by recent data or the opinions of employers.

Also of interest was the short reference to the neo-Weberian public management advocated by the author (and, as part of it, the depoliticisation of state administration). Two decades ago it was beyond dispute during the systemic change discussions in Hungary as well as in the concept of the first freely elected government that party politics should be restricted to ministers, political state secretaries and their immediate staff, while under that level, administrative work should be carried out by the civil service per se. This did not happen, and it was easy to see who used what practices and, later on, even laws, to re-politicise the extensive state apparatus. It is probably herein where the surprising fact that even after two decades of privatisation and deregulation, the Hungarian state apparatus is so extensive, is rooted...

The European integration process

The biggest portion of the book is devoted to the analysis of the European integration process, certainly taking mostly the example of Hungary to illustrate that, although measured historically and observed a from sufficient height, the latest enlargements of the EU may qualify as successful, but membership itself and the economic political institution system of the EU do not provide sufficient protection for member states against their own serious and systematically recurring mistakes. One reason why the case of Hungary may have become an interesting issue at international conferences and study volumes is that the processes of European adjustment, catchup and internal modernisation (i.e. reforms) were derailed exactly at the time when Hungary became a member state of the Union. Was it a cause and consequence or a mere coincidence in time, the author asks.

One thing that is for certain is that the Stability and Growth Pact designed for the economic political (mainly budget political) control of member states has not become strict enough either in its original form or after its reform in 2005, and what has been unfolding in the budget deficit of member states recently does not have any good implications for the near future. Except if, our East European pessimism makes us think, another financial crisis coming soon (originating in the state rather than in households or banks) makes it necessary to design and implement a new SGP.

The analysis of László Csaba on the institutions of the Union before the crisis (on EU transfers, the mechanisms of the development and the common agricultural policy, the European Central Bank and the operational order of the Commission) forecast to the reader to some extent what materialised from autumn 2008 onwards. To be more specific: at times of crisis, the implementation of national interests by governments is more overt and blunt. The EU's own institution system, characterised by much internal balancing and rationing, is, unsurprisingly, able to operate only "by good weather", and even unexpected referendum results in some member states may cause difficulties.

It is also very illuminating how small the budget of the EU in fact is compared to the GNI or the central budget of member states. This small budget (and the integration concept behind it) did not make it possible for Hungary, drifted to the verge of insolvency, to receive a sufficient bridge loan from the Union. It happened thus that Hungary was signed out to the International Monetary Fund. We had known before that IMF was the ultimate lender for developing countries and those in transition; it has now been proved that the EU is unable or unwilling to take on such a role even in the case of medium-developed member states. Although this circumstance is clearly to be seen from EU law, it is one thing to participate in a theoretical discussion on the principle of "no bail-out" and another to see it with our own eyes that, even if the EU wanted to, it would not be ready for the financial bailout of sovereign debtors. It should at least be then more forceful and efficient in blocking the ways leading towards trouble.

But this could serve as the topic of a new book by the author.

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