Tamás Szentes

Who and why is in crisis?

A critique of simplified views and attitudes

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Since the beginning of the 1980's until recently, the neoliberal-monetarist doctrine, considered the mainstream of economic science, could be harshly criticised or attacked only by those outside the "upper circles" of economics, for such criticism was generally regarded unscientific and populist in the first place. This situation changed with the financial and economic crisis that began in 2007. Today, even prestigious economists doubt the correctness of the mainstream attitude and demand a fundamental change both in science and education as well as in economic policy. The recently published work of *Tamás Szentes*, to be reviewed here, belongs to this latter category.

The spirit of the book is well illustrated by its subtitle already: "A critique of simplified views and attitudes". The author claims, and I fully support his view, that a textbook attitude simplifying reality to an intolerable extent has become dominant both in education and in the consideration and decision of practical, economic political issues. I also share his view that this is not only intolerable but may even be of a destructive effect.

The fact that this introductory and summarising interpretation of the spirit of the book is correct is justified by the *Foreword* already, which starts with the words "The world economic crisis", and a paragraph of which should be quoted word by word here.

"In my view, the attitude that quite penetrates the domestic debates and economic political concepts on the current crisis, although there are some respectable exceptions, seems alarmingly or even annoyingly simplifying and mistaken. It is not only the budgetary, fiscal attitude of crisis management, especially the views focusing on the expenditure side of the budget (…) that I blame but the economist view in general which disregards societal correlations, the distorted consumer culture, the role of ostentation tendencies and the distortions in moral behaviour, and I especially condemn the ultraliberal attitude which, contrary to that of the creators of the idea of liberalism, is rather, sometimes even shamelessly, antisocial in crisis management and in reforms." (p. 8) The issue of "the problem of the non-equilibrium of the world economy following from the uneven relations thereof and related to the international development gap, which problem is the root of crises", also appears in the Foreword already. This is already a reference to the concept of "asymmetrical interdependence", which, although in this form appears only in a later part of the book, is in the focus of the analysis of the book from a theoretical point of view.

The hardly longer *Introduction* continues in the spirit of the Foreword, blaming the role of "simplifying views" and "the unilateral, what is more, mainly ideological attitude in textbooks of economics feeding these views" (p. 11) for the fact that "while there has been significant advance in the prediction of the expected appearance and direction of, for example, weather fronts or, what is more, of earthquakes, hurricanes, tornados and even epidemics, the outbreak of the crisis was an unexpected surprise for practitioners of economics, including even the most prominent ones, on both earlier occasions and this time." (p. 12). The cause of the problems is thus that "in economics, especially in the past three decades, it is *a neoliberal monetarist trend* (italics in the original; the reviewer) that has become dominant, i.e. decisive in the mainstream, which, in the field of education, puts more focus than earlier schools on concepts, theoretical theorems and trends of an economist attitude, abstracted from reality, while in economic policy, it represents the simplifying, unilateral view more forcefully, claiming exclusiveness for itself" (p. 13). There is no way to express an opinion more straightforwardly than the above. Moreover, the "new political economics" and "new institutionalism" that have recently appeared against or for the correction of the "mainstream" do not sufficiently break with the main trend, either, the author adds. While, despite the above, a change of attitude has been apparent in the United States, in Western Europe and, what is more, even in the crisis management concept of the International Monetary Fund, "this, unfortunately, has not been the case in Hungary, where the neoliberal attitude and the restrictive economic political recipe rooted in the (somewhat misinterpreted) monetarist theory are still in fashion" (Ibid.). Such a detailed review of the Foreword and the Introduction was essential, I believe, for the reader to see exactly where to place and how to receive this work.

■ *Part I* discusses the responsibility of education for the wide-spreadedness and dominance of simplifying views but goes much further than that.

Chapter 1, initially discussing really the question of education only, considers a historical approach, a holistic view and a critical attitude as essential; these are indeed missing from contemporary standard textbooks and are essential in my opinion, too. In my own practice as a lecturer, I try to make up for this obvious and serious shortcoming of textbooks by adding oral or even written complementary notes. At this point, however, the author immediately turns to the problem of the current crisis and raises the questions "the crisis of what are we speaking of, why do we consider it global and what historical antecedents and roots does this crisis have, what are the determinative general reasons and the immediate causes of its outbreak?" (p. 17). The author does not hesitate to give the answer: the crisis is global not only because it has spread to the whole world geographically, i.e. horizontally, but also because even vertically there has developed a "bulk of crisis phenomena affecting all aspects of human existence, the survival of human society and the sustainability of development, what is more, of life as a whole" (p. 18). This is followed by a harsh critique of the views of the neoliberal school in Hungary, with the names of its representatives listed one by one, after which the author notes, addressing it to the representatives of neoliberalism within the socialist circles, what a "strange paradox" it is that the idea of the reformed version of capitalism "has been raised by some enlightened rightwing politicians like *Angela Merkel* and *Nicholas Sarkozy* rather than by leading representatives of socialist or social democratic parties" (p. 23).

It is inevitable to quote, even if omitting certain parts, the dramatic lines of the author best reflecting his views.

"*What kind of a (»public«) economic way of thinking is that* which expects every citizen (be they children or elderly, university graduates or untrained) to monitor the development of interest rates, securities and currency prices and, considering money market risks, to decide (…) what currency loan to take up and on what conditions?" – or in what currency to keep their small savings, we could add.

"*What kind of a sociological way of thinking is that* which expects every citizen (…) to act as an entrepreneur considering economic risks, instead of allowing them to (…) merely expect a fair pay (…) for a job decently done?"

"*What kind of a politological view and concept is that* which, so to speak, runs down on »the mass of people living on the state«, including not only those living on aid but also pensioners as if they were the representatives of some »nation of beggars« of a weak character and a mistaken way of thinking?"

And after that: "Can we ignore the historical and empirical fact that in Hungary (and other former »socialist« countries) (…) the accumulated public wealth was dispersed through the misuse of relations and corruption within a short time and the social stratum of the new rich, the billionaires, came thus into existence from state funds?"

And finally: "There have been remarks like "the traditional values of social democracy have become outdated". Do they mean by this that social sensitivity, the care for disadvantaged people and the strive for equal chances and societal fairness have become outdated?"

Such word by word quotations, even if some parts were left out, seemed essential as the best way to give the reader an idea about the spirit of the book as a whole. The latter quotation is followed in the book by the analysis of the *Bokros* austerity measures, single rate taxation and some other questions in the above spirit.

Chapter 2 returns to the economics textbook literature of an ideological nature, the effects thereof and the crisis of education as well as to specific issues related to this. It underlines that "in the (current) textbook literature there is a much sophisticated and *refined ideology* making the impression of objectivity and even mathematical precision" (p. 34). It approves the presentation of the subject matter of Western textbooks in Hungary but disapproves of the fact that, instead of writing our own books for students in Hungary, "we have simply started to translate and adopt *standard American textbooks* without critique" (p. 35) and also with reference to *Baron Loránd Eötvös* he says that, at universities, science should be cultivated instead of the mere interpretation of scholarly achievements. Standard textbooks are oversimplifying, unhistorical, presenting only mainstream views and considering the circumstances of only the most developed market economies, almost totally ignoring welfare effects and, what is probably the most important, they present theoretical theorems (…) as the ready elements of "knowledge", feeding the belief in students that (…) what they have learned will be applicable in practice without any difficulty" (p. 39), while education, on the contrary, should awaken the critical spirit of students. These general remarks are followed by the discussion of several questions of detail, as well as the critical of the book by *Krugman* and *Obstfeld* entitled International Economics, widely used in education. The author closes Chapter 1 with the following sentence: "The above critical remarks may be regarded as exaggerative by some and even offensive by those concerned but the urging of changes and the realisation of the defects apparent in education, determinative for the future of society, justifies even exaggerative, provocative remarks." (p. 51)

Part II, bearing the title Crisis historical antecedents and theory historical lessons, is, in my opinion, a historical and theory historical introduction to the author's theoretical commentaries and ultimate messages, which are presented in detail in Part III but the main elements of which appear in this part already.

Chapter 1 discusses economic cycles and the world economic crisis of the 1970's. On the second page of this chapter, you can read the paragraph which, in my opinion, is the central concept and central theorem of the book. "In the world economy, on the ground of developmental inequality, i.e. of what is referred to as the "international development gap", and of the deepening asymmetrical interdependence, moreover, even beyond the consequences of these (including consequences apparent in the distribution of the population, resources and incomes as well as the spatial distribution of the exploitation of natural resources and the consumption of products made from these, etc.), significant imbalances have developed, disturbing the harmonic operation of the system." The central concept, I believe, is the deepening asymmetrical interdependence, which plays a major role in Part III, and the central theorem is that significant imbalances have developed, which disturb the harmonic operation of the system; and there is something that does not appear in this paragraph yet, which is that the self-correction of the system, the automatic restoration of imbalances and the restoration or rather the development of the harmonic operation of the system should not be expected.

This paragraph which, I believe, is of critical importance, is followed by the review of the theories of long-term cycles and that of the events of after the first oil crisis in the year 1973. Regarding the latter, the author says that "this was the *structural and institutional crisis* (italics in the original; the reviewer) of the world economy as a whole already, which had been ripening in the processes of the previous years, in the changes of the world economy and international politics (…) and was brought to the surface by the explosion of oil prices as the »last straw«" (p. 58). This view is supported by the fact that the Breton Woods system collapsed two years before. The author's remark that "the division of labour between developing countries specialised in raw material production and developed industrial countries excluded the possibility, in the first place, of a mutually adjusted, proportionate growth of these two sectors of the world economy through which both could have provided suitably growing markets for each other" (p. 60), is also in accordance with the above. Therefore, the earlier division of labour was replaced, "through some simplification, by a division of labour between countries developing-researching and partly producing technology and countries overtaking the ready technology, i.e. technologically dependent countries" (p. 62). Vulnerability was further increased by "the international flow of private capital, mainly short-term foreign investment and fast-moving speculative hot capital" (p. 67).

From the above analysis of the processes the final conclusion of the chapter directly follows, i.e. that "until structural disproportions are managed or at least mitigated, the international division of labour with an uneven structure, which has a major role in deepening the international development and income gap, is transformed and basic institutional reforms take place, crisis phenomena of various kinds, what is more, even international crises, will continue to develop" (p. 68). At the end of the chapter, there appear already the elements of the solution that are outlined in more detail in Part IV. The words "world state" and "world government" appear, as do the ideas of "amending the rules of international trade, controlling and regulating transnational corporations and imposing international control and taxation on money markets and crediting policies". These are merely raised here and are discussed in detail in Part IV.

In *Chapter 2,* the author looks for support for his views in earlier economic theories instead of the neoliberalism firmly rejected according to the above. He presents timely excerpts with a morale from the history of economic theories, going back to *Marx, Keynes,* the post-Keynesian reformist trend and the views of the most famous theoreticians of liberalism.

The only detail I wish to highlight from the lengthy analysis on Marx is that, according to the author, it directly follows from Marx's interpretation of the labour value theory that "it is not sufficient to merely strive for the production standard of export sectors with the aim to improve world market competitiveness, and it is especially wrong to do so at the detriment of other sectors or branches" (p. 79), because this adversely affects the development of international exchange ratios. The similarly lengthy analysis devoted to Keynes also comes to the final conclusion that from the assumption of the co-apperance of the multiplicator principle and the accelerator effect it follows that this is not about a self correcting process but rather about a self-strengthening one, that is about a process not heading towards the state of equilibrium but one moving increasingly further from it. A direct consequence of this would be the original instability of the international economy, which correlation was, however, not worked out by Keynes or his contemporaries assuming that "if the governments of individual countries (…) guarantee a domestic equilibrium (…) alongside full employment, the equilibrium of the *international* economy can be also guaranteed" (p. 97). The part devoted to the post-Keynesian reformist trend revises the views of the most important representatives of the growth theory of after World War II. It arrives at the conclusion that, as is emphasised especially by *Myrdal* and *Balogh*, every market economy left to itself, and thus also the world economy necessarily, increases inequality not only between partners but also within individual countries. This is clearly identical with the view of the author and it has, unfortunately, been unmisunderstandably confirmed by the experience of the almost three decades that have passed since the 1980's. The author also points out, even if avoiding to use this expression, that his view according to which there is a need "for the regulation of spontaneous market mechanisms also at *the level of the world economy*" (p. 101), appeared in the works of some representatives of the growth theory, *Furtado, Singer*, and *Prebisch* already.

The above is followed by the review of the views of the neoliberal-monetarist school, the most interesting part of this theoretical chapter being the last one, however, which, using quotations from the works of *Smith, Ricardo, Malthus, Mill* and *Marshall* proves that "all of them had a strong *social sensitivity*" and "had no intention at all to subordinate everything to market rules" (p. 106). The author points out with cutting irony that: "When economists and economic politicians in Hungary with neoliberalist views, including advocates of the monetarist and neoclassical theories, what is more, even some socialist politicians, argue for antisocial economic political measures, they often make the impression that they are hardly at all familiar with the views of the most famous theoreticians of economic liberalism. The same impression is supported by their effort to diminish the role of the state even in public spheres like public health care, public education and culture." (Ibid)

▪ The central part of the book, in my opinion, is *Part III,* discussing the reasons of the world economic imbalances causing the crises.

Chapter 1 argues that "instead of the generally used expressions »dependence« or »unilateral dependence« (...) it is more correct to use the expression asymmetrical interdependence" since a dependence relation obviously has two sides, the stronger side also depending on the weaker, the creditor also on the debtor and because in the world economy today there are no economically independent states, there is a multilateral economic dependence, interdependence, between them. The use of these terms and the argumentation, as pointed out before, are more than supported.

The chapter hereafter lists the various elements or fields of asymmetrical interdependence. The concept and consequences of international ownership relations need no explanation. As regards the solution, we can read the following: "Whatever the consequence of the asymmetrical ownership relations caused by the international capital flow should be, for a country unilaterally accepting foreign capital and probably allowing it to have key positions, thereby being unilaterally restricted in economic sovereignty, the realistic *solution* taking ahead is not the policy of nationalisation (...) but the making of the mutual dependence relation concerned as symmetric as possible. " (p. 114) The concept of asymmetries in the relations of international trade, the international turnover of services and the international division of labour needs no explanation, either. "Making this interdependence more symmetric requires structural changes in general. [Its alternative (…), autarchy, is deemed to failure in the first place]." (p. 118) The most important of these relations, especially today, are the international creditor-debtor asymmetries and those of monetary interdependence. The author especially highlights here the most dangerous form of indebtedness when it becomes a self-strengthening, cumulative process.

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