

Joseph E. Stiglitz

The roaring nineties

A new history of the world's most prosperous decade

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By using the trendy word “mainstream economics”, we mean partly the modern textbook macro- and microeconomics but modern finances, international business studies and market structure theories also belong to this discipline. Formal mathematical reasoning and argumentation are frequently indispensable elements of the mainstream, while the rejection of the quantitative modelling of economic phenomena on either empirical or logical grounds is often a tool for attacking the mainstream. But what can we say when it is an economist belonging to the mainstream, who has received the highest professional award for his modelling activity who undertakes to criticize the economic policies based on the mainstream?

The recipes of the economic policies inspired by mainstream economic theories were summed up by the so-called Washington consensus in the early nineties. These types of management were required in the countries

with transforming economies rather than in the developed countries, where the way for the development of the market economy had to be paved. To convert a socialist plan economy into a market economy was only possible through market liberalization, privatization and in general, through the significant reduction of the state's role. In the opinion of many, this is what the textbook recipes, written on a mainstream basis, in fact contained and ample references were made to them. If, however, we take the example of Slovenia, what we can see is that highly successful market economy transformation was not at all hindered by cautious liberalization and privatization, while in Russia, for instance, distorted market and ownership structures also developed in large numbers as a result of hasty and non-transparent privatization and liberalization processes.

Let us just ask the believers in quick and complete transformation about the essence of main-

stream textbook recipes. It is not sure that they are aware of all the components – it may easily be the case, for example, that they will fail to mention the existence of a stable legal system, strong consumer protection and a small size but all the more efficient and transparent state. We know from market theories that the hopes for the self-corrective ability of the market are not necessarily an efficient tool for fighting against the market players that tend to use the dominance structures and the information asymmetry. If, for example, we would like to introduce a multi-insurance system in health care, we will also have to establish the strong and sustainable legal guarantees thereof. Otherwise we may get into a situation similar to certain clients of (in theory) competing motor vehicle insurance providers whose damage claims cannot be settled by the insurance companies, which otherwise wish to satisfy their clients' needs¹.

Thus, the problem lies not in mainstream economic thinking but in its frequently unprofessional application. This is a fact which *Joseph A. Stiglitz* is well aware of – he earned his Nobel prize by conducting research in an area close to the mainstream, in the economics of information, and he has confirmed his professional reputation as a harsh and consistent critic of globalization in the recent years. This is why many people tended to judge him and his activities by the same standard as even those of certain radical politicians, or as certain works of *David C. Korten*, a vehement but sometimes highly unprofessional critic of multinational companies. For his book entitled “Globalization and Its Discontents”, Stiglitz was strongly criticized in the Hungarian reviews as well. These reviews were written, among others, by such ambitious young economists who may have wished to please their tutors by crashing Stiglitz's complete set of professional arguments in a few pages.

His later book looks back at the nineties, and singles out not globalization, or the Washington

consensus in itself but the way how many people misused these slogans and got very rich as a result. Economics has not seen many responsible and high-standard provokers since *Schumpeter* but Stiglitz is definitely one of these few. He does not deny that the decade of the nineties has brought a never-seen growth of well-being in many countries and that market liberalization and globalization, which extended the latter way beyond country borders and traditional trading, had released a genuinely high amount of energy for growth. However, the incomes of numerous corporate leaders grew explosively and in many markets, such as in the real estate and ITC sectors, bubbles causing grave market instability developed. This expression stands for quick but unsubstantiated price and exchange rate growth processes, which can only be reversed by causing unexpected and serious losses.

It turned out in the nineties that the reduction of state regulation with excessive speed and in lack of the appropriate legal securities did not only involve an acceleration of growth but also resulted in major differences in income, while it created energy use, work sharing and money market structures, which were increasingly getting farther from the optimum. The equilibrium problems of the international financial system increased and the traditional corporate governance systems proved to be insufficient for protecting the shareholders and the corporate pension funds.

The most famous of such cases was the Enron scandal. One of the then Big Six companies, i.e. an international audit and financial services firm globally known for its reliability and integrity and charging high fees, got entangled in the case. Here we are talking about the fundamentals of market economy: if the organizations and legal instruments meant to guarantee the protection of the investments and the shareholders do not work properly, such a confidentiality crisis may evolve which may even

lead to the crashing of Stock Exchange prices and may destabilize the essential institutional and market elements of the market economy.

Stiglitz by far does not claim that the problem lies in market economy and the fundamental institutions thereof, what he rather does is to encourage a more professional development and stricter observance of the rules. Reading his book, we may become even more convinced that market liberalization should be demanded only by those who are able to tell how the imbalances and market interruptions evolving in the wake of partial or complete failures can be remedied. A reform is not valuable in itself, just because it provides something new, it will only represent value once it may result in a genuinely Pareto-optimum or at least second best type of change.

Reforms, which mean substantial intervention, should also be “followed up”. If we take the Hungarian pension reform that took place 10 years ago as an example, the not too reserved spokesmen of the then lopsided reform should have the courage to explain the following in 2007: what they have not reckoned with and to what extent they have misled (obviously not on purpose) the people who transferred to the private pension fund system, those who can expect lower returns from this system for several years than the beneficiaries of the state pension system, which is in fact aged and inefficient but at least reliable. And let us not forget that the pension reform of 1997 has increased the GDP-proportionate budgetary deficit in Hungary by 1–2 percentage points for several decades.

Thus, Stiglitz's book may become especially meaningful for us when we attempt to discuss reforms on a non-ideological basis. We should have the courage to claim a stable legal system underlying the institutional background of the reforms, rather than a vague and freely adaptable frame regulation, where it is offending to bring up the question of responsibility, where

the ownership of apartments or other personal assets may be exchanged as a surprise and way below their market prices without the efficient protection of citizen's rights to ownership, and where the excessive protection of personality rights may even hinder the investigation into life-threatening crimes.

As a result of all these, this review seems to welcome the Hungarian edition of Stiglitz's book, which encourages meaningful discussions and is food for thought. This is not at all the case. The situation is that the Hungarian edition was prepared at such a low professional standard that I do not at all recommend it to my acquaintances. It is true that those who are interested in this topic mostly speak English, so I may feel free to call their attention to the original version rather than the Hungarian one.

Unfortunately, the translator of the Hungarian version does not know the Hungarian technical language of this topic and regularly gives wrong translations, which results in gross and annoying mistakes. Savings and Loan Associations, i.e. S&L's, for example, are translated into the Hungarian as “S&L companies”, as if this were a group of companies (page 67), then sometimes the translator calls them “deposit lenders” (page 89). Deposits are placed in banks by the customers but the banks do not lend these deposits to anyone.

The English word *academic* (which means a person belonging to the academic sphere, one working at a research institute or a university) is translated into the Hungarian as “akadémikus” (which means a member of the Academy) (pages 12, 26, 89). Monetary and financial policies are used interchangeably (page 103) and the translator only knows one meaning of the English word *plan*. *Pension plans* do not mean 'corporate pension designs' (page 273) but pension funds. To translate the word 'derivative' as a 'complicated financial product' (although it is in fact complex!) is funny, to say the least (page 148). Capital market booms are not equal to

'taking off' (page 159) just because the original English text contains the word *takeoff*, which also has the meaning of flying off from the ground. The economic profession does not talk about 'rational requirements' (page 165) but *rational expectations*.

The word 'activist' (page 184) makes no sense in this context. We should not be thinking of May 1 demonstrations or trade unions here: the American technical language designates the believers of the regulatory trend known as activism by the word *activist*. No such expression exists as 'tőzsdepiac' ('Stock Exchange market') (page 236), and 'stranded costs' is a ridiculous mixture of images (page 250). The original must have been *sunk costs*, which is usually translated into the Hungarian as 'elsüllyedt költségek' (literal translation). However, this does not convey the real meaning of the word, I myself have tried to use the version 'invisible developments' several times, which better reflects the essence of the expression, although it undoubtedly sounds a bit absurd.

I am not sure that the translator has an in-depth knowledge of the American English, as she does not even understand some frequently used expressions either. The literal translation of the expression *smoking guns* is right (page 252) but in fact this is a metaphor. Evidence left at the site of a crime, undeniable, telltale signs are meant by this expression.

It is highly probable that the translator had a very tight deadline for the translation and was constantly urged by the publisher. We also have to accept that the Hungarian practice of publishing has not been able to pay for the services of a professional reviewer for a long time. Still, even a rushed translator is expected to take a final look at her translation. She could thus have avoided writing "Harward" instead of "Harvard" (page 10), "*Kernal Dervis*" instead of Kemal Dervis (page 17), or "Arro" instead of *Kenneth Arrow* (page 47), as the original contained the right names.

In the current state of Hungarian publishing, it is unfortunately not completely surprising that a review has to call the audience's attention to even such details. In this situation, we only recommend the Hungarian version of the Stiglitz book to only very quick and superficial, or exceptionally tolerant readers. However, the publisher should think it over whether it is worth investing money into a professional bestseller, which is very interesting and will probably attract a broad audience in such a way. Word may easily spread that the translation is not only bad but also impossible to understand, or that it even distorts the sense of the text at many points. If this is the case, then only the collectors of curiosities and the fans of mistranslations will find it worthwhile to buy the current edition.

Ádám Török

NOTE

¹ In the case of certain types of obligatory insurance, for instance, the insured person pays a low premium, while the insurance company only maintains one claims settlement office in the entire country, and even this is sometimes difficult for the claimant to achieve. This does not deteriorate the insurance company's chances in competition, since in the case of this type of insurance, the underwriter is not the same motorist who may later file the damage claim.