Positions and standpoints – or what does the "invisible hand" arrange?

Thoughts related to three books

"One of the important distinctions between ideology and science is that science recognizes the limitations on what one knows."
J. Stiglitz: Globalisation and Its Discontents, p 230.

Joseph Stiglitz
Globalisation and its discontents, Penguin books
(Napvilág Kiadó, 2003)

Joseph Stiglitz
The roaring nineties, Penguin books
(Napvilág Kiadó, 2005)

Alan Greenspan
The age of turbulence, The Penguin press
(HVG Könyvek, 2008)

Hungarian economic discourse – while it believes to be in the mainstream – is rather provincial. It may create the illusion of its having merged into the mainstream that economic higher education has increasingly relied on foreign coursebooks, which, however, are the good or not so good "derivatives" of historical experience that Hungarian readers, especially if students, are not familiar with. It is thus that an economic world view that I refer to as *"emergonomics"*[1] has been established which, in Hungarian, could probably be explained as "economics meant for consumption in emerging countries". The *emergonomics* used in Hungarian discourse certainly further suffers from the above provincialism. On the basis of many decades' tutorial experience I can say that such intellectual narrowing in the profession of economics is a real danger at this part of the world. It is therefore always a reason to celebrate when books shattering the frame of this narrowed and simplified attitude gain more publicity in Hungary through translations. This is why it is important that the books of Nobel Laureate Professor *Stiglitz* and of recently retired chairman "for life" of Fed, *Alan*

Greenspan, can get into the hands of readers in Hungarian.[2]

The two authors pry into the decisive economic issues of today's world with two totally different approaches and coming to radically different conclusions. Both books may in their own ways mitigate professional and political provincialism in Hungary. On the basis of Stiglitz's work, a more detailed picture may be acquired in Hungarian public opinion on the efficiency of the economic policy recommended by the Washington Consensus as well as on the nature of the lack of financial equilibrium at the global level. Greenspan – while arguing consistently on the grounds of the Washington Consensus himself – gives us a palpable picture on the drawbacks of British-American corporate governance, and he similarly deprives us of some illusions regarding the practical suitability of independent budgetery authorities for curbing political voluntarism. (Chapter 11)

It is this unique complementarity that gave me the idea of choosing the genre of parallel review so as to encourage the widest possible circle of readers to read these books attentively and consider what they are to say. The two authors take very different values as their bases, and their ages and careers are also very different. It is, however, not only the similarity of the issues they discuss but also some intersections in their careers (both have held the position of chairman of the Council of Economic Advisers[3] of the US president, spent considerable time in various management positions of financial organisations and have actively experienced the same events, etc.) that make their works suitable for parallel analysis. The analysis reveals, among others, that – contrary to what *emergonomics* suggests – there is no eternal truth in economics (either).

So as to avoid getting lost in the details of the richness of thought the books examined provide, it is worth pursuing the analysis along some basic questions, I believe. Such a basic question is to what extent the market and competition, which are often presented with the metaphor of the "invisible hand" in British-American literature, are able to operate as the adequate and ruling coordination mechanism of a modern economy. A similarly important problem – and a topical aspect of the above basic question – is how the process referred to as globalisation should be evaluated. Is it an absolute victory of the "invisible hand" or is it the process of establishing governing beyond nation states: a joint result of the interactions of economic-political power centres and the effects of the global financial markets behind these?

THE SHARP-EYED ANALYST AND IDEALIST THINKER

In his biographically inspired book, Alan Greenspan describes the development of his personal fate, world view and professional career, while the reader also learns about his professional credo. The author does not deny his conservatism. This is indicated not only by the fact that, as a "heritage" from his father, he was attached to the world of money but even in his musical taste he rejected the popular music revolution in the 1960's. The idea structure of the book reflects a clear ideological conviction of the supremacy of the market and of the United States. The story has an unusual beginning reminiscent of crime stories, recalling the events of September 11, 2001, and this is also where the book returns to in the end. This suggests that the memorable brainless terrorist attack is a turning point which, as an outside shock, is able to block the autonomous, triumphant market-based development of the economy. This periodization seems rather forced; Central European readers have the feeling as if the outbreak of WWI and the collapse of the Gold Standard, a monetary system idealised by Greenspan, had been owing to the assassination of the Habsburg heir to the throne in Serbia. The author illustrates his economic credo by metaphors like “the invisible hand” (Smith) and “creative destruction” (Schumpeter). His career did not predestine him, however, to make the lifework of the two universal geniuses, whom Greenspan probably did not fully understand, his own in their totality. In actual economic-business administration issues, the Fed chairman-author is cold and distant and, most importantly, he is a *professional analyst.* Beginner and not only beginner experts may learn from him several tricks of interpreting process tendencies – his practical solutions of questions are sometimes genuinely imposing. He has looked for and has indeed found the real economic background behind various financial issues; he is an excellent interpreter of statistics and economic indicators. The same does not hold for his views on macroeconomic questions. His aspect is rather one-sided; following from his position, his economic political horizon does not reach beyond inflation. This is all the more surprising because, when reading the book, we meet the author as an expert analyst of real economic processes. His economic historical arguments are rather selective; the autobiography reveals a person somewhat unfamiliar with economic theories. The professional horizon of the author can be well characterised by the list of his contemporary co-experts who are missing from his reader's diary: *Arrow, Buchanan, Galbright,* Stiglitz and *Tobin*, just to mention a few names – all of them experts who have profoundly dealt with the issues discussed in the book. Ignoring Stiglitz, for example, is interesting also because, during the Clinton administration, he, as the chairman of the Council of Economic Advisers of the US President, was in close cooperation with Greenspan. Stiglitz analyses the activity of the Fed chairman, although not without criticism, in quite a refined way.

The autobiographic parts of the book provide a useful insight into a determinative period in the history of the USA and the behind-the-scene secrets of power politics. At that part of the world it is quite natural and certainly nothing to be ashamed of if an expert sometimes works for national security services also (cf. Chapter 6). We get an interesting picture of how the leading superpower of the world related to the processes and leaders of *the Rest of the World.* It is quite illuminating, probably a fact with a practical message, that the then chairman of Fed regarded the “Potemkin-reforms” of *Vaclav Klaus* in the Czech Republic as the most radical transformation fostering political change, while at that time it was exactly the Czech Republic where there was the least going on – which, of course, was probably not at the detriment of the Czech economy. It is similarly illuminating that the transformation politics, more orthodox in practice, of Hungary, the “show pupil”, if you like, was found not even worth mentioning.

The professional chapters, especially those parts which presenting the behind-the-scene secrets of monetary leadership and the meeting points of politics and monetary policy are interesting. It is striking what discrepancies are between the actual Fed measures, the explanation and implementation thereof, the author's actual evaluation and the economic credo of the bank of issue chairman. This could as well serve as the generalizable evidence for “Black Monday” or other events (the collapse of S&L Associations in the USA, the Mexican credit crisis, the Far Eastern crisis, the burst of the Dot-com bubbles), or even of the inability of the “invisible hand” we sometimes experience. It is turning the economic slowdown of 1995 into a “soft landing” that Greenspan considers the greatest accomplishment in his life (Chapter 7), which, again, raises the question why the “invisible hand” needs help. The same contradiction appears in relation with the several times quoted punch bowl metaphor[4]. "Irrational exuberance"[5] – in relation with the formation of stock market bubbles in the 1990's – has become a frequently used phrase in financial literature. With reference to Stiglitz's books and sharing the view of the Nobel laureate economist, let us note that the legendary Fed chairman was not innovative at all in treating this issue. This was exactly owing to his economic conservative orthodoxy.

The story that unfolds in Chapters 10 and 11 of the book in relation with the federal budget surplus at the turn of the millenia is especially exciting. The honesty of the conscientious analyst (they did not understand its reason), the aspects of the financier (what would happen to investment services living on state securities if there was nothing to trade in), the weaknesses in the activities of the Congressional Budget Office, mystified by Hungarian circles, and finally the ignorance of budget discipline during the Bush administration are all aspects considering which we may say: "the story is about us, (too)".

Several issues related to the welfare state, also discussed in the book, do not really fit into the idea structure outlined above. The banker naturally opposes extending the welfare state. He ignores the arguments accepted in wide circles and fitting well into the ideology of mainstream economics which have been delivered exactly by the economics of information. An excellent summary of the latter is provided by professor of the London School of Economics, *Nicolas Barr* (Barr, 2004). Yet, the fair analyst is present in these parts, too, since, when reading about the efficiency of the public education system of the USA, for example, the Hungarian reader may have some feeling of "déja vu". And not only this because, if we consider the phenomena described by Greenspan, we get clear evidence of market failures.

It is an interesting detail that the bank of issue chairman demanding prudent behaviour was presented with the Enron Prize in November 2001, shortly before the company turned infamous collapsed. This momentum also shows that it may happen not only at this part of the world we know that the leaders of irresponsibly managed companies try to get the benevolence of responsible agents. The American corporate management logic is "genetically" not protected from possibilities of corruption or ignorant management, either, just like the management systems in Germany or in emerging countries for that matter. It is somewhat surprising that the recently deceased *Galbright*, who described the essence of this corporate management system in the 1960's already, is just an insignificant walk-on character in Greenspan's book. Let me add that the young generation of economists in Hungary are not familiar with his work entitled The New Industrial State, also available in Hungarian, either.

Neither developmental economics nor economics are among the strengths of Alan Greenspan. The quotation by Churchill in Chapter 25 is certainly appropriate: "The further backward you look the further forward you can see." I do not think we would falsify the message of the British politician if we extended this thought, beyond the depth in time, to the thoroughness of looking back. In Chapter 13 on the models of capitalism, in addition to numerous interesting glosses, the rich development history is discussed insisting on the metaphors of the "invisible hand" and "creative destruction", trying to squeeze everything into their framework. Greenspan's thoughts on growth theory and his reasoning on money theory, elaborated on in the last chapter of his book, are really simplified here are there and they are not free of factual mistakes, either. Let us just consider, for example, what he had to say on the gold standard monetary system and on inflation. It is also striking that, in the review of the international monetary system, no mention is made of the Bretton Woods system, which is not simply just the direct predecessor of today's international monetary system but is also the basis for today's economic and financial hegemony of the USA. At the same time, Greenspan's practical experience and analyst vein make this chapter most exciting when discussing what risks the number one reserve currency position of the US Dollar involves for the United States of America. The hardly concealed power motives clearly manifest themselves when, in the book, the sanctity of ownership is extended to intellectual ownership rights. Well, intellectual goods have the characteristics of public goods in several respects and, as such, they raise the basis for introducing an allowance in case of monopolisation. The banker fails to ask the question why it is that despite the dissatisfactory performance of the educational system in the USA, severely criticised by him earlier, there is such high concentration of intellectual ownership in the United States. The answer is because the free movement of people makes it possible for the USA to take the cream of the knowledge capital of the world. By the strict protection of the ownership rights of the American knowledge economy made thus from international resources, a distorted ideal of freedom is implemented: in a free country, there are free people doing what they are free to do.

THE REALIST ECONOMIST

Stiglitz, as a scientist, does not criticise globalisation since – and here he agrees with Greenspan's approach – he considers it an unavoidable consequence of capitalist development. He massively and multilaterally criticises the Washington Consensus based on neoclassic orthodoxy, on the other hand. He points out that market fundamentalists simplify *Smith*'s views, keeping quiet about the fifth volume of his standard work in which he provides a rather refined description of the economic role of the state (Smith, 1940). Just as *M. Friedman* is Greenspan's intellectual example, Stiglitz's is *J. M. Keynes.* In *emergonomics,* Keynes is considered an outdated figure, assumingly because only the surface of his work is understood. Stiglitz, on the other hand, not only understands but is also able to apply the essence of the message, especially its implications for international economics. Keynes who, unlike many other theoretical economists, was a successful investor, knew exactly that speculation was especially very dangerous not only at domestic capital markets but also in international dimensions. This is why he fought against the liberalisation of capital movements when the Bretton Woods system was established.

Stiglitz as a critical scientist is even able to rise above the aspects that grant his home country unilateral advantages at the detriment of other parts of the world. He points out self-critically that the USA as the main advocate of the free market idea, does not always by far practice what it preaches. Domestic production subsidies, a protectionist industry policy, accounting systems mocking transparency and the corporate scandals thus made possible and the "revolving doors" between public institutions and the private sector are not really examples for the domestic implementation of the advocated American recipes.

What Stiglitz criticises is the wrong economic political practice primarily, which, sometimes owing to simple professional mistakes or, at other times, owing to the representation of tangible interests, is such as it is. This economic political practice – as can be seen from Greenspan's book – likes to hide behind the impersonal and faceless "invisible hand". Stiglitz, in contrast, does name the well identifiable interest groups for which it is more comfortable to put the blame on the "invisible hand". From these criticised fields, let us highlight on two, for one reason because they are also dealt with at length in chairman Greenspan's book. One of these is treating the issue of "irrational exuberance"[6]. In Stiglitz's decided opinion, the formation of this bubble of this extent was – at least partly – owing to the market fetishism of the economic policy and the failure to take the right regulatory measures. In his interpretation, anti-regulationism and the corporate scandals owing to the lack of adequate accounting fit well into the orthodoxy represented so clearly by Alan Greenspan in his book.

The other field of economic policy criticised by Stiglitz is the failed tax reduction policy implemented at the turn of the millennia. According to the persuasive argumentation of Stiglitz, the policy[7], with misleading reference to Keynesian arguments, supported the rich instead of stimulating the economy.

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In the economic political practice of the European Union – and here Hungary has kept its "show pupil" position – economists who believe that *market coordination* is able to arrange *everything*, are taken more seriously than they should be. In addition to practical experience and less fashionable trends in economics, the mainstream economics in developed countries also seem to refute the above. *Emergonomics* ignores the correlations that can easily be understood on the basis of information economics[8]: market allocation necessarily fails or works with low efficiency in many and a growing number of fields.

Ironically – and as an interesting detail in the history of theory – *Mises*, in the memorable economic debate in the early 1900's, smashed *the idea of total planning*, too, using information economic arguments. What is very important is that economic development as a whole partly *fosters*, but, to a significant extent, it also *undermines* the efficient operation of the market. Alan Greenspan's book presents the elements that strengthen market efficiency. Such are the size effects following from liberalisation and deregulation, fast information flow thanks to information technology and the establishment of almost unlimited information processing capacity related to the latter. But the peculiarity that, in the new economy, most of the activities are immaterial, is insufficiently emphasised and analysed. These goods do not have the characteristics of homogeneous private goods that, even according to neoclassical teaching, guarantee competition based operation. In the case of public goods and the similar club goods, the market is unable to allocate or is inefficient. By monopolising know how's, it is not profit proportionate to production but allowances proportionate to the extent of monopoly that players realise. To talk about competition here is anachronism just as it is to mention the validity of a traditional economic analytical apparatus. If border costs are missing or are negligible, there is no border analysis, either. In this case the assumed price mechanism that in theory guarantees efficient market resource allocation does not work, either.

Globalisation does not only involve tendencies strengthening markets, however. Technical development involves operational risks and the extending role of money strengthens the role of financial risks. Non-liberal schools of economics, by refuting the well-known Say's Law, present a versatile description of the role of money in the operation of the market, including the risks thereof. The two authors have radically different views on this issue. Greenspan (Chapters 19 and 24) – somewhat oversimplifying his view – sees globalisation as the "end" of regulation and control, while Stiglitz lists arguments for the importance of regulation and control. It is especially interesting that, despite the fact that the consolidation technique of the S&L sector in the USA is discussed by Greenspan at length and is even recommended internationally, it is with reference to the complexity and mass quantity of transactions that the author considers strengthening control an effort in vain. The reviewer expressed his view on the issue in an earlier work (Vigvári, 2008), emphasising that in today's financial systems, the control system operates as an indispensable immune system of the former, being able to keep out factors endangering stability and, if necessary, prevent the spreading of various infections. International practice, the activity of the Basel Bank Supervisory Committee (which Greenspan does not even mention) and the efforts of INTOSAI and IFAC all show that the above opinion of the author is not shared by the professional public.

As a final thought let me just note how unfortunate is that there are no similar high-standard analyses available on the reality and conflicts of economic and political life in Hungary. The reviewer recommends all the three books with a good heart to all those wishing to learn more about the economy and finances and to those involved with economic policy. It is especially exciting for the reader to undertake parallel reading since the synergic knowledge created is well worth the effort.

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Notes

1 A merger of the words "emerging countries" and "economics", following the creation of similar concepts.

2 In his critical review of the Stiglitz book published in 2005, academician Ádám Török drew attention to the dangers of translations, too. (Török, 2007)

3 Although representing different parties.

4 Greenspan quotes a former Fed chairman who said that the Fed's role was "to order the punch bowl removed just when the party was really warming up".

5 The term by which the Fed chairman indicated the overestimation of stock exchange tools.

6 Greenspan's famous euphemism for the capital market bubble of the "new economy".

7 This has recently appeared in the economic policy of Hungary, too.

8 Outstanding scholars of this discipline – Akerlof, Spence and Stiglitz – were presented the Nobel Prize in Economics in 2002.

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