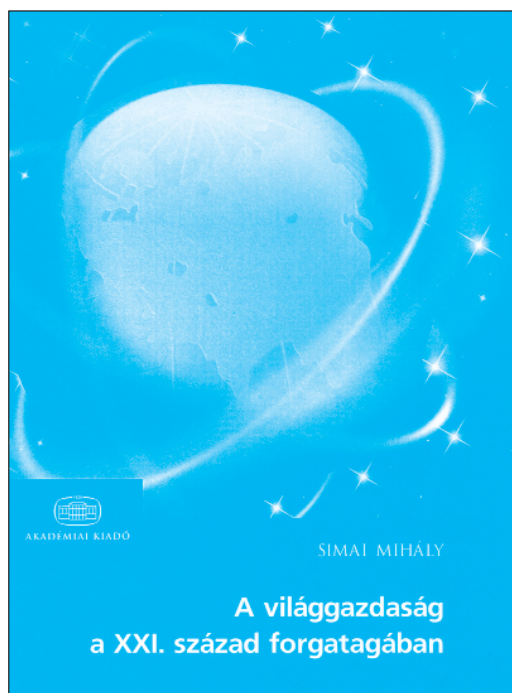


Neither chaos, nor a world plan

Mihály Simai

The world economy in the vortex of the 21st century

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The most famous Hungarian scientist ever, *John von Neumann*, said the atmosphere of the Earth was the most complex thing on earth. Transposing this to economics: world economy is the most complex thing in the world. For economists, a system not only more complex but simply just bigger than the world economy cannot exist – and it is this system that *Mihály Simai* has committed himself to studying for many decades. He does not only have half a decade's past in research and education (he lectures on several subjects at Budapest Corvinus University even today), but there is no other Hungarian economist with such wide professional experience gained abroad: what is more, gained at various institutions of the most comprehensive world organisation, the United Nations.

A person studying the most comprehensive and biggest system and the operational and development rules thereof must be endowed

with various excellent qualities. Let us mention a few of these from the two ends of the spectrum: he must be familiar with the characteristics and details of the national economies that make up the world economy, and he must be equally well aware of the sometimes concealed while other times brutally overt driving forces of international economic relations, i.e. the general correlations. In the profession of economics, young researchers tend to be strong in the former field, while mature researchers are usually experts of the latter. Mihály Simai belongs to the latter group, not only due to his age, but also considering his professional achievements and the dozens of books published. Besides, there is no other economist who has been a member of the Hungarian Academy of Sciences for longer than he has (32 years) and among the eleven fellow members there are six world economists whom he is the doyen of regarding his age alone. What strikes

the reader in the book, i.e. that the situation descriptions from which the conclusions are drawn are so rich in detail and include so many (and up to date) facts, is no wonder thus. It can be no requirement of a scientific technical book to be even interesting, but this latest volume of Mihály Simai is indeed enjoyable to read exactly because of the great amount of facts mentioned above. The reader learns, for example, that

- Ninety per cent of the scientists in human history before the end of the twentieth century lived and worked in the last third of that century (p. 9);
- In the year 2000, 20 per cent of the population of the world received 83 per cent of all incomes, while the poorest 20 per cent received 1.5 per cent of all incomes (p. 33);
- In the last decade of the twentieth century, approximately 140 million people, some 2 per cent of the world population, lived in a country other than their country of birth (p. 44);
- In countries of the European Union today, the rate of women with a university degree is 10 per cent higher than that of men (p. 85).

■ The first two chapters of the volume are a theoretical review presenting the basic correlations as well as the most important fields and tendencies of change. Chapter three is devoted to the network of world economic relations. Chapters four and five outline the internationalisation of the microsphere and a tangible manifestation thereof: the world economic role and operational characteristics of transnational companies. The sixth, closing chapter of the book predicts the expected courses of development and it is also here where a regrettably short, only ten-page long evaluation of Hungary's connection to the world economy was given room in the book.

In the case of a book written by a widely experienced academician professor, it is not so

much the presentation of facts and tendencies but rather their evaluation and the answers to the ultimate and “simple” questions that the reader (or at least the reviewer) is keen to read about. Is the current arrangement of the world economy “good” or fair? Are the institutions of developed market economies of universal validity and can we expect that the spreading of these institutions will solve the economic problems of all parts of the world? Does “the invisible hand” guiding development in the right direction exercise influence on a global scale? Is there a need to plan development – and, if there is, in what form and to what extent? And to what extent would that be realistic?

Mihály Simai takes a balanced stance in these ultimate questions. He believes that, despite the fast economic growth of the past decades, the world is not well arranged, the world economy clearly “underperforms”, it is burdened with serious inequality and unfairness, but there is not much hope for radical and fast change. It is major global problems that will very slowly force decision makers to implement the right solution, and this solution will necessarily be strengthening cooperation and cohesion.

Although there are numerous worldwide and regional institutions and integrations in operation, still, ultimately: “Instead of a new world order, you can speak of a unique global disorder”. (p. 18) The role of the UN, widely criticised and not much esteemed by many, is judged positively by the author on the whole, while its limitations are also pointed out: the world organisation “...has proved to be able to survive and operate in the world order of the time, at the level of willingness for cooperation of the states and meeting the opportunities of the age “. (p. 21)

■ Inequality, interpreted as a *difference of income* between various countries is one of the most serious problems of the world economy, the trouble with which is not that some devel-

op and get rich very fast but that much of humanity is totally left out of this development. “According to calculations by economic historians, the difference of incomes between the richest and the poorest country was 3:1 in 1820. Calculated on the basis of the GDP per head, in the year 1960, there was a thirty-time difference already, while today, there is an over eighty-time difference between the countries with the highest and the lowest incomes. A brutal manifestation of growing inequality is mass poverty.” (p. 29) Overcoming this should not really be expected even in the long run since “The analysis of data and trends reveals that absolute poverty in the world is not a marginal phenomenon that can be eased through charity or development aid but follows from the world order and the relations of the respective states” (p. 35) and there is doubt if “...in a world based on market economy primarily, there are any social interests or forces that are able to eliminate or mitigate the reasons of poverty” (p. 37) Sharing the view of Pope *John Paul II*, Mihály Simai quotes his encyclical letter creating the greatest stir, “*Centesimus Annus*”, in which the pope underlined that “...although communism has collapsed, none of the world problems that had a role in the appearance of communism have been solved”. (p. 28) Most economic problems are of social origin: “On our planet, there exist no physical or technical limits that would make it impossible to meet the basic needs of world population in the foreseeable future. In a given historical period, it is because of social-economic reasons that these needs are not met. The growing size of humanity and the growing poverty on Earth are not necessarily a cause and effect correlation.” (p. 140)

The best of all existing worlds, market economy, should thus change fundamentally for world problems to be eased in effect: “So far, capitalism has been based on several moral norm systems: on the Darwinian, in the centre

of which is the cruel competition for survival, on Protestant norms built on diligence, soberness and honesty and on technocratic morality, the core of which is performance. Especially important questions are if the 'enlightened self interest' can prevail and under what conditions a market system based on general human moral norms and values like humanism, solidarity, the support of the weak and the downcast, the respect of public interest, the acknowledgement and tolerance of difference and the rejection of violence can be realised?” (p. 42)

■ Regarding the experience of countries successful in the catch-up (and equally importantly because of the current situation of Hungary) it is exciting to consider *what role the state can have in the organisation of the economy*. Mihály Simai finds the role of the “development state” acceptable: “The development state has played an important role in fostering the economic progress of many, currently developed countries. The lower the development level characteristic for the country concerned was, the greater role the state had to be assigned. The most important tasks in this category included state industrial policy and industry development, subventions, enterprise development and support, human resource development, infrastructure construction and standardisation, the facilitation of scientific and technological development, the maintenance of financial stability, the facilitation of industrial growth and the establishment and operation of state companies.” (p. 62) (Certainly, mainstream economics has considered emphasising the above mission of the state as “moral insanity” since the beginning of the 1980's.) Despite the above, and notwithstanding the overweight of transnational companies against governments, it is not justified to “...treat globalisation as the only and irreversible process of global development [and] it would be too early to eliminate states as institutions”. (p. 74)

A strong state role is an acceptable concept only in some countries – which constitute a minority regarding their economic strength by all means – and the implementability of the world plan concepts of a few decades ago is remote even if it was not *Jules Verne* or *Herbert G. Wells* with a rich imagination but the later Nobel Prize awardee *Jan Tinbergen*, among others, who urged to work them out at the time ... Well, even if world plan concepts have failed, numerous agreements and action programmes have been and are to be made which urge the treatment of global problems through international cooperation. And the more serious the problems are, the greater the need will be for such programmes. (p. 93)

■ For the reviewer it is a reason for special joy that Mihály Simai has a positive attitude to the role of NGO's in the current development phase of the world economy. The author says:

“In our age, *civil societies* reflect the subjective contents of civilisations, the relations between individuals and institutions.” (p. 82) What is more, “the father of classic political economics, Adam Smith, underlined in his work *The Theory of Moral Sentiments* (1759) already that, although the major driving force of society was self interest, civil society restricted selfishness and helped avoid dissension.” (p. 83)

It is widely known that most civil organisations wishing to fill the role of the conscience of humanity (or, to put it more modestly, of society) very firmly oppose the market economy model pursuing economic growth. Mihály Simai takes a realistic stance in this issue as well: In the developing world, “... just like before, no trends wishing to restrict or reduce the consumption of material goods, either for environmental considerations or on a moral basis, will be able to attain significant success. Within national frameworks, it is generally only »growth friendly« or »growth oriented« politicians who can expect success”. (p. 131)

Let us add, nevertheless, that one cannot really imagine any developed countries where the above lines are not applicable ...

■ It is a great plus about Mihály Simai's book that it is not only devoted to the traditional players and mechanisms of the world economy. The discussion of civil organisations has been mentioned above, but the *presentation* of the various systems or “*regimes*”, as referred to by the author, is even more important. The most significant of these are: “...global economic political coordination, industrial production, standardisation, agricultural production, transport and transportation (road, railway, sea and air), telecommunications, satellites, finances, relief, currencies, security of finances, accounting mechanisms, international trade policy, customs affairs, raw material turnover, tourism, sustainable development, ecological cooperation as well as global resources of common ownership, the air, the oceans and the space. Regimes actually embrace all significant areas of world economic relations.” (pp. 235–236) Even an outline of these various fields of cooperation indicates already that the undisturbed operation of the world economy requires the involvement and conscious strategy of states and the establishment of successful “global governance”. [Explaining this widely used term with a rather vague meaning, Mihály Simai quotes the following witty definition: “...the management of a world that nobody is responsible for”. (p. 223)]

■ Another argument for state involvement is the activities of *transnational companies*. Foreign operational capital investment is an important source of economic growth; it is no wonder thus that governments always try to present winning over serious investors – no matter how high the “price” paid for them is – as their own economic diplomatic achievement. Although it is not an ignorable aspect, either, what rate of the income produced as a result of

foreign investments remains in the recipient country. (We, Hungarians, do have some valuable experience in this field already ...) The competition for investments – sometimes even within a country – is certainly not new and is characteristic not only for developing countries: "...in 1986-1990, companies operating within the framework of the Common Market received subventions worth some ECU 100 bn for R&D and for special regional investments. In some cases, the subventions covered 70-80 per cent of the investment concerned." (p. 336, footnote)

■ Finally, let us return to the opinion that the most exciting message of a book like this is *the answers given to the ultimate questions*. The development of the world economy can be evaluated in at least two ways: the effective range of market economy is spreading geographically, world produce is growing and world trade is widening, while the rate of the poor is falling. The goal of individual countries can be no else than to find the ways and forces through which they are able to increasingly successfully hold out in this process. It is these issues that growth and competitiveness theories focus on. Under the other evaluation, the world economy is burdened by increasingly serious contradictions and things cannot very much longer go on the way they have until now. It is the latter opinion that the stance of academician Simai Mihály is closer to: "What is going on in the world now indicates that this age is coming to its end. Changes of a huge size and with unforeseeable consequences are in progress. [...] In all regions of the world, a unique differentiation is under way. In this, the growth of inequalities and economic and social gaps is of determinative importance. As a consequence of the migration pressure, the population of the world will be much more mixed. Multicultural societies are the unique meeting points of civilisations and may serve as a good school of dialogue and coexistence but may

also result in the opposition or exclusion of certain social groups or strata. They may equally be the soil of creative diversity and of destructive diversity and the diversity of exclusion." (p. 382)

For the former alternative to be implemented, firm economic political and government action are required in all the countries in the world. A prerequisite of this certainly is "...to make decision makers better appreciate the need for longer-term thinking and action committed to the future to a greater extent, aspects so far pushed into the background in the labyrinth of market economy ". (p. 407) If we consider that the manuscript of this volume was made before the money market crisis running through the world, energy prices getting out of control once again and the rise of food prices, we can point out with certainty that the prediction of Mihály Simai has been proven right painfully fast.

When reading the book of Mihály Simai, the reviewer was reminded of the piano play of *Arthur Rubinstein*: the old master, equipped with all tricks of the trade, played with passionate commitment and great humbleness to music. Professor Simai, too, avoids sensational solutions – although in the field of world economics, there would be bombastic data to present on a mass scale. His opinion and professional conviction are clearly reflected in the book; he can see the inequalities, the subordinate and superordinate relations prevalent in the world economy, the disproportionate distribution of the advantages of the international allocation of labour, the excessive role of the "paper economy" and the harmful consequences thereof, but he refrains from an agitative style (which latter is not at all alien from many critics of the international cooperation system). Mihály Simai does not agitate; instead, he persuades. He has no intention to shock the reader; he rather wants to wake him up to actual relations and correlations. On the whole, the

book is an excellent guide for those who need one for orientation in the vortex of the 21st century – and who can claim not to be needing such a guide?

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The reviewer finds it regrettable, on the other hand, that his volume, excellent also as a study book, was read by at least one person too few before it went to print. It seems that the practice characteristic at the good intellectual workshops of several decades ago, i.e. that col-

leagues from the department discussed study books, no longer exists. The truth of the principle “more eyes see more” was implemented at the time and there was less chance for misspelt names to appear in study material meant for university students like the following in this, otherwise nicely edited, volume: “Prebish” (Prebisch), “Ian Timbergen” (Jan Tinbergen), “Kautski” (Kautsky), “Bognar” (József Bognár!) or – something that really hurts – “Lámfalusi” (Lámfalussy).

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