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The correlation between the financial crisis and the crisis of the financial institutions*

To the memory of István Hagelmayer and László Antal

It is one of the typical features of our senseless disputes that we talk to each other by using concepts that are not equivalent in their meaning. In order to avoid such misunderstandings, I will use the concepts of financial crisis,[1] crisis of financial institutions,[2] economic crisis[3] and social crisis[4] consciously and with different contents. I will try to prove that according to the Euro-Atlantic values,[5] the point of the current financial and financial institutional crises have one the one hand resulted from absolutely different factors. The reasons are sometimes very different, but sometimes the contributing factors, the underlying economic and social crises are very similar. This is why the nature of the different crises, and therefore, their efficient management, require very different solutions. Finally, I would like to explain why we may still hope for the evolution of a perhaps more humane, because more sensible and sympathetic, world after this sobering historical correction.

* This study contains the author's personal opinion, and is not to be regarded as the official standpoint of either HFSA (the Hungarian Financial Supervisory Authority), or of HFSA's Supervisory Board.

I. DECLINE OF AND CHANGES IN THE USA

Reasons for the crisis (1): the challenges

The technical-technological revolution of the 80s of the last century and then the processes of the global economy caused by them have brought about fundamental changes in the role of the USA fulfilled in the world as well. The *information technological revolution and the revolution in overcoming distances* that started in the Silicone Valley allowed the global, total, round-the-clock *interconnection* (repackaging), as well as the *separation* (vaporization) and distribution (transfer) *of the risks* related to production factors on the one hand and of those related to human activities, including financial transactions, on the other hand, in a different quality and to a different extent than earlier, *in both space and time.* The development of information technology (general digitalization), communications (internet, mobile phones, teleconferences, etc.) and that of both the international and domestic transportation of goods and passengers (see for instance containers, standardization, barcodes, pipelines, air transport, logistics, etc.) has gained a critical role in designing, organizing, controlling and selling, etc. the products and services in their new global redistribution and formation.

The key challenges and responses of the global transformation have resulted from the IT revolution and the one in overcoming distances. From this time onwards, all the players of the world economy, in principle, became the potential challengers and rivals of all the players of the economy, including both the employers and the employees. This, in practice, has put a sharp dividing line between the realistic opportunities available to *mass production* on the one hand, *system development* and maintenance in charge of planning and organizing the former, on the other hand, and the producers and sellers of the so-called state-of-the-art *high-tech financial institutional innovations* that require an ever increasing concentration of (intellectual, tangible and financial) resources, third.

The intellectual elite of the USA of the 1970's and 1980's, basically during the presidency of *Ronald Reagan* and the *Senior Bush*, defined conscious responses that seemed to be *good and effective.*

CHALLENGE 1

In the *mass production* type of transactions, especially in the case of environmentally polluting, energy-consuming, low added value products, the *outsourcing* of production to the developing countries, especially to those of South-Eastern Asia (initially to Thailand, Malaysia, Philippines, etc.) was allowed and even supported. Reagan

CHALLENGE 2

Focusing on higher added value *product and service development* (built on the copyright of intellectual products), as well as on *product management* (based on multinational proprietary rights) was the other planned aspect of the physical relocation of the production processes, as well as overseas outsourcing. This, in principle, provided an opportunity for controlling and managing global production, or the provision and selling of services and if necessary, their quick and efficient limitation or extension in accordance with the American interests, whenever such was necessary (from the world as a buffer).

CHALLENGE 3

The political success of the high-tech military development under Reagan's presidency that largely contributed to the collapse of the Soviet Union made the unprecedented concentration of resources into *state-of-the-art military, air and space technology,* information technology and the *manipulative sectors* (advertising, popular music, films, McDonald's, Coca-Cola, NBA, NHL, Hollywood, the Oscar prize, etc.) that promoted the US-American set of values, as well as into the supplier businesses (such as software companies) that have paved the way for, and have served the values represented by global outsourcing, acceptable. (Making them global mass consumer articles, especially for the masses of the regions which had been closed from the “American stuff” for long decades, came to be the foundation for the consumption-driven boom policy.)

CHALLENGE 4

It was on the basis of the revolution in the digitalization of financial technology in the US financial hub, which had been going on from the 1980's, that the *Wall Street “gold rush”* could explode: those creative economists, lawyers, accountants, financial experts, etc. who invented a series of entirely new kinds of products (such as pass through bonds, junk bonds, cat bonds, unit-linked insurance policies, D&O insurance policies, hedge funds, credit default, swap products, etc.), or the mass of *derivative* products built on each other could become multimillionaires or billionaires in a few months' time.[6] However, as regards the solidity of the building of the *global financial world* that was shaping from day to day on a global scale from the ascending layers of the various generations of derivative transactions, somehow there was no one to add that it would depend on *the uninterrupted increase of the re-production process of the US and the global economies,* in fact, on their rates of increase and structures development as well. In turn, however, uninterrupted global-scale re-production processes have depended on the existence of *optimism* and *trust* for several thousands of years, which are fundamental in the area of finances (as well).

CHALLENGE 5

The global success of the changing US American production and service supply, which was consciously made more modern, was largely supported by the rapidly responding *American educational system,* which thus became one of the most important independent industry to generate authority, confidence and income. The knowledge of the English-American language as the key to success, the regular further training of the newly invented experts of information technology, corporate management and finances, etc., such as business subjects, auditors, rating experts, coaches, consultants, etc., the requirements of ever newer postgraduate training participation and qualifications besides the university degree (PhD, SISA, etc.), combined with the new and fashionable elaboration of new methods of organization and analysis (the appearance of gurus championing the ever changing corporate management and organization methods, the "invention" of risk-based supervision, etc.) have jointly created ever increasing and incessantly renewing demand for the (majority of) US (and British, Maltese and other) educational institutions.

The responses given to these challenges of the 1980's, which also reached the US, *seemed to be reasonable,* as they provided a *realistic opportunity* for the transformation of the *old middle class* (mainly using English, mostly consisting of whites, working in the traditional sectors, middle-aged, those with poor or only obsolete qualifications, etc.) in a few years or decades, with relatively little pain, and *their adaptation* to new types of jobs and environments.

The factors contributing to the crisis (2): the distortion of responses

Unfortunately, the good strategic ideas, however, *came to be significantly distorted* during the 12-year implementation period under the Clinton and then the two W. Bush administrations.

RESPONSE 1

The outsourcing performed by the US in the area of *mass production* turned out to be too "good". The domestic production in the traditional sectors such as food industry, light industry, motor vehicle industry, entertainment and household electronics, boat building, etc. came to be terminated on a mass scale, bringing about mass dismissals and layoffs for the everyday players of the American dream, for the (less qualified) masses of blue-and white-collar workers. The scope of the emerging Far-Eastern countries,[7] exactly because of the successful intellectual and external policy preparation of the earlier administrations that raised sympathy towards the US, was supplemented by the Chinese, Indian, Vietnamese, etc. producers as well. What is more, the American consumers were happy to buy the cheap imported products of ever increasing quality from their wise Norwegian, Swedish, Danish, etc. rivals, which grew into large corporations. It was, however, standardized (see container-based, product-coded, scanned, etc.) mass production, transportable on a mass scale, that brought to life those shopping centers of an ever increasing size which were able to perform, organize and finance the production and distribution of goods (logistics) on an international scale (outer city Shopping Malls, Wall-Marts, discount store chains, etc.), which, in turn, destroyed masses of the traditional US (small town) retailers. By the 1990's, it was already the service sector, and especially its lower and mid-level employees that was adversely affected by the merciless effects of "outsourcing".

RESPONSE 2

The realization of the idea of global scale production organization through *product management* became more and more difficult for several reasons. It turned out that the corporate management models celebrated in Harvard Business Review can only be interpreted so easily in the "developed centers". In the developing post-communist countries, however, they had to be adapted, which involved very high accessory costs. Furthermore, the involvement of local (for example, Indian, Chinese, European, South-American, Eastern-European, etc.) production organizers who were capable of incredible performance (temporarily) for ridiculous salaries in order to climb higher on the social ladder made the advantages of decentralization and the new kind of, so-called network-type cooperation clear that was built on decentralization. This, in turn, brought about startlingly new cost-saving opportunities for the American holding center as well: the replacement of the seconded American managers by the cheaper local ones, the international rotation of talented local managers, and then their invitation to the US-based centers, etc. All these developments contributed to the destruction of the traditionally American positions, which already affected the mid-level and mid-senior level employees as well.

It was the contempt and indifference towards the Rest of the World that also led to the unpleasant surprise that it relatively quickly had to become obvious to the corporate managers of the American (and other multinational) companies that the concept of certain emerging countries with regard to patent and contractual rights was different from expected, to put it mildly. The majority of the outsourced companies, with the indulging support of their state apparatuses that were dumbfounded to watch the aggressive US foreign policy, started copying the latest pharmaceutical, fashion, software, film and musical products in mass volumes, without any problems and without any kind of payment in return, and making the rival companies and states richer.

RESPONSE 3

Concentration on *state-of-the-art technology*, the high-tech space and military industries also started to backfire. The undisputedly spectacular developments had led the majority of the American society and their neo-conservative elite to an entirely mistaken self-esteem, to the belief of the global supremacy of the values represented by the American democracy and market economy and to the aggression of spreading these values with a kind of fundamentalist vigor coupled with commitment. The thing is that the bestseller on the end of history written by *F. Fukuyama*, who was an emblematic intellectual figure of the period, was unfortunately taken seriously. By this, the USA (seen from a historical perspective) destroyed the global sympathy towards, and confidence in their young, scarcely 200-year system in a few moments, they recreated and lifted their own high-tech rivals, and destroyed their own market potentials.

RESPONSE 4

The "*Wall Street gold rush*", similarly to all other earlier gold rushes in the literal sense of the word, also became degenerated and distorted to the core. In the later part of this article, which is on American crisis management, we can suffer through, step by step, through which measures and how the derivative building, standing on the American soil, which had originally been thought to be solid, was gradually becoming *the world's largest gamble of pyramid scheme,* which was obviously doomed to collapse. However, in order to be able to understand this, we first have to deal with

RESPONSE 5

The total division of the American *training and education sector* and the consequences thereof. The boom in the quantity of secondary and higher education only brought (fantastic) development *for the elite schools and universities* that flooded there from abroad, as well as *the elementary- and secondary-level institutions* that had prepared them. [Along with (unbelievably fast, earlier inconceivable) mass (yuppie) careers and increasing incomes in the world of multinationals for those who graduated from these institutions – see the disputes of *Al Gore* and *W. Bush* about the principles of the later 2002 Act of No Child Left Behind.] This, in turn, resulted in that a rather high number of highly positioned American mid- and senior-level managers, with older qualifications and complacent, were squeezed out of their positions by a new, cheaper, foreign generation of managers, who were in fact only of foreign origins but had already been "brought up" at American universities. (And this process did not only mean the threat of being pushed out by new, younger and cheaper potential rivals in the local market of the rival country but also at any US-controlled companies located anywhere in the world.) However, the stagnation, due to ideological constraints, as well as decline, which was also clearly documented in international comparison, of the central (state, or even more, federal) development of *the average American educational, retraining and further training system* caused even greater damage to the traditional American middle class. This phenomenon was similar to the solutions of the health care system, which are to be discussed later.

The lives of the further masses of the traditional middle class, which was so proud of the American dream, were made even more suffocating and difficult by the successful entry of *two new groups of labor force* into the labor market. It is by the 1990's that *the first American generation* of the masses of Asian (Vietnamese, Thai, Chinese, etc.) families descending from the refugees of the wars of South-Eastern Asia in the 1970's (the "boat people") grew up in a mass number. Besides, all the segments of the American labor market saw the (even if not always legal) appearance of tens of millions of the *Spanish-speaking (Latino) minority,* who were similarly dynamic, hungry for success, and also having their own and proud set of values, rules and an intellectual elite that appreciates education and that keeps closely together. They were brought up by their parents, who sometimes literally deprived themselves of food, to real solidarity in the community, disciplined work, the ability to endure pain and stress, ambition meaning permanent and further studies, as well as single-mindedness, etc., which have by now become unusual for the traditional middle classes of the USA. The members of the traditional American middle class, who have become highly individualistic, single, who consult their psychologists in mass numbers have seen their chances, positions and expected incomes decreasing day by day, against the above-listed rivals with a new set of values, which was actually the old American one, i.e. their *(potential) creditability deteriorated on a mass scale.*

The leaving, for ideological reasons, of the *health care and old age care* of the lower and mid-level groups of this stratum of society as a private service, as well as the stagnation of the central development ideas (state, federal, Medicaid, Medicare) also contributed to the gradual social and economic fraying up of the old American middle class. Thus, it became increasingly difficult for the several tens of millions of middle-aged American employees, physically and intellectually not top fit any more, accustomed to their wealth, big houses, their several, unreasonably high consumption cars (see the spreading of the fad of sport utility vehicles, jeeps, and pick-up trucks in the cities) and the propaganda slogans of their neo-conservative elite, etc. to compete with the younger and healthier, dynamic, ambitious and often merciless, new groups of foreign employees. The unsuccessful treatment of the constraint to change the structure of the American production and service structure, which became unavoidable but gradually seeming to be realistic, from the 1980's, in other words, that of its social transformation crisis, and as a result of this, the deepening of the economic, and the increasingly spreading social crisis of the traditional American middle classes, however, were not only, and *not primarily caused by the incidental derailment of the original (right) ideas.*

The factors contributing to the crisis (3): the management of the crisis

The latent and rapidly approaching American economic and social crisis *was made really grave by the fundamentally and strategically mistaken crisis management of the past three administrations.*

■ In the democratic USA (as well), which was also increasingly becoming a media and internet society, *the gravest mistake and biggest trouble was caused by that both camps of the political elite were paying scrupulous attention to avoiding the confrontation of the country, especially its middle classes, with the real situation.* Struggling with the fundamental problem of modern democracy, and striving to win the election campaigns held twice a year, i.e. almost permanently, it was only and exclusively *the (sometimes irresponsible) promises popular to the voters* and the basic stance of "fully protecting the achievements to date", which was meant to stabilize the permanent voters that could come to the foreground. It would have been a shame for the candidate who undertook to handle the unpopular consequences of the real situation to run in the election in a period in which people assumed, because they wanted to assume, a never-ending gilded age. In the age of political marketing, the industrial-scale, professional, regular, mass-scale and preliminary testing of the electors' desires and dreams, then in that of intentionally discussing politics, which was built on this testing, it really requires great courage, or the total absence of self-discipline, for an American politician to admit the necessity of changes that will also incur unpleasant consequences, before the election. A presidential candidate such as Al Gore who said sobering words about harder work discipline, lower consumption, more federal and personal investment in human resources, mass health care and mass education, a healthier lifestyle, a more modest global American appearance, the protection of the environment, which is important for all of us, etc., could not stand much chance in a period when masses of people loudly celebrated the collapse of the Soviet Union, the victory of the American superpower, the favorable tendencies at the Stock Exchange, the global success of American movies and music, etc., when praises were sung about the glory of individual enterprise and success, and state intervention was qualified as something coming from the devil.

■ It was an even more serious problem and mistake than sweeping the problems under the carpet, however, that the American governments of the past 3 years have (also) thought that *their social and economic crisis could be remedied by popular financial policy and financial institute tools and tricks as well.* It was because of this that already the Clinton administration, learning from the quick failure of the health care reform planned to be introduced after its election, and in cooperation with the new Fed (Federal Reserve Bank) Chairman *A. Greenspan,* who wished to achieve historical success, started to *consciously feed the Americans,* especially the sinking middle classes *with illusions.*[8] After the crisis of the 1930's, by relying on the FHA (Federal Housing Administration), FHL (Federal Home Loan Bank System) and Fanny Mae (Federal National Mortgage Association) established for the maintenance of the housing boom, as well as by using the support received from the financial institutions Freddy Mac (Federal Home Loan Mortgage Corporation) and Ginnie Mae (Government National Mortgage Association) founded in the 1970's, for instance, they made it possible for those (lower) middle classes whose positions in the labor market deteriorated from day to day, to get access to as many as 9 million (larger) houses, on a mass scale, which affected approximately 25–30 million people. By using the policy of cheap money generated by the Fed, for instance by the 1 percent central bank prime rate, they created *artificial boom financing through an ever increasing credit dose ("drug use"),* which was built on housing and then later, domestic consumption. From this time on, the American economy *was driven* by a continuous, super-Keynesian, artificial generation of demands through lending, independent from whether these demands were in fact solvent.

■ However, the foundation of the illusion a scandal-free transformation was increasingly undermined by the progress of the transformation of the global economy on the one hand, and the runaway of the *Wall Street "gold rush"* on the other hand. The financial institutions that helped the (historically, in the longer term) insolvent old American middle classes to cheap housing, as well as the removal of the five investment banks that were in the vanguard of financial innovations and their spreading all over the world, namely Lehman Brothers, Goldman Sachs, Merrill Lynch, Bear Stearns and Morgan Stanley, from the *supervisory system* (SEC, Fed, FINRA, NAIC) in 2004; the protection of the (scarce and formal) local, state supervision of the financial giants such as AIG operating in the single US market and globally, which violated all the earlier laws, or transformed or interpreted them to their own advantage with the lobbyists; the prevention of establishing strict central, federal, integrated supervisory authorities; the positioning of the Fed Chairman into a canonized position that did not tolerate any criticism, etc., however, all showed that the American political and economic elite had already started to *disconnect the brake systems* from the dream car of the American society and economy (increasingly more slowly but still) rolling towards the abyss. The mortgage securities issued on the basis of the original *subprime housing loans*[9] (provided to scarcely solvent, not first-class clients) such as MBS (Mortgage Backed Security) and RMBS (Residential MBS) generated fictitious (incidental, imaginary, etc.) retail, corporate property and exchange gains for those trusting in the infinity of the trend of housing prices increasing by a total and average of 50 per cent later, between 2000 and 2006. Then the mortgage equity withdrawal, i.e. the lending for free disposal, which initially only served the use of car and other luxury consumption articles (travel, etc.), then also, to an ever growing extent, capital market speculation, was built on the housing *mortgages and confidence.*

The origination of (from the outset) *the high and unrealistic risks of domestic American lend-*

ing, as this activity violated the classical textbook rules of banking, insurance, the money and capital market greatly, in a mass volume and to a high extent, as well as *the constraint to distribute them globally,* which was not unreasonable from a professional aspect, *were the drivers underlying* the development of the (supply side) *of the derivative market (O&D).*[10] The modern technology applied by the financial institutions and in communications, in turn, provided an opportunity for the development of such products through which the risks incurred in one area (country, industry, region, etc.) could now be distributed in other areas (too), on a global scale. The bundles of dollars accumulating from the high deficits in the US balances of payments, the multinational financial intermediaries such as pension funds, life insurers, banks and savings associations, etc., which coordinated the self-financing precautionary savings efforts of the responsible average people all over the world, in turn, became the organizations that made this distribution of risks possible, they were the ones to maintain them, and they also became the players of this game on the demand side.[11]

The risks arising from the individual credits which are high-risk by themselves and in isolation cannot be concealed but they can at least be mitigated for the original lender. This can be done if a high number of such credits are packaged into a special purpose vehicle (SPV) and they are sold to a specialized investment organization. This kind of *credit enhancement* actually brought risk savings for the issuer and the latter could give a profit share of increasingly incredible amounts to the distributors as well. What is more, based on these logics, it could also become sensible that many such derivative securities should be packaged into ever newer papers of even higher potentials and capable of distributing the actually existing risks geographically all over the world, and among the various industries and their stock exchanges (indices). In normal circumstances full of confidence it also seemed logical for the insurance companies to line up behind the financial institutions issuing these papers: if one of the many financial institutions should still not to be able to pay for one of their securities, then the guarantee taken by the insurance company in question will be enforced on its behalf (credit default swap). Thus, through the circulation of the derivative markets, the *bad loans, as well as the poison* from the risks of the only seemingly solvent American clients, which was in fact the irrationality of the artificial sustainability of the American boom, and the ability to finance the latter only from external resources at this point, spread in the world's body.

■ The proliferation of the derivative world, which seemed to be reasonable (because it was one to distribute risks) in normal circumstances, would not have caused such a big problem *if the (modernized) brake was also left besides the engine.* The new philosophy and methodology invented by Fed, which represented an ideology focusing on the large banks, and the unique lobbying organization of the large insurers, i.e. the federal insurance supervisory authority NAIC (National Association of Insurance Commissioners), which started from the 1980's with the Risk Based Capital approach, i.e. *the change of paradigm* in the US supervisory system in the 1980's, *however, was basically* and *doubly mistaken* from the aspect of the supervisory system of the world.

According to the representatives of the new paradigm, the supervisory authorities must and may exclusively focus on *the subsequent, non-systematic financial data,* capital and solvency figures, which data *only* follow the economic processes, of the increasingly larger financial institutions, which are now threateningly large for the system of financial institutions as a whole, and all the other tasks should be assigned to the self-regulation of the market.[12] Ever since this time, the supervisory authorities of the world's financial institutions, by way of prevention, have only been obliged and allowed to perform the subsequent control (a quarter or six months later) of the (perhaps correct) booking of the real transactions, (perhaps) following them in time, as well as to *exclusively* estimate (in a preventive way) *the future evolution of the financial indicators.*

This double mistake in the principles was crowned *by a methodological mistake* as well: the earlier, so-called multiple- (e.g. 18–20-) dimension classical (IRIS) supervisory methodology was replaced by single-dimension, so-called risk-based supervision, which meant to handle all risks exclusively *with the supplementary capital requirement.*[13] This, however, may only turn out to be ineffective both in principle and in practice. The situation is that the statutorily allowed capital leverage is of an extent from eight to twenty-five times in the various sectors of financial institutes, i.e. the supervisory authorities may only run after the processes in a share of only one-eighth to one-twenty-fifth in the case of the already undertaken risks. (And then we also assumed that each data of each financial institution is clear and correct.)

By taking this step, the two-tier (state and partly federal) US supervisory system, which is not only divided by sectors (see OCC, CFTC, SEC, Fed, FDIC, NAIC, etc.), has even abandoned the application of the principle of the century-old European (so-called material) type of supervisory system. Earlier, the conditions, risks, as well as the costs and fees related to (each) *product* of the financial institutions *were* preliminarily *examined* by the supervisory authorities, i.e. *before the potential infection of the market,* and these products could be banned in the case of their being a threat to themselves or the public.[14] It was after throwing out this philosophy that the American supervisory practices *loosened up,* when *the period of light touch* regulation commenced. As consequence of this, however, the securities that were already the umpteenth derivation of the original credits, were not precisely understood and known by not only the buyers but also the sellers themselves, or the supervisory authorities that controlled them. After the passing of the DIDMCA Act (Depository Institutions Deregulatory and Monetary Control Act) in 1980, the authorities gradually started to disregard that the banks should check upon whether the client has the accurate 620-score minimum according to the appropriate *(conforming, prime)* category of the so-called FICO rating system, as well as the rejection of the inappropriate (non-conforming) private mortgage labels (MBS; Private Labeled Security) only rated ALT A, keeping the debt-to-income ratio under 75 per cent, or that of the loan to value, i.e. LTV under 70 per cent, as well as the contracts of scarcely documented (No or Low Doc) NINJA's ("No income, no job and no assets"), or the threats of the spreading of mortgage brokers specifying expressly in second-class borrowers, etc. And as almost nobody seemed to understand the contents and risks of a certain product, the assignment of *responsibility to external players* such as auditors and rating companies started to become a wide-spread practice.[15]

It is no surprise that the US (and British) supervisory system was not able to realize up until 2004, when the notorious warning was issued by the ex-Fed head *Edward Gramlich* that the Wall Street and the (London City-based) global derivative system, which fulfilled a positive role at the time of the boom, optimism and confidence, *may turn into its very opposite* at the time of decline and/or pessimism, to the slightest sign of losing confidence.[16] And indeed, just a little stumble in this optimism, this belief in permanent increase (the bullish market) *caused a toxic asset waste;* and not only to the US financial institutions and the American society but at every place where the poisoned derivative fruit was bought.[17] The tricks devised by American the financial institutions to stifle the social crisis and the conscious removal of the genuinely efficient preventive control by the supervisory authorities jointly created *the largest mass* (so-called drawing-type) *gamble of world history: derivative-gambling,* which depended on the ballots drawn by the stock exchanges indicated by the investment units, the indices, the indices of the funds, etc., which was not controlled by anyone any more, and which took place on a global scale, embracing large masses of the population.

■ The approach of the American *credit crunch,* which was the result of the trade balance and budgetary policy with severe deficits, the monetary policy of cheap money, the exchange rate policy allowing gradual depreciation, as well as the artificially maintained consumption and boom, which was covered up by ever newer credits, however, was concealed, for a relatively long time, by two *deflationary effects that can be regarded as external and transitional.* The cheap imports from the outsourced production and services (primarily from China and India) pushed down the American prices, while the entry to the labor market of the migrants from South-America and that of the second generation of the already migrated Asians, the gaining space in the US of the managers from the emerging countries moderated the salaries.

■ The *Gilded Age*[18] *of Wall Street,* which was already tolerated (although by constraint) by as early as at the time of the Clinton administration, *became socially and economically critical under the W. Bush administration.* As a result of the tax and social policy of the government building on the ideology of the unlimited enforcement of private businesses, the variation of the incomes of the US economic entities grew dramatically. However, to the newly rich winners of the "Wall Street gold rush", it was not so much their morally disputed super-incomes and bonuses that caused *the biggest problem* but *the strong braking effect* of this phenomenon *on the* American *transformation*.

As a result of the yet unprecedented profit showers, all kinds of private individuals and institutional investors started to buy such equity products, building on the mortgage loans of their houses, whose actual risks they did not have the foggiest idea about. The property impact of the giant profits arising from the increasingly hysterical (as it could not be supported by real economic bases) raging of the bullish equity market, however, exerted the same destructive effect as the influx of gold into medieval Spain after the discovery of the New World.[19] The American elite, spell-bound by the incredible exchange gains and bonus produced such *an example for luxury consumption,* and then such a *crazy consumption boom* which showed a *mistaken (irrational) example* to the average US citizens and the majority of the world, with efficient support received from the professional American media, advertising industry and Hollywood, which promoted these values. Joining the consumption craze and being trendy *became a social and existential issue:* those who did not have the latest make car, did not wear the most expensive brand of clothes, did not take part in the latest fitness fad, etc. could quickly drop out of their own social milieu. Thus, the constraint of the consumption fever and the alluring power of the influence of derivative transactions on one's assets, which was similar to the intoxication of drugs, the mid- and lower levels of the middle class got off the habit of saving their incomes in mass numbers, almost entirely.

Thus, the effect of the supplementary incomes that were generated in the USA in the past few years *was felt* uniquely, *on two poles: on one* condensation point, there appeared the direct and *real winners* of the "Wall Street gold rush", and the several hundred new billionaires and indirectly, the several hundred thousand millionaires. Furthermore, the millions of *seemingly winning* middle class people,[20] who were getting rich, and who were accumulating considerable fortunes in a documented way, i.e. only conditionally and fictitiously, could temporarily also appear besides the former category, as a kind of factor that justifies them socially, and one which legitimizes popular capitalism. Meanwhile, *on the other pole*, the number of those *who were threatened with loss* kept growing: and these were *the tens of millions of the members of the old American middle class,* who took out loans for their houses, their future incomes, their seemingly high market value securities, their cars, etc., and were taking out ever newer loans to serve yet another consumption and/or stock exchange speculation, indebted to their ears but their value depreciating day by day in the labor market. This means that the moment of truth sooner or later had to hit the old American middle class that regarded the American over-consumption on the individual, state and federal levels, which had not been founded by the economic and exports performances acknowledged by the global market for a long time, *i.e. all kinds of, and general American over-consumption* as a human right and an American privilege, and who had been discouraged from accumulating savings and making real investments into the future.

▪ The postponement of the problems of the American nation and the whole world, which involved the multiplication thereof, and then their accumulation, which caused the explosion, were caused by that it was W. Bush who perfectly understood and dominated the professional standards, styles, clothing and use of language of (only) the sinking American middle classes who came to head the government. The strategic line represented by the administration, which was mediocre in the typical American way and was penetrated by the illusions of the sinking middle classes, tried to infinitely put off the ever so threatening fundamental changes to take place in the old while (lower) middle class (Change copyright by Obama). However, by this, the administration deepened the financial crisis, and then that of the financial institutions as well, that the crisis of the overall US economy and that of society, which is starting to develop now, became unavoidable. (See, for instance, the rupture in the artificially maintained credit demand and the tumble of American car manufacturers and their suppliers that involved mass disaster, which companies uncritically served this demand and then ended up in a crisis as a result of their own mistaken development policies.)

▪ *September 11, 2001 could have been a turning point* in the history of the American social and financial crisis that has been latent and suppressed for a long time. Perhaps it was that crucial moment that was the last for an American government to have had the chance to confront its nation, independently from election aspects, with the real vulnerability of the US, the depreciation of its superpower status in the world, and the actual reasons and factors that had contributed to it.

However, the W. Bush administration committed a *historical error* by its failure to recognize the gradual economic, as well as external and internal political weakening of the USA, to acknowledge the real circumstances, and by its creating and making the citizens believe the new illusions of the US as a superpower, which used the emotional waves of the people, rather than doing away with the earlier illusions of the middle classes. (See the sinking into the three wars, namely with Afghanistan, Iraq, as well as into the anti-terror wars, the absolute runaway of the deficit of the war budgets, the squandering of resources on war economy, the further moderation of public education and health care developments, and eventually, the barely sustainable growth, even by using credits given away nearly for free, the foreign trade deficit, which was increasing, even in spite of a dollar weakened against the euro to the level of 1.6, as well as the wrong handling of the foreign policy matters, which raised more and more anti-American sentiments and resulted in narrowing the market, etc.).

The point of the series of crises

As a partial summary, we have to point out that *the intellectual and political elites of the USA (as well) have reacted wrongly,* or increasingly wrongly to the ever accelerating and increasing changes in the global economy, at least in the 12 years of the past 3 presidencies. It is also emblematic that the crisis of the American financial institutions started exactly from where the suppression of the social crisis began: by playing financial institution tricks. The situation was that the transactions of Goldman Sachs, Merrill Lynch, Bear Stearns, Lehman Brothers, Morgan Stanley, as well as Countrywide Financial, AIG, Washington Mutual, Wachovia, Fanny Mae and Freddy Mac, which were removed from the control of all kinds of meaningful financial institutional supervision, were eventually impossible to finance, in spite of all the artificial support and tricking and as a result of the gradual reduction of the housing market demand. If, however, the payment of the securities issued by them became doubtful, then the trust in all the derivative products that were built on these securities broke in just a few moments. And once the stock exchange game called "who will be the first to get rid of the loss-making securities?" had started,[21] the risk distribution effect of the derivative transactions swung to the very opposite of the earlier tendencies: it became a destructive tsunami that made all kinds of relationships between the financial institutions uncertain, that *spread "the poison" of the multi-dose "American credit drug use"*, and one that poisoned the overall circulation of the global economy. Then, as a result of the panic that broke out in the securities markets, the apparent savings of hundreds of millions, or perhaps billions of average people that were deposited in securities turned out to be only imaginary and desired but not real profits.

The historical significance of the crisis

Thus, the real question of today's American crisis is not why it broke out now. The financial institutional crisis of the world's key economic and military power, which has been going on for one and a half years now, has *only made the consequence of an economic, then financial, then social crisis, which had been latent for almost two decades, open and clear* to the whole world, and by this, at last to the American population as well.

The real question, which requires further and more thorough analysis, is why the financial institutional crisis which had been made timely for more than a decade by the prevention of the transformation of the US economy and the sinking of the old middle class, resulting in an ever deepening social and open financial (budgetary, monetary, exchange policy) crisis, did not break out earlier. How could such a social, economic and financial policy, a paradigm and organizational framework of the supervision of financial institutions, in which *almost all of the rules of the textbooks*[22] on democracy, finances and international supervisory norms, etc. *were violated so continuously, to such a high extent, intentionally and consciously, without giving a thought to the consequences,* survive for such a long time?

Thus, the current great financial and financial institutional crisis, and the ensuing American, then European crisis, which will last for another 1 or 2 years, as well as the crisis of the global economy, actually means an unavoidable *historical correction*, and what is more, a *sobering slap* for the American society and the

Euro-Atlantic values as a whole. It justified that the fundamental (humanitarian, economic, financial and financial institutional) rules of human cohabitation and the various professions that had developed in the course of the past thousands and hundreds of years cannot be permanently and seriously violated without grave consequences by either the communications and economic intertwining of the world, *or even the people and government of the United States,* which, due to globalization, by now has come to possess the key currency and a unique military-diplomatic power.

The rising of the USA

The American nation and the USA, similarly to the great economic crisis of 1929–1932, *will* probably *learn from the bitter lesson* in an exemplary fashion again, and will correct the wrong ways that it had followed in the past few decades.[23] The American mentality has the unique advantage of a unique mixture of *pragmatism*, which is necessary for survival, and *(dogmatic) adherence to their own principles.* (Even in the US of the 21st century, a president can gain unrivaled popularity if he qualifies an Iraqi war as one that serves the interests of a country, for example but the same America will disgracefully turn away from its president if it turns out that this is not the real interest of their country.) The way that this unique amalgam appeared in the treatment of the financial institutional crisis in 2008 was also a textbook example. It turned out in a few moments that if the survival of the American system of financial institutions requires that the private financial institutions be supported by the state, or placed under supervision, or perhaps nationalized, then both the genuine monetarists such as Fed Chairman *Ben Bernanke*, ex-finance minister *Hank Paulson* and the new one *Timothy Geithner,* head of the National Economic Council *Larry Summers,* senior economic advisors *Paul Volcker* and *Austan Goolsbee,* etc. and the tens of millions of voters are able to forget the earlier basic principles that had been hammered to them for decades, immediately. The slogan of change promoted by Barack Obama, on the other hand, called the millions of the (black or Asian, English- or Spanish-speaking, or even speaking Mandarin at home, dynamic, ambitious, trusting and wanting to trust themselves, etc.) *representatives of the future and renewed middle class* wishing to take the place of the old white middle classes to achieve sweeping success (doing away with the mentality of the elite of the past decade).

However, a *new Roosevelt-scale task* awaits the new government; fortunately for them, with a House of Representatives and Senate more suitable for performing the task than in Roosevelt's time. They have to start implementing a *great change* forming social mentality and values, and definitely causing great unpopularity *at the same time* as maintaining and saving that part of the system of economic and social institutions threatened by the crisis which are viable in the long term as well, *by applying successful crisis management measures.* In the USA too, the most important and most bitter task will be *the confrontation* of the average people with their own economic, political and military vulnerability and weakening. Besides, the American administration will have to moderate the budgetary deficit by applying a cautious gradual approach and in such a way that the situation of the lower and lower-middle classes should improve, that of the upper middle class should not deteriorate and that the boom should not be further suppressed by the constrained transformation of the taxation system, etc. The US supervisory authorities shockingly exposed to and captured by politics and the large financial institutions (regulatory capture; copyright by *Georg Stigler)* should be liberated,[24] a complex and integrated system of state and federal supervisory authorities that comply with the requirements of both the traditional and the modern financial institutional supervision[25] should be established, thus reconnecting the brakes that were removed for several decades, into the American system of financial institutions.[26] Mass-scale and, also for the middle classes, meaningful progress should be started, and the renewal and modernization of public education and public health care, which provides and ensures competitiveness, should be launched, along with the general modernization of the American infrastructure. A common voice should be found with the trade unions about the modification of work and employment conditions, in a way that is efficient from the aspect of the global economy, and the situation of several million illegal workers should also be settled. Furthermore, a solution should be found for the closing of the wars started by Bush, which requires a basically different foreign policy, as well as a new environmental and world trade standpoint. As a result of all this, global confidence in the USA, the American goods and financial instruments may improve quickly and to a great extent.

The thing is that the US society, economy, financial and financial institutional system has *enormous reserves.* This means the giant extent of accumulated and allocated capital, the resulting shareholders' authorizations, a troop of labor force which is young, dynamic, highly qualified, disciplined and striving to achieve a new middle and upper class status, the world's largest research and development potential, to which the giant patent and copyright property is added, their enormous explored and potential raw material reserves, and even larger shares in controlling raw material and energy, the (perhaps) strongest war industry of the world, a dynamic external (economic) policy that is able to and at any time willing to deploy many kinds of tools for its interests, the hundreds of billions that make stable investments, flowing into the strengthening dollar, etc.[27] The power of the new American president, who takes the slogan of historical change seriously, and that of the tens of millions of people standing behind him may jointly contribute to the development of a *more normal and cooperative* relationship between the USA, Russia, China, the European Union, the Middle East, Africa and South-America, etc. The rapid return of belief in the normal order of the world, which can be achieved 3–6 months after the euphoric inauguration of the new president and his start with a pragmatic cold-headedness may even lead to a world economy that can recover in 1–2 years but from which the earlier, one-sided and irresponsible adventurism should be excluded, and which should rest on modern international regulation and coordinated supervision and control. And this means that the current financial and financial institutional crisis may even go hand in hand with a sobering effect required for the creation of a more humane and livable world.

II. INTEGRATION AND “DISINTEGRATION” OF EUROPE

The factors contributing to the crisis (1): the challenges

The general challenges affecting all human communities as a result of the “IT and distance overcoming revolution”[28] starting in the 80-s had a major impact also on our continent. In addition, however, Europe also had to face other challenges resulting from its own specific situation. The common feature of these challenges is very clear: by this time (almost) *all pillars supporting the financing of a so-called welfare state earlier* (with the involvement of external funds) with perhaps one of the most successful models in the evolution of mankind to date established after World War II as a humane and effective model had disappeared.

CHALLENGE 1

The global socialist economic system collapsed, after providing extra profit, for example, to Finnish, Austrian, German, etc. companies and the budget for many years based on its faults, insufficiencies, special and export and import requirements and permanently tense financing position, etc.

CHALLENGE 2

Those Indochinese, African, etc. empires *and other interests linked to economic units established as successors of colonies* (for example, the British Commonwealth, the Lome Convention, Portuguese, Belgian and Dutch, etc. colonies) became independent or fell apart, although they had produced outstanding profits before contributing to the integration of new values produced elsewhere (added value) into the European social care system.

CHALLENGE 3

The European agricultural, raw material and other import levy systems also has to be gradually given up or reduced due to the expansion of the WTO and the European Community and Union. This led to the loss of resources required for maintaining the standard of life, such as for example, agricultural, regional, realignment, etc. support funds.

CHALLENGE 4

The generations of reconstruction, active after the World War and working without sparing any energy also gradually moved to comfort and *retirement*. They were replaced by the standard of service of the welfare state and the work discipline of the young middle work staff raised under the protection of strong trade unions, a different choice of value between free time, strike and employment, and a different opinion about consumption and progressive thinking, etc.

CHALLENGE 5

The increased demand for social expenditure of the *second generation of* Turkish, Yugoslav, Arab, African, etc. *guest workers* providing a major contribution to the development of Europe and World War II and settling down in the host countries also had an extremely large impact. In fact, no one wished to deal (for a long time) with the problems of masses of young people crammed in the (literally) sometimes literally flaming suburban districts *(slums, ghettos)* with little qualifications, rarely experiencing the concept of modern work discipline and employed either for a short time or not at all, although the problems were accumulating. These groups could not and/or did not contribute to the financing of the welfare state with anything. On the contrary, as European citizens, they began to expect the social benefits required for their education, special realignment, satisfaction of their religious and intellectual demand, supervision by the law enforcement agencies, health services, etc. as a subjective right.

CHALLENGE 6

The comforting and selfishness generating impact of the welfare state, the unilateral treatment of the equality of women, which disregarded only the interests and opinions of women, and the forced consumer mentality launched from America and maintained with every instrument together led to a *radical decline in the birth ratio of the European states.* (Although some countries tried to balance the situation with immigrants from previous colonies and other cultures, but the integration of these people into the society required further major education, social policy and law enforcement-related expenditure.)

CHALLENGE 7

The *number and ratio of old generations* pleasantly increased during the same period owing to the high quality health and pension insurance systems (combining the advantages of several pillars). However, this brought along higher demand and predicted a robust further increase in social services and demand for resources.

The factors contributing to the crisis (2): the responses

RESPONSE 1

The reconsideration of financing of the welfare state *started in time* also in Europe, during the period marked with the name of *Margaret Thatcher* in interaction with the Reagan era. It is one of the (rarely recognised) advantages of Europe that such intellectual or public political revolution had to go through each state of the continent: the problem raised in one country and its proposed solution options had to be discussed also in the political life of another country. In order to avoid any *country regulatory arbitrage*, which only gave a boost to the problems arising from the respective lag between the various countries, the people's parties of all European countries had to face the challenge: if another important partner country (a similar people's party of the country) decided to reconstruct the welfare state, then the same idea had to be considered in the other parts of the integrating continent as well. Consequently, the European large mass parties began to form two groups according to the *various versions of solutions for transformation* and *not* as a result of the *discussions and rejection of the need for transformation,* which was unavoidable due to the transformation of the entire world economy. (Thus, even the people's leaders with populistic tendencies could not deny the need for transformation, creating illusions for the population and businesses of their own states.)

RESPONSE 2

Another important and rarely appreciated specificity of the multi-coloured Europe with its diversified interests and cultures is that attempts were always made for *harmonisation, with compromises,* of the various proposals for change through seemingly infinite discussions (functioning as *filters*) of the various expert groups and extensive bureaucracy. This often blamed, very time and expense intensive, national and Brussels discussions and bureaucratic jig-a-jag, however, created an opportunity to the expression of each and individual interest and opinion, even if many of them were maddeningly partial. The same process also gave time for the coordination of various correlations between the extensive discussions by expert groups representing different interests.[29] The common EU-programmes and their annual revision, the Lisbon Strategy, which was the result of extremely extensive efforts, the Treaty of Maastricht and the Treaty of Amsterdam, the Treaty of Nice, currently in crisis, and the European Constitution, etc. all proved that the nations of Europe ultimately always wished and were able to reach compromises, although accompanied with a large number of national tricks, individual interest protection, etc. (at least until the middle-end of 2008), which is more or less acceptable for all major groups of the society.[30] On the other hand, the European intellectual elite was and is still able to impose pressure on the representatives of their political life disallowing (durable) cooperation with representatives of extremely populistic views.

RESPONSE 3

The European intellectual and political elite opted for their own respective state regulations, supervision and control and even an *ordo-liberal social market economy,* in which public property is not considered to be originating from the satan, not only in the cautious compromise-based management of the social crisis but also in the transformation of the structure of the economy based on the historical lessons of the two World Wars and numerous local wars.[31] Led by the often abused European bureaucracy, struggling with the anger of regulations, therefore, *the "holy trinity" of liberalisation,* deregulation and privatisation, announced by all economic world organisations influenced by all *Americans was always followed only partially and half-heartedly.* Apart from one or two, (generally failed) attempts, Europe retained the ex ante quality control of marketed products and services and their risks (see: the pharmaceutical, food, motor industry, etc.); openly or implicitly protected the control over strategic companies and public utilities by their owners (public, provincial, regional institutions or the financial institutions thereof), or other parties; reduced only gradually the public services (pension, health, transport, education); began to demolish the support systems generating artificial positions on the market (for example, iron, steel and coal industry, agriculture, fishing, etc.) only gradually and carefully, based on lengthy discussions; did not throw out the regional support system of realigning joining countries, tried to retain as much as possible of the prior supervision of derivative products. However, another reflection of *the same gradual approach*, typical only of Europe, is that the common European high-tech industries (see: Eurofighter, Airbus, CERN) were not given an unreasonably privileged position either, the national and international (home & host) cooperation of the European financial supervisions was developed (too) slowly, based on hundreds of discussions, and even during the worldwide (excessive and irresponsible) bio-energy campaign, Europe managed to insist on the priority of solutions focusing on energy efficiency and support of diversified alternative sources of energy. Consequently, Europe and its intellectual and political elite *was able to face* the challenges arising from the transformation of the world economy and come up with (diversified) responses and proposals *relying on its European traditions and values.*[32]

RESPONSE 4

The most important European strategic decision related to the concept of *expansion towards Eastern Europe* (Drang nach Osten) rose into a *pan-European value.* All West European countries permitted, and even supported their companies in the acquisition of strong (privatised) market segments and shares, as well as companies within the framework of the transformation of Central and Eastern Europe. Active support was provided at national and pan-European levels for the cohesion, realignment and accession programmes of the individual countries (for example, PHARE, SAPARD, ISPA, TACIS) and the educational (Erasmus), and bureaucracy renewing (Screening, Aquis Communitaire) programmes raising new middle classes understanding the Euro-Atlantic values, institutions and methods.

The active support towards the increasing *integration* of the former socialist countries into the *European Economic Community* was even more important. The West European intellectual and political elite can be proud of recognising the fact that the East European enlargement that required a major short-term investment, involving temporary reduction of consumption in Western Europe, is one of, or perhaps the most important and only peaceful means for rescuing-maintaining the *Western welfare state.* Only the former socialist countries (within distance that can be overcome by car) were and are able to provide new (fresh, emerging) market systems, considerably well-prepared, flexible people hungry for success and *extra profit opportunities* integrating into the European working culture without any major adaptation cost, etc. for hundreds of thousands of the West European small and medium-sized companies.

The *"re-colonisation" of Eastern Europe by Western Europe was* the best, i.e. the least bad *compromise* for both parties. In this context, one party provided known, accepted and desirable sets of values, style, political and intellectual culture, capital, capital investment loans and instruments, modern market economy bureaucracy, know-how, opportunity to enter the market, greater international prestige, and disciplinary financial (budgetary, monetary exchange rate policy), and financial institutional systems, suitable for supervision, and asked for a rather high price for it, expressed with high (at least two-digit) profit ratio, involving also higher country risk premium.[33]

RESPONSE 5

The second important strategic decision of the European intellectual elite was the *enforcement* of national and continental permanent and continuous *financial disciplinary system,* primarily in the field of the budget, monetary policy and exchange rates. The introduction and successful distribution of the Monetary Union and the euro was based on various programmes, such as the Customs Union, the Common Market, the Single Market and the European Monetary System and the Economic Union and the Treaty of Maastricht, the Lisbon Charter, etc., prepared through gradual and organic development. Naturally, these measures never achieved all their targets, but it was not their main function either. The largest merit of the European institutionalisation of the financial institutional system through the Treaty of Maastricht and the European Central Bank is that *with its professional bureaucratic procedures it managed to prevent the control of finances by political voluntarism and populism (for a long time).*[34] The permanent and common (Community) attention and supervision of growth indicators, inflation, budget deficit and indebtedness, etc. always cruelly made all politicians of any country inclined to deceive their people face reality. (It is another issue to be discussed later to what extent the inconsistent sanctioning of the violation of voluntarily accepted rules deteriorated the efficiency of the whole system.) However, these measures helped Europe to prevent the complete destruction of budgetary discipline, unreasonably high national and household debts, the destruction of multi-pillar large social systems, which contributed to the retention of the high household savings ratio and only flight overheating instead of the worldwide hysteric consumption fever, as well as to retain the major role of traditional financial institutional activities, products and organisations without their mass integration into speculations with stock exchange innovations (driven also be irresponsible lending).

RESPONSE 6

The *transformation of the European production and service* system began on the basis of the European historical and cultural traditions, and the two decisions of fundamental importance outlined above.

▪ *Mass production* was not outsourced to the East as brutally as in America, partly because of the strong resistance of the Western trade unions and partly because of the limited absorption capacity of the new markets, and thirdly, because of the limited privatisation opportunities in the former socialist countries and the strong competition for them. The Western European countries allowed the increase of the import of products and workforce only selectively, deliberately and intensively protecting their own small- and medium-sized enterprises. The large number of various quality, customs, health, etc. regulations and the establishment of large shopping centres on the outskirts of towns, preservation of and subsidies to publicly owned production and mainly services (state, provincial, regional, etc. ownership), as well as the survival of the health, pension and social policy orders of the welfare state together made a great contribution to the alleviation of the social tensions triggered by the gradual reduction and outsourcing of agriculture, food and light industry, metal processing and machine industry, as well as motor industry (for example, in Germany, France and Italy).

The carefully implemented deliberate liquidation of European mass production also provided opportunities and time to the still viable small- and medium-sized businesses of the traditional sectors to *gradually and continuously* transform their production and service structure relying on their own and high savings and investment ratios as own funds; the process clearly supported the supply of products and service and components with a higher added value and informally "rejected" the environmentally polluting products and those with a lower added value. In addition, *concentration on product and service development and production control* also appeared. The positions of Western Europe strengthened again, (also outside Europe), primarily in the (traditional) agriculture, animal farming, light industry, public services, logistics, tour operation and financial services. The well-selected expansion targets – i.e. Eastern Europe – which were not so distant in terms of work culture, language skills and hygiene, yet was exposed due to many reasons – in theory gave an opportunity to all EU businesses to launch or reduce their Eastern productions quickly with a relatively low adaptation cost. (In addition, just by referring to potential new job creation in the dependent East European countries based on ownership or outsourcing, they could generate further competition for tax benefits.)

The European Union also deliberately thrived towards re-gaining its position in the new economic and service sectors satisfying the requirements of *high technology and IT* age. Having overcome the difficulties resulting from the cumbersome harmonisation of delays, excessive financing and the legislation and standards of several countries, considerable results were achieved in nuclear physics, biological basic research, coordination or aircraft, public transport means and motor production, pan-European navigation, distance trade and logistics, software development, entertainment luxury electronics, quality assurance, R & D management, project organisation, (cultural) service sector satisfying the latest requirements, as well as fashion.

Europe, and especially its English, German, French and Spanish speaking parts, have also recognised the importance of the worldwide boom of the *language teaching and education industry.* Apart from the well-known European elite universities providing classic and high standard educational training and research services (English, French, German, Swiss, Austrian, Italian) extremely high quality colleges and institutions developed very fast providing training in, e.g., public administration, finances, tourism and fashion. It was more important though that they also recognised in time the deterioration of quality of mass secondary and higher education (the purpose of which was to manage the unemployment peaks) and the quality balancing process began with the two-level (Bologna) university training, pan-European educational programmes resembling *Erasmus* and cultural programmes similar to PEEP, even undertaking the difficult process of mutual recognition of diplomas and accreditations. Consequently, the European public education was not drastically separated either.

Each individual European country began to eliminate the most obvious wasting practices of their own respective *health and pension systems* (privileges, holy cows) moving along and continuously testing the borderline of political stability. The combination of public services with traditional *financial institutional* (bank and insurance) technology resulted from the intention of obtaining/preserving long-term and stable political popularity. This facilitated, on the one hand, careful and gradual transformation and sometimes even development in, for example, the multi-pillar nursing care, rehabilitation or risk capital regulations, as well as the acceptance of the exchanges by the population (involving difficulties, heated disputes and demonstrations). The strong and fierce discussions between the various groups of the intellectual and political elite did not impede cooperation in major (cardinal) issues, reflected, for example in occasional cross-voting between parties, large coalitions struggling with each other for years and permanent transformation of governments. (See, for example: Germany, Austria, Spain, France, Slovakia). The basic principle of the *unity of self-care and Community responsibility* has always remained effective in these situations based on the long historical European interpretation of solidarity. The societies, which still had sufficient free time, individual and community (financial) resources not yet wasted on fashionable consumption, moving also towards professional sports management, found it especially ideal to increase the importance of sports, primarily the winter and summer Olympics, world championships and European championships, as well as various cups. These events became a new (multiple) production factor in public health, manufacture of sports instruments, tourism and mass entertainment, slowing gaining even political importance. (See, for example, Great Britain, Germany, France, Switzerland, Austria, Slovenia)

RESPONSE 7

It is not at all accidental but was the result of all these European specificities that the high savings ratio was retained, and consumer loans based on retail mortgage loans and several hundreds percentage, usurious APR were used negligibly and moderately, practically only in Great Britain, representing its Anglo-Saxon set of values. Thus, contrary to the American middle classes, the European middle classes saved themselves from any major indebtedness. Based on the often mocked European cumbersomeness, the *overwhelming majority of European investors and savers were satisfied with the impressive yields of the traditional banking and insurance products* (increased with extra profits from Eastern Europe). Some began to invest, for example, into Far East or IT or environmental, etc. financial innovations only for the sake of a "deliberate gambling". Practically, only a small group of the largest banks and insurance companies having also multinational and generally American interests and involved in special competition (ING, AEGON, Deutsche Bank, Allianz, Fortis, Swiss Re, Royal Bank of Scotland, HBSC, UBS, Anglo-Irish Bank) was involved in the derivative products of the "Wall Street Gold Fever" described earlier more intensively than just one adventure[35].

The (artificial American) boom generating concepts based on both clearly export-driven (true Far East) and internal consumption generation could obtain only moderate support among the population, the intellectual elite and also the political elite on our continent because of Europe's often mocked rationalism and the strict Maastricht criteria.[36] The fact that the consumption fever and the related tragic indebtedness (based on mortgage loans and its derivative products) were concentrated within relatively small groups was also the result of the very same obsolete conservative European approach. The same approach also prevented the multiple and extensive success of *extremely aggressive* (for example, Icelandic) financial institutions, which attracted non-creditworthy people not having enough income for stock exchange speculations, into adventures on the stock exchange (through repo loans).

RESPONSE 8

Fortunately, the set of values of not enough innovative Europe was also reflected in the *financial and banking policies.* The *Maastricht criteria* remained signals and expectations of desirable financial self-discipline and continued to play a useful role even if the transforming East European population and businesses, forced to undertake their own excessive burden and the burden imported from Western Europe were justified to make critical remarks about them based on their rigidity and selective enforcement. However, the most important and major feature of these criteria is that they required continuous accountability from the political elite of each individual country forcing it to operate within a numerical framework in their efforts to obtain popularity, understandable in a democracy and to coordinate with the other countries. The development, expansion and strengthening of EMS and ERM II and the *euro zone* functioned as similar coordination and self-disciplinary tools. The comparable and controllable deficit, inflation, public debts, etc. made it possible for weaker and small European countries (and their currencies) to enjoy the effective protection against stock exchange speculations based on the power of the entire European Economic Community. (The aggregate importance and capital strength of the single euro zone protected them even against exchange rate speculations.)

RESPONSE 9

The (semi or quasi) publicly owned (public, provincial, regional, etc.) financial institutions (banks, insurance companies, development institutions, special funds, etc.) performing (social) political functions have remained (also) in Europe. With the exception of one or two special institutions, also recognised by legislation (such as for example, political export credit insurance institutions, disaster funds, Lloyds etc.) *no one dared removing them completely from the scope of general audit and financial supervision.*

Fortunately, the European banking supervisory structure adopted the new financial risk-based structure of fashionable American and English (Anglo-Saxon) supervision only carefully, respecting the historic traditions, i.e. *renewed them half-heartedly.* Following the prohibition of the traditional, so-called material supervision with more than 150 years of history at the beginning of the 90-es, the supervisors still knowing and quietly applying such methods and their organisational units surviving the integrations have remained in the system.[37] Having got rid off and liberated from the excessively public (etatist) requirement of the complex prior inspection and approval based product licensing, product fee and risk analysis, and operational intervention focusing on all six basic factors of banking activities at each individual bank,[38] the continental Europe tried to retain its best traditional supervisory methods.[39] Consequently, the European supervisions did far more than auditing the financial statements subsequently. On the one hand, they analysed the various geographical units and sectors together (for example, in groups in the form of consolidated and integrated supervision), to conclude whether or not the (majority of) European financial institutions could perform all their obligations assumed *at home* and in other countries (*host*), as well as in so-called third countries outside the European Union.

RESPONSE 10

This continental characteristic feature, unique in the world's supervisory system gained a lot of strengths in the evolution of the BASEL II, CRD, Solvency II., MIFID, Crime II, etc. methods representing the European adaptation of international supervisory standards against banking, insurance, capital market and financial crime (AML and anti-terror), which involved a lengthy process of discussions, analyses and considerations lasting for years.[40] Thus, the risk-based supervision concept began to retreat from its original, only ex poste and only financial basis focusing rather only on capital and guarantee capital. Apart from the financial and the capital component, other factors, such as internal corporate governance (operational risk), product structure (concentration risk) ALM (liquidity and sustainable profitability) and risk management and risk distribution were increasingly taken into account both in the framework of a preliminary analysis and concerning their correlations (Colleges; Comply or Explain Mechanism, Dialog; Supervisory Contract; Mediation;). This *more complex approach* than the American supervisory structure also meant that in Europe even the mechanical and formal early warning models, stress tests, crisis simulations and slowly developing inter-governmental and trilateral (ministry of finance, central and supervisions), as well as official supervisory cooperation became important and useful tools. The European supervisions still tried to use the concepts and methods of often informal cooperation preventing the conduct of financial institutions imposing risks on themselves and on the general public, which were not really advertised towards the public: for example, management letter, security meeting, connection of (sanctioning) measures, dismissal of unsuitable people, leaking out information at conferences, regular meetings with the associations of the supervised institutions, active consumer protection campaigns, guidelines, information, calculations, product comparisons, prior and mandatory needs assessments, control of client notifications (e.g., MIFID), and generally, continuous and attentive (with UCP seriousness) and analysis of complaints.

RESPONSE 11

As a result of deliberate moderation of the social transformation of Europe, the strict control over the promising political populism by Maastricht and the respect for (material) traditions in the financial supervisory system, the hysterical *consumption fever* and *stock exchange speculation* with artificial consumption and derivative transactions based on mortgage lending, which was very intensive overseas, *had only moderate effects* in the (continental) Europe. These opportunities were feasible and interesting primarily for professional investors, having also interest in America and their (upper mid-) class clients. As a result of the successful expansion towards Eastern Europe, the *high savings ratios* could be maintained, the budgets could be relatively disciplined and inflation could also be controlled.

Factors contributing to the crisis (3): crisis management

Europe's intellectual and political elite recognised the need for social and economic (production, export, import, balance of payment) structural changes in time, and also recognised the historic opportunity arising from the unification of Germany and Eastern Europe. After that, the social and economic disputes focused only on the principles, institutions and methods of the least painful changes and the selection of the actors of the implementation of the changes instead of the *need and opportunity for transformation.* The European public life was, therefore, affected a lot more by *pragmatic and professional technical arguments* than the ideological arguments in the fight for life and death and in emotional cultural battles. This also meant that the national and financial policies were also implemented and forced to be consistent with each other without any major side swings or actions reversed (regularly in every ten years), based only on ideological arguments and cultural battles, i.e. *without any major waste of resources.*

This continuous, yet moderate democratic need of the European intellectual and political elite for self-corrections every four years managed to smoothen the trends of the so-called organic European social and economic development. This is why European savers and their financial institutions *did not have to join* in large numbers the innovation tricks of banks favoured in America or the worldwide derivative gambling, which was based on those tricks.[41]

The balance of the European intellectual and political structure never prevented these societies from making *errors* and *mistakes* though. It is also true generally that the European interest coordination and harmonisation is also *terribly time and resource consuming* (which clearly terrifies the masses), *as well as wasteful* and, unfortunately, unprincipled *compromises* (resembling a horse fair) can also often observed in it.[42]

■ In relation to the outsourcing of *mass production and services,* the societies of the East European countries found the brutality of being used only as a tool shocking. The quickly revealed disguised (export) market quota and other preference purchases, the uninhibited use of the outsourced factories partly as a buffer of national production and partly as a more favourable blackmail tool in their home country, the invoicing of the already replaced IT software patents and machines at unreasonably high prices, the stories of countries, regions and towns forced to compete in the supply of preferences in exchange for (re)investments had a very adverse effect on the local acceptance of the interests and wishes of foreign investors. The budgetary "rag fair" for European support (of agriculture, industry and food industry) for years, the hardly concealed brain-draining, free of charge in relation to the recognition of diplomas and free flow of workforce and the lack of assistance in the integration of people coming from Eastern Europe resulted in an especially large and unfavourable reaction.

■ In the *high-tech and IT industries,* the severe delays and failures, such as for example, the Channel Tunnel, the new Airbus or European astronautics seriously undermined the authority of the European Union. The "order for anything" type top-level government actions and related corruption affairs, for example, the termination of the Saudi investigation in the UK or the "camping" of Libyans in Paris, or the selection of Siemens and Telecom from the large German companies having write-off base for foreign acquisitions, had similar destructive effects.

■ *In the market of language teaching and education,* the (at least) two-level mass education and disappointment from illusions of students completing the lower *(bachelor)* degree of higher education did not support the Bologna process. As the *education policy was one-sided,* hundreds of thousands of young people completed university education and were disappointed as they were never told that their qualifications were higher than secondary qualifications but lower than the former consistent, true university qualifications. (In fact, they completed secondary, subprime universities.) Having adjusted to the seemingly modern labour market requirements, lots and lots of people acquiring so-called business knowledge *(business school)* and higher level (trained) technician skills had to realise that they only had a chance in the globalising competition for workforce in the whole Europe (also), if they continued to save for more years and invested into master degrees, obtaining PhD, available at extremely extensive special post-gradual courses.

■ Self-care besides high quality public care, which was preserved even despite the rationalisation of the *health and pension systems* and elimination of scandalous waste, was put to the forefront of attention *without any coordination*, very slowly, and only to a low extent both in the various countries and on the whole continent. Due to the different regulations of the countries, the migration of people for operations, rehabilitation and medical treatment, and the regular 30-day shuttle-type journeys of pensioners moving to the south and east increased the costs of the society and private insurance companies leading to lower than otherwise possible savings and also a higher level of corruption. This tendency led to a new pan-European level (social) insurance waste. As a result of these tendencies, most countries could hardly control the rise of expenditure related to the ageing crisis and integration of children of guest workers.

The moderate savings achieved in the social care systems, which were transformed only slightly and very slowly because of the permanent and strong mass demonstrations and the increasing expenses related to ageing, integration and promotion of sports, together *imposed a lot of tensions on the budget* of most European countries. Consequently, the strict Maastricht budget and debt limits were not fully complied with by all countries of the region, the euro zone in almost any year. It caused an even larger shock and incomprehension that the bureaucracy of Brussels applied completely different rigorousity to large countries (for example, France, Germany, Italy) for violating the Maastricht criteria than to small countries for violating the rules (especially the transforming and realigning East European countries). Thus, the budget policy, "tense" because of social policy and limited by competition regulations and politics, could provide less support to capital investment, R & D activities, acquisitions of small and medium-sized companies outside Eastern Europe and revitalisation of the existing middle classes less than would be required based on the consistent transformation.

The central banks of Europe, forced into international competition, navigated themselves between the Scylla of rate increase, promoting high individual savings and investments and the rate-cutting Charybdese serving the (sometimes clearly aggressive) upturn generation of the political elite intending to win the elections. The thus heavily *limited monetary policy* found it difficult (for example, in France, Austria, Switzerland and Germany) to resist the assistance, as the last resort, to banks (fully, partly or quasi) owned by the state or province or trade unions and, therefore, pursuing much more risky (irresponsible) credit, investment and risk assumption policy than generally accepted both at home and abroad (for example, on the derivative market of the USA).

On the other hand, the i*nsufficiencies and errors of the European supervisions were also involved* in the slackening of the European monetary and budget policy caused especially by the (large companies and banks) of (large) states. Following the innovation waves of the "Wall Street Gold Fever" involving approximately one million financial products and 100,000 re-pricing actions a day, and the robust and worldwide dissemination of the derivative market, the *anachronistic old supervisory structure* was demolished carefully first in the Scandinavian countries, and then at the British FSA, which was the result and a radical solution for the British supervisory model, (consisting of 8 institutions) and, based on the bankruptcy of the Barings Bank, Lloyds and Maxwell pension funds, began to impose a threat on the prestige of the City as well. [It was also typical that the German speaking countries (Germany, Switzerland, Austria) protected the segmentation of the still separate sectoral supervisions "until the last bullet", i.e. to the 21st century, although the financial activities had already merged (integrated) geographically and by content that they could almost no longer be specifically identified.] However, the spread of the financial and technology revolution analysed earlier created a difficult situation also for the *European supervisions lagging behind by 10–20 years:* the old (material) supervisory structure was no longer known or applicable, and it was obvious from the very beginning that the new American (purely financial) structure was full of severe theoretical and practical insufficiencies. In this situation they faced the task of developing the new European supervisory structure, the Basel II, Solvency II. and Crime II. methodology, although in the meantime their daily supervisory activities became increasingly chaotic.

"Collapse" of Europe (autumn of 2008)

The *financial (political) management of the* American *banking crisis* spreading also to Europe in the autumn of 2008 involved a *lot of mistakes described in textbooks* and brought a turn in the 60 years of successful European cooperation struggling with smaller or larger problems.

PHASE I

At the beginning, the unfortunately necessarily simplified one dimensional (anti-inflation) classic theory-based *central banks* misjudged the specificities and correlations of the various crises, and therefore, refused direct participation in the immediate crisis management maintaining a certain distance, and therefore reacted,typically excessively, only with a delay. (See, for example, the story of Bank of England and Northern Rock, SocGen and Banque de France.) The quick liquidity generation through cash created by the central bank, the base rate cuts, and the slow cumbersome and gradual extension of the scope of securities eligible for discounting were by far not enough to overcome the increasing crisis of confidence. On the other hand, the European central banks "meditated" for long weeks (unfortunately making also public statements) about the need for "the perhaps after all reasonable changes"; this created uncertainties not only for the market actors, but also for the political elite.

PHASE II

This process was supported by the mistake of the panicking European *political elite* (sadly known from history) when it r*ejected the pan-European management of the financial crisis* affecting all financial sectors and all countries of the world based on the proposal of the very same Germany that was at that time studying very thoroughly the financial policy mistakes of the Weimar democracy, and accepted crisis management based on *"legitimate national interests"* (copyright by T. Steinbrück, German minister of finance). Instead they should have demanded a consistent policy from the European central bank, creating consistent European "protection lines" (for example, deposit insurance, consistent liquidity evaluation of European banks, identity of perhaps temporary capital funds, consistent accountability of managers making mistakes and consistent management of concentrating multinational groups) and showing an example for the entire *financial world* by preventing and easing the panic of escaping from financial instruments and disseminating the message of *"European Monetary Fortress"*, which *enhances stability.*

PHASE III

This opened a *"European Championships" between countries and their budgets* (hardly) organised in deposit insurance, and bank bailing packages. The uncertain and now actually frightened European savers then began to vote in large numbers "with their feet": they withdrew, sold and perhaps immediately transferred their savings in one particular savings form or country into a different form and into a different country. (However, it indicates the high level of European financial culture that even in this situation panic did not become the overwhelming factor as banks were not attacked by customers, there was no major increase in cash kept in the mattress, and gold coins and foodstuffs were not purchased in masses either.)

PHASE IV

Luckily, soon after the confused political elite turned the banking relations truly risky and chaotic, partial sobering and corrections followed: the basic deposit insurance limit was defined consistently in Europe (EUR 50,000), and intentions *were declared at least for the coordination* of national banking bailing packages involving sky-high amounts. On the other hand, the efficiency of consistent deposit protection was slightly (incalculably) deteriorated by the national definition of any further protection over and above the specified limit with even theoretically different ratios. (This was the price of the political compromise of the consistent action.)

PHASE V

The national financial bailing packages caused several serious problems. For any calm observers and analysts, the European banking system *practically remained healthy (intact):* apart from the losses accumulated by a few companies "venturing" also to America, and expressed only in thousandths, the direct exposure of the continental banking systems (approximately EUR 30 billion) was negligible, and remained within the rounding ratio when the crisis exploded. Consequently, there was no banking or financial crisis in Europe at least in the first round. For this reason, the need for and the meaning of the original "package forming fever" was questioned: it is at least doubtful to what extent the assistance of some hazardous large banks by the state strengthened or destroyed trust in the thousands of the European banks. (The further fall of the exchange rate prices of shares of European banks provided further arguments for representatives of both views.) The hectic actions arising from panic, involving "the (mass) closing of positions even at a loss" actually suddenly increased the "direct exposure" of European banks through the devaluation of assets kept in their portfolios in the second round.

PHASE VI

In the unfortunately "created" panic situation, it was difficult to follow any other path than making a series of further mistakes. From this time, *nobody knew* why, on what basis, when, to whom and how, with what method and why exactly that amount may be allocated from the state aid?! The question must also be answered: what will happen to those honest national and foreign competitors who did not take part in the "American adventure" and did not require (through losses) additional liquidity? The population and businesses of all countries, especially those who faced the risk of losing also their homes in relation to their debts, were shocked and could not understand why the bank owners and managers enjoying huge profits and benefits earlier had to be protected (also) from losing even their total assets due to their irresponsible actions during the painful "rationalisation" of social policy, budget investment, and R & D expenses everywhere? It also became obvious for the relatively highly educated average Europeans that once the banks in difficulty were assisted with central bank or other public funds, Pandora's box was opened. It was inevitable that after this time, all (strong) interest groups facing difficulties applied for *"aid":* the motor industry, aviation and all types of freight transportation, agriculture, iron and metal processing industry, ship building,[43] which means that the queue will never end lawfully in the thus spreading and growing crisis.[44]

PHASE VII

The perhaps *gravest* mistake of the crisis management of financial institutions was the *silence of European supervisions and governments about the mass violation of contracts by banks because it destroyed the pan-European trust of historic importance.* The initial rounds of the 2009 budget meetings between parent banks and subsidiary banks held in the summer and early autumn of 2008 still typically included growth, increase in lending, turnover, market share, parent bank's profit requirement and related refinancing, currency, swap and reinsurance promises. However, when the crisis began to spread in Europe in the first days of September, each national supervision allowed and tolerated the *home* banks refraining from any activity and terminate their ordinary activities on inter-bank markets; with only one letter or telephone call banks withdrew their promises made a few weeks before, and, referring to the crisis, *completely abandoned* their foreign *(host)* subsidiaries, building and relying on that promise. (Some parent institutions in difficult positions even swept clean the cash of their subsidiaries and branches with the help of cash-pool, liquidity planning, etc. controlled by the multinational centre.)[45]

The subsidiary banks, having landing in a desperate situation in only a few days, tried in vain to replenish their missing funds and currencies on the dried-up money and capital market (accepting even usurious prices and interests). (They were forced to do so when loans and reinsurance dried up and were frozen even between parent banks and insurance companies for weeks.) It was followed by an extremely severe *"attack against trust in banks and solidarity"*, when the top leaders of France and Germany declared that their subsidiaries would not receive even one euro cent from their national packages, even if they obtained especially profitable positions earlier as a result of the privatisation in Eastern Europe.[46]

PHASE VIII

So, the *"deceived and ashamed subsidiaries"* did not have any other choice but running to (confused, panicking and hyperactive) governments and/or central banks (looking for their place and wishing to deal with supervisory and monetary matters simultaneously) or saving their lives and obtaining liquidity selling their existing assets immediately at any price on the market. The *disappearance* of banking *flagships* (for instance, ING, Fortis, Deutsche Bank), which were considered subsidiaries of major world-wide companies even two weeks before, from the national inter-bank market, the stock exchanges and the market of government securities, and their desperate forced sales generating further selling waves made their difficult position clear to the public immediately. Naturally, this liquidation escape also continued to deteriorate all stock exchange prices (also). (See, for example, the liquidity losses of Société Générale, which are much higher than its original problems.)

PHASE IX

It became increasingly obvious in *which countries* the national economy (budget deficit) and monetary policy options (capacities) could not cope with the overall burden of the banking losses and competition with international bank bailing packages (for example, Iceland). From this moment, the currencies of these countries also became free prays: the complete bankruptcy of the financial sector and financial crisis of the particular country in that situation could only be prevented by an international aid package. However, this also put the currency and stock exchanges of countries whose budgetary and monetary policy already exceeded their capacities, targets of the speculative intentions of the world (aiming for almost certain profit at any time).

The stake of the European crisis (management)

Based on their *national focus,* the current European political elite, which overcame itself for more than 60 years but was frightened of the financial crisis, and their financial supervisions are *seriously responsible* for the launch and intensification of the financial crisis of general economic, institutions, some banks and a few countries caused by crisis management in the second round.[47] In the increasingly concentrated European banking world, the lack of patriotic solidarity of one country was followed by the similar narrow-thinking of the other country, i.e. *desertion created only losers to various degrees who* may be entered into the textbooks on gaming theory. (We do not provide security to subsidiary banks in your country, you did not give security to your subsidiaries in our and their countries, they do not provide security, etc.) Consequently, the crisis of European financial supervisions led to graver consequences than the frequently mentioned lack of coordination: in fact, the return to a national framework and European solidarity in trouble and the identical interest behind it were also *generally questioned.*

If the European supervisions acted consistently, strongly and on principle and if the governments overcame the financial nationalism, hundreds and thousands of banks could be in a better situation than they are now. If not all banks had been frightened of mutual and joint (pool type, clearing type, etc.) cooperation, then there would not have been so many and so extensive exchange price falls triggered by forced sales. The budget of each country could have prepared a smaller bank bailing package and the other sectors of the economy could have had more resources stimulating their demand. Thus, the lack of solidarity of the European political elite and their subordinated and exposed financial supervisions contributed a great deal to the deepening and extension of the European economic crisis, already affected by the declining world economic demand. This led to the temporary severe (hopefully only temporary) devaluation of assets of millions of honest savers and responsible investors also here, as a result of which the crisis, which was managed successfully until then, grew further and reached a threatening size.[48] The second round of the financial crisis had unfavourable financial impacts on all individual and corporate savers and also severely damaged the existing merits (unjustifiably underestimated before) of the European monetary, budget, tax and competition policies.

Europe had to make a choice: if it continues moving along the current financial and banking crisis following the Titanic strategy where the frightened and desperately escaping people did not cooperate but even pushed each other out of the lifeboats, and moved into a selfish, national fortress denying solidarity, then it will soon destroy the results of the previous 60 years. The originally not excessively severe financial crisis has already successfully been turned into a true and severe financial crisis followed by an even longer and deeper economic crisis. At least in one or two countries and regions of Europe, these may turn into life-threatening social crises, which are unfortunately known from the history of the 20th century. (Compared to such historic devolution, the projections about the euro zone, consistent central bank policy and the collapse of the commonly required Maastricht budgetary discipline relates only to financial and technical sub-issues of low importance.)

However, if Europe recognises its common responsibility, trusts its values, itself, and its partners and returns to the jointly achieved successful methods and solutions, which were adopted in Europe following common struggles,[49] then the crisis *can be tamed into a useful warning* with many lessons, confirming the principles of European responsibility and solidarity with a sobering effect. (For example, it will re-establish financial discipline, bring resistance to the Christmas aid actions, which are required by strong lobbies, although are unjustified, will continue its transformation support and enforcing policy (more) consistently, and theoretically (than before) will undertake more responsibility in managing the problems of East European subsidiaries still providing an extra profit, and will establish a dual national financial supervisory system, no longer forced into the dependence of public servants, acting truly as an independent and consistent agency relying on its professionally revised latest practical skills involving the classical theoretical and continuously acquired new skills, focusing on actors operating on the international (pan-European) and only on the local markets.[50]

Comparison of the various crises

The rather diverse processes of the two pillars of the Euro-Atlantic culture led to very similar, confusingly chaotic, yet fundamentally different series and combinations of crises. The intellectual and political elite of both regions recognised the new global challenges arising from the technical and technological revolutions of the 1980-s followed by the inevitable transformation of the world economy and their fundamental importance for the society in time and properly and they came up with a response strategy that seemed satisfactory. *However, they chose different ways for implementation*.

The strategy that seemed good in the USA was distorted from the very beginning. Wishing to save the citizens from the difficulties of transformation, the intellectual and political elite groups, therefore, used the *financial innovation tricks* developed during the "Wall Street Gold Fever", and the *artificially maintained boom* based on the increasing dosage of such instruments to overcome the crisis of the society. The latest governments, which would not face the constraint transformation but did not undertake to destroy the illusions of the traditional American middle classes either, had to conduct an increasingly risky financial policy, which made it increasingly difficult even to maintain the upturn based on the trust of the external world despite the uninhibited use of the opportunities arising from the role of the USD as a key currency. As the financial crisis extended and the engine had to keep turning, the supervisory system representing the brakes of the financial sector also had to be paralysed. This opened the road to mass (subprime) mortgage loans granted to people with worse credit-rating, and the spread of hysteric and unreasonable "(excessive) consumption fever" and world-wide "stock exchange gambling games" backed by the above mortgage loans and excessive lending without any foundations in the real economy. However, as the trust of the "remaining world", horrified by the additional financing in the US boom was shaken, even the fall of housing crisis was enough to make the derivative house of cards built on the sand of subprime banking practice collapse.

Thus, the financial crisis, aggravating for years, was also accompanied with a sudden financial institutional crisis. These two together opened the latent severe economic crisis, which had already existed for many years. However, the American presidential elections in 2008 seemed to support the idea that the majority at least felt the need *to come out of the one-way street and forget distorted set of values* of the previous decades, for which *the basic mentality had to be changed* fundamentally. It became clear from the principles, institutions, methods and style of the *American capitalism applied in the previous fifteen years,* but not from those of capitalism, market economy, civil democracy or the American model, that they led to a *historic one-way street.* It became absolutely obvious that even the USA's political and intellectual elite could violate the fundamental rules of human coexistence, economy and financial policy deliberately such extensively and for such a long time.

On the other hand, the strategic response of *Europe* to the transformation of the world economy was a serious success for many years because it was based on the *preservation* of the original and true *European values* learned from the bitter lessons of the common past. The extension of the European society, the relatively successful integration of new and new countries and social groups, due to the many disputes and bargains, as well as the integration of new producers of resources and extra profits made it possible to retain the welfare state, which was shaken by the collapse of the former external financing pillars and its careful and gradual reconstruction. The European interest harmonisation and the European rationalism, preserved even during the artificially heated "consumption fever", the survival of the principle of *self care and solidarity* and responsibility and the brutal bureaucratic and strict financial discipline of Maastricht serving and enforcing the previous principles, as well as the special financial supervisory system and approach relying on the traditions of the previous 150 years pushed the distributors of increasingly risky financial institutional innovations spreading from the USA into the background. The majority of Europeans and European banks were satisfied with their significantly increasing (extra) profit arising from traditional economic and banking activities, and increased with the successful "re-colonisation" of Eastern Europe, and therefore, *Europe, which remained loyal to itself, successfully* avoided any financial or banking crisis and prevented the breakout of any economic or social crisis *for 60 years* from the World War II until the American crisis *broke out in September 2008.*

Unfortunately, the crisis which swept across the Atlantic Ocean from America triggered incomprehensible panic in the European intellectual, political and financial elite, and since then, it has made *incomprehensible error after error* concluded on the basis of the lessons of the 1929–32 crisis. This is how the individual problems of a few financial institutions making some adventures in America were turned in the second round into a severe and general banking crisis that pushed everyone under water. And unless the anachronistic impossibility of defence within a national framework and the value and efficiency of pan-European actions become clear within the very near future, then this created banking crisis will lead to a financial crisis from 2009, followed by an economic crisis (general depression), lasting for years. If Europe continues its protectionist closing up and destruction, which has risks on Europe and its people, then certain regions will face severe social crises in the near future, similar to those observed in the 20th century.

We could see a paradox situation: the role of the Euro-Atlantic economy and civilisation could be strengthened and a new large world economic depression could be avoided, naturally taking into account the solutions proposed by the other parts of the world, if

- the American intellectual and political elite *forgot* about the mistakes of the previous 10–15 years, and returned to the original American values,
- and Europe forgot its "collapse" starting in the autumn of 2008 involving its unreason-

able loss of values and self-confidence, and *returned* to the set of values that brought success in the previous 60 years very quickly.

And what should we do then, in Hungary? In order to come up with the right response, we should consistently review the main characteristics of the social, economic and financial policy, in response to the global challenges of the last 25 years. Luckily, in this area, we can rely on a previous analysis, which can still be used as an example: *István Bibó – The misery of small East European states.*

Notes

[1] Financial crisis: grave disorders (processes and events) in the daily lives of the players of society (individuals, families, local and central entities/budgets, etc.) in relation to which masses of these players are unable to meet the financial obligations that they have undertaken, and as a result of which extraordinary measures have to be taken in order to avoid even higher losses

[2] Crisis of the financial institutions: several socially significant financial institutions such as banks, insurance companies, securities distributors, pension funds, etc. are unable to meet the obligations that they have undertaken (in terms of time, extent, or foreign currency, etc.) as a result of some correlated facts and due to this, and in order to preserve their solvency, external help also becomes necessary besides the extraordinary (e.g. state, bank of issue, etc.) measures and the ones taken by the ordinary players of the financial institutional system (e.g. interbank market, re-insurance, swap transactions, discounting, etc.).
This means that the concept and treatment of the crisis of financial institutions should be sharply distinguished from the individual failure or bankruptcy of a financial institution (be it of any size) as long as it does not exert a spiraling effect, a chain reaction.

[3] Economic crisis: a decline of such an extent in the performance of the key producers and service providers of a certain country or region which also exerts mutual effects, which already significantly affects the most important correlations of the national economy such as growth rates, living standards and quality of life, unemployment rates, balance of payments, inflation rates, etc.

[4] Social crisis: a change of such speed and extent in the fundamental values and norms of a human community locally or legally acknowledged as a single unit which, already or as yet, cannot be understood or accepted by the majority of this community. (The mildest degree of a social crisis is when one part of society in a country will not talk to the other part of the same country's population, while the most extreme degree is a civil war.)

[5] By the concept of the Euro-Atlantic set of values, I mean the fundamental principles of the common Jewish-Christian culture, the value ranking, style and institutional system of the North-American, Australian and New- Zealandian, Western-, Central- and Eastern-European nations, as well as those living in the area of Russia at the time of Peter the First, accepted by 1 billion people at most, those which at least set the aim of pursuing some kind of market economy and democratic power. However, we tend to forget that the actions taken in the name of our values have sometimes shocked and/or outraged the other 5 billion people.

[6] On the various financial technical novelties and their evaluation, see the excellent subprime summary in issue 2008/5 of Hitelintézeti Szemle.

[7] For the traditional Euro-Atlantic, and especially the American, public thinking, it is shocking to accept that, in the current relocation of the weight of the global economy, the development route of human civilization is actually relocated from the East (to the USA) and back (!) to the West, for example to the Kingdom of Heaven, on the basis of the Far- and Middle-Eastern (Chinese and Arabic) maps. To compare the equally legitimate though contrary ways of thinking, see Felipe Fernandez-Arnest: Alternative World History I–III, Atheneum, 2000-Pannonica, Budapest (2001); Francis Fukuyama: The End of History and the Last Man, Európa Kiadó, Budapest, (1994); FF: Trust, Budapest, Európa Kiadó (1997) and FF: The Great Disruption, Európa Kiadó, Budapest (2000); M. Huntington: The Clash of Civilizations and the Remaking of World Order, Európa Kiadó, (1998); C. Northcote Parkinson: East and West, Terebess Könyvkiadó, Budapest (2000)

[8] For the method of analyzing the American re-production processes, which is exemplary up till now, see Péter Erdős -Ferenc Molnár: Infláció és válságok

a hetvenes évek amerikai gazdaságában (Inflation and crises in the US economy of the 1970's), Budapest, KJK, 1982, as well as for the modernization of this method, see Imre Forgács: Mégsem éjjeliőr? Adalékok az államról folyó vitákhoz a globális pénzpiacok viharos napjaiban (Still not on night patrol? – Thoughts on the disputes on the state in the stormy days of the global monetary markets), Európai Tükör, October 2008, Year XIII, issue 10, pp. 3–22. The pushing into the background of the analysis of the re-production processes, which is also traceable in the subject matters of the Nobel laureates in economics in the past decade, thus hid the serious theoretical question of whether it is possible at all (where, by which country and when, etc.) to permanently replace the balanced and sustainable growth policy founded by development and investment policy with the consumer- and export-driven economy and monetary policy. To re-ignite the dispute that cannot be postponed for too long a time, especially in Europe, see for instance John R. Hicks: "Crisis of the Keynesian Economics", in: Érték és tőke (Value and Capital), KJK, Budapest, 1978; pp. 381–431; James Tobin: "Pénz és gazdasági növekedés" (Money and Economic Growth), KJK, Budapest, 1984, pp. 219–321; Milton Friedman: Inflation,Unemployment and Monetary Policy, KJK, Budapest, 1986, pp. 53–180 and pp. 221–239; Franco Modigliani: Money, Savings and Stabilization, KJK, Budapest, 1988, pp. 19–230, János Kornai: Erőltetett vagy harmonikus növekedés (Constrained or Harmonic Growth), (Gondolatok a gazdasági növekedés elméletéről és politikájáról, i.e. Thoughts on the Theory and Politics of Economic Growth), Akadémia kiadó, Budapest, 1972; Péter Erdős: Adalékok a mai tőkés pénz, a konjunktúraingadozások és a gazdasági válságok elméletéhez (Ideas on the theory of today's capital money, fluctuations in the boom, as well as economic crises), KJK, Budapest, 1974
As an ideological history background, attention should also be called to comparing the ideas represented by Péter Erdős, Malthus, Ricardo and Keynes, which are worth considering even today, Bér, profit, adóztatás? (Salary, Profits, Taxation?), KJK, Budapest, pp. 292–342, Gottfried Haberler: The great economic crisis of the 1930's- may it be repeated? in: Változások, váltások és válságok a gazdálkodásban (Changes, shifts and crises in the economy), KJK, Budapest, 1982, pp. 64–83, as well as the brilliant article written by the "old liberal" Aladár Madarász analyzing Adam Smith's sentences commenting the 1772-es Scottish bank crisis. A szabadság tűzfalai (Firewalls of Freedom), the daily Népszabadság, October 31, 2008; p. 14, on the same topical opinion, see P.J. O'Rourke: Adam Smith gets the last laugh, Financial Times, February 11, 2009, p. 11

9 It was Júlia Király and Márton Nagy who analyzed the loosening of the US credit policy at great length in their study published in the issue 2008/5 of the journal Hitelintézeti Szemle who drew attention to the inventful parallel between non-first ranking but second- and upteenth-ranking creditability and the "fish of second-ranking freshness" in Mikhail Bulgakov's The Master and Margarita: "There is no such thing as second-ranking freshness! There is only one kind of freshness, which is first-ranking and at the same time the last. If the fish is of second-ranking freshness, this means that it stinks and is gone off".

10 Michael Taylor expressed the double nature and dialectics of the processes from a supervisory aspect by the pun in the title of his article: Originate and Disintegrate, Financial Regulator; March 2008, Volume 12. Nr. 4, pp. 19–24. On the same topic, see also Peter Hahn's article, which also starts with a (multiple) pun: Time to dismember (ibid. pp. 25–32) and Hans Blommestein: Grappling with uncertainty (ibid. pp. 33–40).

11 Thus, it was the revolutionary development of the derivative market that made it possible to conceal and postpone the American financial and the threatening economic and social crisis. However, it was the special role of the US dollar as a key currency, which by now practically only ensures incredible volumes of external resources for the USA that was necessary for distributing the related risks in a way that even generated continuously increasing profits all over the world, in a productive way. The copying of the American model can thus be recommended and followed by all those countries which have key currencies and the same economic, military and political power as the USA.

12 The latest protection of the American mentality was consistently defined for example by Brian Atchinson, previous chairman of NAIC and the International Association of Insurance Supervisors (IAIS) in "Self Regulation and the Insurance Industry – a Viable Proposition", Progress, Geneva Association, 2008, No. 48, December, pp. 1–5) . For its evaluation, see Ines Holzmüller: "The United States RBC Standards, Solvency II and the Swiss Solvency Test: A Comparative Assessment", The Geneva Papers; January 2009, Volume 34; pp. 56–77). Similarly useful is the story of how earlier

New York Fed chairman Gerald Corrigan's well-known third report promoting self-regulation lost credit. See Klaus Engelen: "News Analyses", Financial Regulator; 2008, September, Volume 13, Nr. 2, pp. 16–20

13 The name of risk-based supervision serves ideological and business purposes and is consciously misleading.. (And the (constitutional) legal implementation and practice of the so-called principle-based supervisory paradigm is even more confusing (They make it seem as if the earlier supervisory methods had not been "risk analyzing" but as if they had only examined the formal observation of the laws (rule-based). In fact, the interesting thing is how differently the (different) subjects, their (different) risks are treated by the organizations, methodologies and legal services built on the basis of the different supervisory paradigms, and how the potential violations of law are disregarded, and what is even more, and how they (do not) sanction the latter. See details in László György Asztalos: Biztosításügy és felügyelet -hármas "szorításban" (Insurance and Supervision – in a triple hold) (A felügyelet-szabályozási normák újkori fejlődéstörténetének vázlata, i.e. Brief outline of the new age history of the development of the supervisory regulation norms), the journal Biztosítási Szemle; 2007/9; pp. 3–40

14 The original concept of financial supervision rested on two ideological assumptions:
a) The shareholders and managers of the financial institution are entitled, on their own right, to sell products that threaten with any level of risk and loss, and this is why the state bureaucrats should not interfere with this at all, because they are interested in keeping their own enterprise sustainable and profitable in the long run, and they know it (better than anyone else) what they should do and how, since
b) they even promise, at the time of obtaining their licenses, that they are willing and able to repay the potential losses subsequently, or get the product paid (by others) by applying an unlimited level of cross-financing between the products or by involving supplementary (warranty) capital.
The recent years have unfortunately proven, on a mass scale, that neither of these two assumptions is valid, not even in the case of the world's largest companies. And at the same time, it pointed to the impossibility of the theoretical dogma and practical manageability of the generation of losses that is highly disproportionate to the risks, as well as the unlimited cross-financing that hurts the other clients.
It is food for thought that this recognition was pointed out the most clearly by a Milan-based professor, who has so far been an "outsider" to the world of supervision called Marco Onado in his work entitled "Regulation after 'the Big One'", Financial Regulator, September 2008, Volume 13, Nr. 2, pp. 53–59

15 At the 25th Budapest general meeting of IAIS, the International Association of Insurance held in October, the representatives of AIG and UBS told to several hundred participants on the stage that unfortunately, in the case of certain purchases that incurred losses there was not even one person in their respective boards who exactly understood what they were actually buying. This is what is confirmed by the comment made by perhaps the world's richest person, Warren Buffett, who has already won several 10 billion dollars from the crisis and who has been asked to be a consultant to both Bill Gates and B. Obama, as well as J. McCain: "I only invest into such schemes whose operation even I can understand".

16 Actually, it was already as early as at the time of the 1987 portfolio insurance crisis that the experts recognized the problem and around the millennium, numerous publications warned about the unavoidable burst of the ever increasing bubble. See Avinash Persaud: "The light that failed", Financial Regulator; June 2008, volume. 13, Nr. 1 ; pp. 27–31

17 Warren Buffett's other famous sentence referred to this: "derivative transactions are weapons of mass destruction". The empty housing estates, the homeless people, which stand vacant with the furniture and toys left behind and reminding of the Chernobyl conditions, for example the canvas town, which is already spreading in the middle of the casino town Reno, the thousands of tenants moved out of the flats due to the owner's stock exchange speculations, etc. prove these harsh words by bitter facts. In 2008 as many as 2.3 million families lost their homes and this year even more people may become homeless, unless help comes.

18 One of the brilliant puns of today's Anglo-Saxon journalism which refers to the very second-ranking collateral is the reference to the "gilded edged" period. In the period of classical supervision (1694-1984), it was primarily the first-ranking, thus also supplied with a "gilded edge", securities that were regarded as a bank collateral equivalent to gold. On the history of the development of the supervisory systems, see László György Asztalos: A "világi felü-

gyelet", avagy a "felügyelt világ" kialakulása (The evolution of "worldly supervision", or the development of the "supervised world"), in: Pénzügypolitikai stratégiák a XXI. század elején (Monetary Policy Strategies at the beginning of the 21st century); Budapest, Akadémia, 2007, pp. 443–462

19 The opposite example of the Low Countries, Great-Britain, France, Belgium, etc., which did not go bankrupt but got rich from the extra profits flooding in the colonies points at the classical and key rule of modern and market economy finances (budgetary and monetary policy). The community which squanders the (natural, labor force and financial, etc.) resources and assets available to it (which are always limited, however rich anyone may be) on (luxury) consumption, stock exchange speculations, foreign aids and the adventures of its military "armada", etc. which do not generate any added value (either in the near, or at least in the distant future) will not have sufficient resources left for increasing the (human capital and other) investments required for effectively responding to the challenges arising from the continuous renewal of the world economy.

20 We would often like to forget about our own peculiar double-heartedness of the "popular capitalism" of the Galbraithian modern Euro-Atlantic model. It is hundreds of millions of financial savers who have expected their managers to treat their funds with caution but to generate at least such an amount of yields and exchange gain, etc. as those who undertake to conduct even the highest risk transactions?!" (Logically, the duplicity of globalization is also enforced in the area of finances which we can sense every day at the shopping centers, for example, all over the world: it would be nice to buy the goods of domestic producers in order to keep our jobs but still, we still often put those products into our basket which have been imported from several hundred kilometers but which are still cheaper).

21 The mass-scale risk- and loss-minimizing closing of the stock exchange positions, which is by now mostly automated, digitalized, i.e. cannot be controlled by anybody, and by this, the tumbling of the price of a certain kind of securities and currencies, in fact only mean the opposite side of the earlier assignment of risks through the derivative products, as well as their mirror image (also distorted by speculation), as well as the (unsuccessful) delivery or return of the risks (which never disappeared). The thing is that risks can never be obliterated by using financial institution tricks unless the latter is transformable, or transferrable elsewhere, to others, unless it is returned.

22 For example, Hyman Minsky's seven-phase crisis model is perfectly valid for the sinking of America into the crisis during the past fifteen years. See its interpretation by Dr. Doom, i.e. Nouriel Roubini, who became world famous by his forecast of the crisis in József László's article entitled "Válság, akit régen tép" ("Those who have been long torn by the crisis" – re-phrasal of a famous line from the Hungarian national anthem, translator's comment) , Manager magazine, 2008/11; pp. 44–52

23 The uncertainty of today's circumstances is well illustrated by the fact that this sub-chapter of the series of studies which had been forming for several years and completed in as few as 3 weeks in November 2008 was rewritten four times by the author; in the meantime always moderating his initial optimism.

24 We can better understand the bank-saving packages of the end of the Bush Era in 2008 if we know that besides the Masters of Universe, which means the 5 investment banks removed in 2004 from the twelvefold capital leverage rate and sometimes working with a forty-fold leverage, Citicorp, JP Morgan and the Bank of America contributed most to the financing of the election campaign of both the Republicans and the Democrats. See Klaus Engelen: News Analysis, Financial Regulator, December 2008, Volume 13, Nr. 3; pp. 16–22

25 As to the supervisory systems of 196 countries of the world, see the latest Freshfield-Dehringer: "How Countries Supervise their Banks, Insurers and Securities Markets", 2008 (Central Banking Publication, London, 2008). In order to analyze and evaluate their publications of the earlier years and to learn about the five kinds of basic models of integrated supervision, see László György Asztalos: "Hogyan felügyelik a világban a bankokat, biztosítókat és az értékpapírpiacokat?" ("How Countries in the World Supervise their Banks, Insurers and Securities Markets") (Freshfield Revisited) In Sorsfordító esztendők (Years Reversing Fate); Hungarian Economic Association and TAS Publishing House; 2005; pp. 166–2007

26 As examples for the expected changes in the paradigm and organizational structure of the US supervisory system, see Mark Plotkin: "America's blueprint for change" (Financial Regulator, June 2008, Vol. 13, No. 1, pp. 36–45); Mark Plotkin: "After the

Storm" and Mark Shoemaker: "Resolving the stability trilemma" (Financial Regulator, December 2008, Volume 13 , Nr. 3, pp. 35–52); Carmen Reinhart – Kenneth Rogoff: "We need an international regulator" (Financial Times; November 19, 2008, p. 11); the opinion of Nobel prize holder Robert Solow and Eric Maskin "Economists join drive for rethink on regulation", FT, December 16, 2008, p. 27

27 The concise opinion of 15 key personalities of the global world on today's global problems is well reflected by the circular question in the 1 st. issue of 2009 of the journal "Figyelő", pp. 23–37

28 Adair Turner, FSA president expressed his thoughts and arguments in a similar structure at the Economist conference on 21 January, 2009. (http:///wwwfsa.gov.uk/pages/Library/Communication/Speecshes/2009/0121_at.shtml)

29 The critics of the European Union often forget that, for example, in the USA, Russia, China, India, Middle-East, etc. only one expert group is entitled to or trying to coordinate all compromises and discussions concerning the various problems of the society: this exclusive expert group is the expert staff of the monarch, the president or the secretary general.

30 However, the critics of the undisputable facts of ill-sounding national interest protection within the European Union forget the very sad historic fact that this is the first and unique large economic and political space in the history of the world, which was established gradually and voluntarily through peaceful discussions and agreements bringing changes at an acceptable speed. (It is also true that understanding of the lessons of the two terrible world wars was also necessary for the recognition of the need for such an organisation.) Every other large economic and political unit of the world, such as the ancient empires or the current USA, Russia, India-Pakistan, China, etc. were established in "blood and chain".

31 For the special ordo-liberalism representing the basis of the European social market economy and welfare state, which are different from the American set of values, see Ludwig Erhard: Wohlstand für alle (Econ V., 1975, Düsseldorf); Walter Eucken: Grunjdsaetze der Wirtxshaftspoltik (Rowohlt, 1965, München); Grundtexte zur Sozialen Marktwirtshcaft; (Fisher V.; 1981, Stuttgart-NewYork); Heinz Lampert: Die Wirtschafts- und Socialordnung der Bundesrepublik Deutschland (G. Olzog V; 1981; Joseph A. Schumpeter: Kapitalismus, Sozialismus und Demokratie (Francke V.; 1980; München. – Wien). For the Anglo-Saxon foundations, see Mihelics Vid: The Beveridge Plan (K. Keresztes , 1943; Budapest)

32 It is a shocking correlation, which deserves brief contemplation that these days the world and reality of the European Union, continuously arguing and disputing inside but finally reaching a compromise, tolerating the freedom of religion and various views is these days closer to the original "American dream" (as generally described by Toqueville) than the "neokon" United States of American permitting traditional campaign finances accompanied with a threat of open corruption, "accepting anti-terrorist and war type domestic security measures, and tolerating the existence of the Guantanamo base and Abu Dhabi?! See: Péter Balázs: Future vision of the European Union, Pénzügyi Szemle, 2005, consolidated issue; pp. 48–55

33 The fate of the southern and eastern successor states of the previous Soviet Union, from the Ukraine through Georgia to Kazakhstan, illustrates well the potential consequences, which could have occurred, if Western Europe had not decided to join the development of Central and Eastern Europe leaving these countries to the interest and to become the targets of other interested world powers and cultures.

34 The establishment of organisations that often truly pedantically controlling and sometimes even revealing the concentration of financial bureaucracy politics and the business sector, protesting against the enforcement of European financial discipline reflects the deliberate self-restriction of the European politicians of the 80-s and 90-s, and the deliberate acceptance of the control system (check & balance) , which also applied to them, which must definitely be recognised by the subsequent generations. It is clear, especially in relation to their French and Italian successors that politicians intending to win elections found it extremely difficult to tolerate the inflexibility (i.e. consistency), "growth restrictions", "fiscal discipline and monetary regularities" imposed by the financial (public, central bank, supervisory, etc.) apparatus. For details, see: Elemér Terták : On the 2007–2013 financial framework plan of the European Union, Public Finance Quarterly; issue 2006/2, pp. 147–167

35 The (new) senior risk manager of one of the best known financial institutions of Europe and the world was asked during a plenary round-table dis-

cussion of the International Association of Insurance Supervision (IAIS) in Budapest, November 2008, why his company had a loss of EUR 3 billion. The response was shocking: the loss resulted from the purchase of two American derivative products in relation to which no member of the board of directors understood the essence of the product. "But if the rating company and the (old) management both argued that it was good, and promised such a high profit as a lot of other, also non-understood products purchased earlier, than why not …"

36 The "Maastricht Criteria" must be considered as traffic lights, whereby the road can only be crossed, if the lights are "green", but sometimes people can also cross when the lights are "amber".

37 For the history of development of the banking supervisions of the world and Europe, see Freshfields-Bruckhaus-Deringer: How Countries Supervise their Banks, Insurers and Securities Markets, Central Bank Publications, London, 2004), BAV: 100 Jahre materielle Versicherungsaufsicht in Deutschland (Berlin, Bundesaufsichtsamt für Versicherungswesen, 2001); László György Asztalos: How are banks, insurance companies and securities markets supervised in the world? (A Freshfield Revisited) (In: MKT: Fate turning years (42nd itinerary congress presentations, TAS Kiadó, Budapest, 2005); László György Asztalos: Development of "worldly supervision" or the "supervised world" (In: Financial policy strategies at the beginning of the 21st century (Akadémiai Kiadó, Budapest, 2007; Insurance and supervision – in a treble "grip" (Biztosítási Szemle, 2007/9. issue)

38 It applies to all types of financial institutions that each component of the Magic Hexagon must be in place: (1) risk proportionate pricing of the most important main products, (2) reasonable distribution of risks (with refinancing, re-insurance, CDS, etc.), (3) risk proportionate (banking or product-based, so-called technical) reserves, (4) asset and liability management (ALM) in line with the order of importanace of liquidity, solvency and profitability, (5) internal corporate governance maintaining cost management at a competitive level, and if all of them are in place, then finally (6) satisfactory capital adequacy and guarantee capital.
It is obvious that the main fault of the (original) Anglo-Saxon structure of "financial and capital position supervision", promoted for two decades is that (a) it focuses only on one aspect of banking operation instead of the required six aspects; (b) that one aspect can be analysed only after the market processes have taken place (ex post) with doubtful certainty, often involving manipulation, and (c) unfortunately even this one aspect was not chosen well because the gearing between risks and (guarantee) capital is often 12–33-fold in various banks even without any special tricks. (The traditional continental supervision, also focusing on one component, concentrates on the first initial aspect of the banking process, with which it was able to protect that market actors against product innovations imposing risks on themselves and the general public.)

39 The contradiction bringing tragedy to millions in the current days developed after 1992 whereby while in Europe any hazardous product, (e.g., pharmaceutical drugs, electronic article, chemicals, motor vehicles, etc.) are subject to preliminary, regular quality control, based on which the launch of the product on the market can also be prohibited, if the process results in findings suggesting any risk on consumers, in the case of "banking products" that can potentially lead to masses of people losing everything the same, previously defined "product quality control" function was officially prohibited.

40 For details, see for example: Robert Mosch – Janko Gorter: The appeal of Twin Peaks (Financial Regulator; June 2008; Volume13; issue. 1, pages 53–60; Martin Cihak – Alexander Tieman: European supervision in the spotlight (Financial Regulator; March 2008, Volume 12, issue 4, pages 59–68); Balázs Varsányi: Current issues of the Community regulation of financial services (Európai Tükör, February 2007/2, pages 54–68); István Farkas: The depositors's money was safe in 2004 (Ellenőrzési Szemle, 2005/2, pages 25–29); Bábor Hámori: Insolvency projection with a logical model (Bankszemle, 2001/1–2, pages 65–87); László Seregdi: Moving towards single supervision? (Ellenőrzési Figyelő, 2008/3. issue, pages 7–16); István Farkas: Supervision of financial markets: Quo vadis domine? (Public Finance Quarterly, 2006/1, pages 79 –92); Péter Steiner: New structure in combating money laundering (Public Finance Quarterly, 2006/3, pages 320–335); Zsófia Papp – Mrs. Ujvári Renáta Fejes – Gábor Simonka: New acts on the prevention and combating of money laundering and terrorism financing (Public Finance Quarterly, 2008/2, pp. 293–316).

41 For this reason, all explanations for the current crisis based on greed and eagerness simplify the facts

and are wrong. Since the theses of K. Marx, M. Weber and J. Schumpeter , which have by now become commonplaces, capitalism has always had a driving force towards a higher profit and towards the ideal combination of production factors and internal efforts for permanent renewal (driving force; invisible hand). It seems that in certain societies (e.g., USA 1990–2008) this concept temporarily managed to achieve an unreasonable extent and has managed to become dominant as a result of a special correlation of a lot of conditions. However, elsewhere, (for example, the European Union), it could be controlled by welfare, while in other areas (for example, Far East and Russia) this aim was subordinated to historic and civilisation traditions, and there are places where it cannot be enforced even to the required extent or with the applicable methodology, providing peace and supporting general development (for example, Africa). The diverse development of South America involves excellent examples for the various methods (which can also be valuated differently) of coordination of natural and social traditions and globalised world economy and politics.

42 Contrary to the typical historic characteristics of the (unconditionally self-trusting) American mentality, which combines pragmatism with conceptual (self)-dogmatism, divided and distributed in the many small states, the pragmatism of Europeans (who rarely trust themselves) is a lot more related to sceptic flexibility (towards everything), i.e. frequent lack of principles and compromise in constraint situations, which is the result of a different historic development and can be observed practically from the split of the Enlightenment into Anglo-Saxon and continental tendencies. (Unfortunately, this historic and conceptual thesis had another important role from the autumn of 2008.)

43 In theory, the “economy saving and stimulus” programmes created day by day for assisting those in difficulties must be reported to the European Commission and a long, “regulated” approval procedure also applies to them; however, nobody takes this seriously, and nobody collects or classifies these requests. On the other hand, the theme-based articles of the daily and technical papers clearly reflect the national and international inconsistency, and absolute chaos, as well as the complete failure of the European competition policy. See, for example, “Unclear bailing actions” (Világgazdaság, 8 December, 2008. “Packages in the package” (Népszabadság, 28 November, 2008)

44 For each current aid package at least the following three requirements should be met (at least) for achieving a net profit: (1) the aid can only be provided for capital investment and never for consumption, where (2) “there is no free lunch”: the assisted party must also assume obligations (for example: job retention or job creation, limitation of the ownership and management rights, additional investment, development, and (3) the “non-assisted” companies must not be pushed into an uncompetitive position. In this aspect, the specialisation of aid provided by Barack Obama's team for the reconstruction of the American infrastructure and public services (roads, railways, pipelines, schools, etc.) reminding of Roosevelt, or the support provided by N. Sarkozy for the development of only energy efficient cars, or the German motor purchase stimulating package in line with environmental protection are good examples.

45 Using a well-known simile: the financial crisis revealed that the “parents” and “daughters” did not have a “family” relationship, only “coexistence”. Unfortunately, it seems that the principle of “for better or for worse” does not apply at all; instead, if things are going well, then we are together, but if things are bad, then everyone is left to his own devices to solve his problems. However, a shocking consequence of all this is that from now on the East European supervisions should deem the (refinancing, reinsurance, guarantee, etc.) relations with the “parent” companies not slightly, but rather risky, requiring also additional capital and “provisions for them”(?!) Compensation claims may be set forth against contracting partners violating their promises on the money and capital market hoping for success; on the other hand, any action by “subsidiaries” against their “parent institutions” abusing their ownership rights is absolutely impossible.

46 Interesting: in the last twenty years, when “everything was flourishing”, it was never mentioned that there could be no financial relationship between a “parent bank and its subsidiary” when the funds transferred by subsidiary banks into the French and German budget were used for their respective economies. At the beginning of 2009, the total loans placed by East European banks with parent companies in Western Europe were estimated around EUR 1,100 billion, of which settlement will be made based on Austrian national interest in 19.5 percent, German national interest in 15.8 percent, Italian national interest in 15.6 percent, French national interest in 11.5 percent, Belgian national interest in 9.5 percent, Dutch

national interest in 8.1 percent, and Swedish national interest in 7.1 percent, whereby most experts can accept 10 percent default ratio reasonable. See: "Regional bank bailing plan" (Világgazdaság; 12 February, 2009, page 4). However, referring to Moody's, the article of the Financial Times on 18 February, 2009 estimated these assets at USD 1,500 billion (p. 19)

47 For the new macro-economic populism, see the article by László Csaba (Pénzügyi Szemle, 2008/4. issue, pages 592–606.). For the current and East European interpretation of common European interests, see the academic inaugural address by Béla Kádár: Our deficits (Public Finance Quarterly, 2008/2. issue, pp. 171–182)

48 It is worth noting as a rare coincidence in the world history that in February 2009 Strauss Kahn, IMF Managing Director, raised in various schools of English, French, Austrian and American diplomacy, G. Brown British Prime Minister, Feydmann Austrian chancellor and R. Zoellick, World Bank President all indicated that any social disorder would most probably occur in the former socialist countries if Western Europe denied assistance and solidarity towards them.

49 One of the most thought-provoking proposals was made by G. Amato, former Italian prime minister. In his opinion, the European Council should immediately create and lead two task forces for the international coordination of measures applicable to financial institutions and the bank bailout packages. The task forces should be controlled in the same way as the crisis was managed in the 1970's and 1980's based on the European Coal and Steel Treaty. [Guiliano Amato – Emma Bonino: How to avoid the ruin of the European market (Financial Times, 12 February, 2009, p. 9)]

50 It is difficult to select the really important positions from the turbulent discussions concerning the unavoidable transformation of the European supervisory system. Perhaps the most important are the following: "Commission Decision of 23. 1. 2009. establishing the Committee of European Banking Supervisors"; "Proposal for Decision of European Parliament and of the Council of establishing a Community Programme to support specific activities in the field of financial services, financial reporting and auditing (23. 1. 2009, Brussels); FSF: "Work underway int he FSF and member bodies on the G 20 Action Plan" (16 January, 2009; Basel); "IAIS Response to the Financial crisis – contribution to G 20/FSF/Joint Forum" [24. 1. 2009, Basel) 2009], and see also the memos of the official meetings of ECOFIN, CEIOPS and CSAR. The paper reflecting the position of the Czech presidency of the European Union at the beginning of 2009: "Main theses of the CNB's position to the new European regulatory and supervisory framework" (12 February, 2009), the article by Dirk Shoenmaker combining the theoretical basis and East European expansion "Resolving the stability trilemma" (Financial Regulator; December 2008, Volume 13, issue 3, pages 45–53) and the proposals of the "Report of The de Laroisiere-Group" (Brussels; 25/02/2009) could be especially interesting and important.