

From time to time our editorial staff makes it possible for noted economic experts, the well-known representatives of the profession, to disclose their thoughts, speculations, opinions and standpoints in the form of pamphlets or essays practically in a free, out-of-the-ordinary manner, without complying with the content and presentation standards and requirements set for professional publications. This time the respected Readers may get acquainted with an opinion written by professor Dr. József Veress, university head of department, dean of the Faculty of Economic and Social Sciences of the Budapest University of Technology and Economics, member of the editorial staff of the Financial Quarterly.

József Veress

Subjective diagnosis on the relationship of economic policy and globalisation

Half of the first decade of the 21st century has passed. The years “two thousand and...” have become a natural part of our everyday life. The global economic, technical and technological, environmental and infrastructural changes that affect almost all aspects of human life continue to be fast, and are even accelerating in certain respect. The political potent field of force is becoming increasingly entangled, while it seems that we are more and more, and at the same time less and less aware of the visible key phenomena.

FROM THE TOTALITY OF GLOBALISATION TO THE LOSS OF DOMINANCE OF ECONOMIC THEORIES

If we include the last five years of the past century in our survey, we are doing more than simply providing the symmetry. I think that the

totalisation of globalisation started in the second half of the 1990s. At the beginning of the new five-year period starting in year 2006 there are clear signs that indicate that economic theories directly tied to the economic policy are being pushed aside. Along a time axis one can define the past ten years as a period leading from the totalisation of globalisation to the – presumably not too long – period of the recess of economic theories.

I consider globalisation a process that is fundamentally about power and economics. In the course of this process the actors of the world economy that are becoming the most powerful standardise and generalise the rules of the economic and political games via the most significant international institutions, within the existing legal frameworks and within those being formed by them, as well as on the basis of their own interests. This interpretation excludes or

evades the debate that is/may be under way about the starting date of this extremely weighty phenomenon, and does not get involved in the rather fruitless jungle combat about whether – for example – the 19th century can be regarded as the age of globalisation. Obviously, it cannot.

The signs of fully fledged globalisation can be divided into four groups. The symptoms and the most important events of the ten years' period under survey can be summarised as follows (J. Veress, 2004/a).

① **THE WORLD HAS BECOME SINGLE-CENTRED.** After the global setback of socialism (Marxist anti-capitalism), the United States assumed a hegemony in the arena of world politics. The 2001 terrorist attack on the US, the war in Iraq and the deepening Palestine-Israeli conflict in the Middle East have made this leadership extremely complicated, delicate and questionable. More and more signs indicate that the self-declared leadership of the Western civilisation is strongly debatable, too. China, which has become an increasingly determining actor of the global economic area, is step-by-step becoming the pendant of the US.

② **THE NEW ACHIEVEMENTS OF THE INFORMATION SOCIETY THAT ARE SPREADING IN AN EXPLOSION-LIKE MANNER – SPECIFICALLY THE INTERNET – TRIGGER A FORMERLY UNTHINKABLE COMMUNICATION REVOLUTION.** The achievements of the information technology are really fascinating, the everyday life of the “man of the street” changes in front of our eyes. However, we must also point to the hazard implied in the acquisition of the vast information within the shortest possible time and at the smallest relative costs: the development process also implies the technical possibilities of the abuse of information, too. Those occupying powerful positions obtain more plentiful and confident information – even about us – with less and less efforts and within less and less time. If we can see the typical streets and houses of our home

towns “free” on www.earth.google.com, and with adequate knowledge of the locality we may even estimate the season and year in which the tomograms were taken, and knowing that items that have been deleted several times from our computers can be easily retrieved, we may easily imagine how much else is known about us without our knowledge.

③ **THE REAL ECONOMY IS MORE AND MORE DOMINATED BY THE FINANCIAL ECONOMY.** This is the point of the sharpest tensions between the various economic and social views. It is a fact that the total turnover of three working days on the world's stock exchanges equals the annual value of worldwide exports, which is an astounding fact in itself. The turnover of goods equals merely two per cent of the turnover of the financial markets. Daily foreign currency exchanges and interest payments total USD 1,900 billion and USD 1,200 billion respectively. There is enormous free capital awaiting investments worldwide, and in the case of companies with the largest capital only the management is known, the real owners are not. More and more signs indicate that the stock exchange processes cannot be used, or can only be used prudently for the evaluation of the companies.

④ **THE COUNTRY CATEGORY WHICH ONCE USED TO BE ONE OF THE MOST SIGNIFICANT FEATURES FOR THE CHARACTERISATION OF THE STRUCTURE AND OPERATION OF THE WORLD, IS BECOMING MORE AND MORE MARGINALISED AND INSIGNIFICANT.** (To illustrate the situation let me cite a case which may look extreme compared to the entire economy. According to a draft version of the Hungarian Film Act of 1996, some of the profits yielded by the mighty film distributors in Hungary could have been reinvested in Hungarian film-making. The draft was not finalised because the representative of the “mighty” told the Government: in case the draft is approved, Hungary will not receive the “mostly favoured nation” status.) This symptom, too, shows a general trend. The exceptions or partial

exceptions depend on the level of development, size, unavoidability or patriotism of a given country. The United States of America and – in reference to the first section – increasingly China stand out among the not many exceptions.

It is justified to speak about the totality of globalisation since the beginning of the coexistence of the four conditions, irrespective of the current state of the – often meaningless – debates about the beginning of the phenomenon.

The representatives of mainstream economics and the international financial institutions regard globalisation as a fully positive process. In the so called Washington Consensus they have elaborated they recommend developing and moderately developed countries to pursue a healthy economic policy aimed at maintaining the strict equilibrium of the macroeconomic parameters, offering broad opportunities for the influx of foreign capital. The opinions of the representatives of the basically conservative standpoint, who voice both the positive and negative effects of globalisation, are still predominantly based on the works of the German sociologist, *R. Dabrendorf*. According to this standpoint, globalisation is useful because within the frameworks of the single global market – even in an underdeveloped country – new fashionable needs (mobile phones, fashion clothing, etc.) can be satisfied with an unprecedented speed. They believe that it is also a positive yield that in the business world the reduction of costs or specific costs has become an absolutely top priority category.

The representatives of this standpoint regard the enhancement of regional inequalities, the fact that the boundaries between the rich, the middle class and the poor solidify, and the lack of possible trade-offs as negative effects. Furthermore, they are resentful about the clearly diminishing solidarity in our globalised world. They believe that the process is rather aggressive and local resistance shall be expected. (One can really witness such resistance at the time of key events

held by forces advocating globalisation.) The members of the third group clearly reject globalisation. *D. C. Korten* and his followers start out from the fact that a globalised world is no longer a market economy, but “turbo-capitalism”, where the market and competition rules are made by the most influential actors at their own discretion. Both the economic and non-economic worlds are practically directed by the largest financial investors and the special hedge-funds (speculative investment funds). Competition may be fierce even among them, but the smaller actors stand no chance at all. They believe that stock exchange processes cannot provide adequate signals for the real economy, because amongst the extremely complicated financial technical operations, in the world of derivative transactions, the time horizons of investments become unrealistically short.

It is not easy to demonstrate the loss of credibility of economic theories that are directly related to the economic policy. First of all I must emphasise that many times the problem is inherent not in the theory itself, but in its representatives who act on its behalf and emphasise such theory beyond any criticism from economically dominant positions – and who reject other views *ab ovo*. Theories are based on premises and presuppositions the relevance of which tends to change with time.

At the beginning of the period under review there was a heterodox stabilisation programme under way in Hungary, which became the main direction of the economic policy of that time, and was even “named after” then finance minister Lajos Bokros. The opinions that have accumulated by the tenth anniversary of the program can be divided surprisingly similarly as the views aired on globalisation.

The overwhelming majority of opinion holders believe that the program was a series of economic policy steps taken in the very last moment and implemented practically flawlessly, and which helped in regaining the trust of

foreign investors (first concept). Views according to which the program was basically right, yet the savings from the radical cuts in public finance expenditure, and privatisation revenues should have had to be invested into the Hungarian economy instead of the reduction of state debts, belong to the second group. The third group includes the opinions of those who believe that the introduction of the program, including the long speculated, significant devaluation of the Hungarian currency – which meant conscious import accumulation and export reduction by the affected manufacturing companies – triggered a significant change in incomes in favour of global actors who had interests in Hungary, too. For the sake of simplicity let us pin down that no meaningful or real debate was carried out about these views.

With the expansion of globalisation, liberal economic policy, which challenged the dominance of the Keynesian economic policy in the 1980s, reach a specific stage of maturity. It is obvious that with a few exceptions only those global organisations that actually lead the world economy and the US – which is currently the strongest economy of the world – can function with the exclusive use of this economic policy. (Among the exceptions Singapore is worth mentioning. Due to its well-known authoritarian system, this country has never applied a liberal economic policy as a mainstream policy. Yet, being perhaps the most open economy of the globe, it does not apply any regulation to restrict competition.)

However, the situation is much more complicated at the beginning of this century. Economics itself, more precisely, economic science has turned out to be in a subtle situation with due cause (I do not mean the business field, and especially not mean the fields of organisation and marketing logistics). Has economics given up economic policy? – asks *B. S. Frey*, the co-author of the basic books on European economic policy (Frey-Kirchgässner

(Frey, 2002). In his analysis he points out that economists, and consequently, economics, play a diminishing role in the formation of the economic policies. In parallel with this, we have experienced it for decades that the leading representatives of economics accept only the result of the mathematical school, often from the compulsion to prove themselves, and to demonstrate the scientific nature of this discipline. [“Economics has become increasingly formal” – writes Frey (Frey, 2002).] Economics is becoming an autistic discipline, with an increasing number of unrealistic, or even foreign problems raised.

In Hungary, for several reasons – some of which I will touch upon later – the involvement of economic professionals in determining the frameworks of the economic policy has strikingly dropped. (It is another issue that since late 2001 we cannot talk about an economic policy, or we can do so only with much compromise.) In Hungary, the Ministry of Finance lost its leading position in the late 1990s. Since then the Ministries of Finance and Economy have been nearly equal in weight, and this situation was not changed by the subsequent government either. Presumably, the reasons were different, but the end result was the same. The fluctuation in staff, which is said to be continuous, has led to the fact that for the time being (beginning of 2006) there are only two persons in the Government with degrees in economics (the Prime Minister and the Minister of Finance, both of whom had earned other diplomas before). The other important ministry is headed by a medical school graduate.

CHANGES IN HUNGARY'S ECONOMIC POLICY ENVIRONMENT

Without striving for special accuracy, yet applying specific aspects, economic policy activities can be divided into four groups. The first group

includes everyday routine tasks, such as the management of various issues delegated to different authorities, tax management, the fine-tuning of the economic regulatory system at national and regional level. The second group of activities focuses on strategy formation, the setting of the next relevant “final goal” based on the tasks to be performed in the period of globalisation, as outlined above. The third group contains those regulatory and deregulatory elements that are designed to channel business units functioning within the given country (too), as well as companies maintaining any economic ties with said country in the desired direction. Naturally, these regulatory measures have a limited scope, which scope greatly varies, primarily due to hierarchical structure of globalisation. The most important driving force of the activities in the fourth group is the provision, sometimes forced provision of a humane life for preferably all citizens of the given country. If the completion of economic policy tasks of the second and third groups is unsuccessful for a longer period of time, decision-makers are sooner or later compelled to introduce an economic policy of stabilisation. If the management of tasks belonging to the first and the fourth groups turns out to be unsuccessful, or not adequately efficient, one has a good chance of losing the elections.

However, I believe that there are certain minimum requirements, which I believe are the following (J. Veress, 2004/b):

- there must be an at least medium-term, dynamic, vision based strategy;
- the sequential parameters of the economic regulatory system must show at least trend-like compliance with the tasks set in the strategy;
- the legal and competition frameworks must be stable, transparent and safely predictable by the economic actors;
- in the government-business relation rent-seeking lobbies shall not be decisive in any

sector or profile, or if they already enjoy such a position, their role shall be diminished;

- its internal sovereignty, i.e. sovereignty independent of globalisation to the greatest possible extent, shall enable the economic policy to surmount the usually entangled needs of day-to-day politics.

It is true for all eight post-communist countries that joined the European Union in 2004 individually and as a bloc, too that their economic development and growth depends more on the economic situation of the EU than before. Naturally, their own internal growth components cannot be neglected, either. The European Union – similarly to the new members – is not an independent variable either: its growth potentials are determined by the economic situations of other, strong players of the world economy, first of all those of the United States of America. However, we must refine this statement in the sense that the generated business cycles that are also influenced by the global companies cannot be adequately predicted. [It is another argument why debates on “when Hungary will become par with the developed EU member states” should be handled with due care. The only meaning *ceteris paribus* computations and models have is that they make us realise: we still need plenty of changes, serious and responsible strategic thinking and luck. It is practically nonsense to believe that during the time that Hungary needs to catch up there will occur no technological (innovation), market and political changes that would fundamentally change the field of real economy that was taken for granted before.]

According to different authentic analyses, in early 2006 the world economy is developing at a moderate rate, it is rather in the state of prosperity than recess. The situation is almost never ordinary, but it is especially complex now. The stage of conjuncture, which was generated by

the US, and lasted from the second half of the 1990s to the beginning of this century entailed enormous changes, especially in the field of information technology. Compared to that boom, the conjuncture following the last period of depression, is more modest and contradictory. Uncertainty can be revealed in the words used by the expert research institutions. In its document titled "Economic development, adaptation" (2005), ECOSTAT states the following: "The conjuncture of the world economy reached its peak at the end of 2003, beginning of 2004. Development has continued at a slower pace since the second half of last year. The growth rate significantly varies region by region, especially in the developed countries." (J. Veress, 2005)

In today's processes one of the most typical parameters is the parallelism of high oil and raw material prices – the increase of which has been obviously triggered by the military and terrorist tension points –, and moderate, practically standard inflation. The other distinct feature is that the European Union can only hardly join the current positive business cycles processes, while Asia – not including Japan – especially China and the US are the main engines of development.

In the European Union, the structural and social crisis in the key member states is not over yet, and it is surely impossible to forestall it in the short run. This is justified by the prolonged constitutional process and the recent serious bargaining on the budgetary period of 2007 through 2013.

In my papers I have written on economic policy in the past years I have had the opportunity to explain that in parallel with the strengthening of economic globalisation, state level sovereignty diminishes, but the responsibility of economic policy grows. The feedback to this statement, which is far from being unanimous, has somewhat settled by today. In the tangle of critical global situations, for the

European Union the current, less successful years generate different, but almost equally weighty (significant) responses from the French, British, Danish and Italian leadership, just to mention the most striking examples. For the time being, the new EU member states cannot deal with this situation yet. Actually, they are not yet in the position to be able to deal with it. It requires no special expertise to forecast: the large provision systems of public finances, primarily the healthcare and the pension systems, as well as education will be the next theatre of war for the actors of the globalised world. In the case of the first two systems, for countries that have lived with a market economy for a long time, the current processes can be interpreted either as a second stage, or as the crisis of the welfare state. This does not change the gist a bit.

The coming years will be very important for the European Union: they will be the years of overcoming the crisis. The conflicts related to the approval of the new constitution, the internal problems of the leading countries, the low support provided to the new members compared to the old ones, the probable US-UK proposal, which currently exists only at the level of declarations – according to which the US and the EU shall abandon agricultural subsidies simultaneously in the foreseeable future, the deep conflicts related to the key figures of the next budgetary period, and the sure failure of the so called Lisbon objective (according to which the EU must catch up with the US by 2010) clearly imply the signs of a crisis, despite any declarations.

One can only hope that the intellectual products of the European way of thinking, the new technological and market solutions of the EU, the future common economic strategic measures, the favourable changes of processes in world politics and world economics, the synergic effects of the single market of the Community can change the unfolding trend.

As *Hawking, S. W.* writes in his book titled *The Theory of Everything* (2003): “Quantum mechanics allows the universe to have a beginning that is not a singularity. This means that the laws of physics need not break down at the origin of the universe.” (page 85). The most outstanding physicists of the world worked and pondered a lot before they got to this statement. One can only hope that the current events that occur in the European Union are not foredoomed, and the efforts of the best social scientists and politicians will make the EU achieve an efficiency that was customary before the “great” enlargement.

The community of authors of the Euromemorandum put forward an interesting proposal in the autumn of 2005. In their opinion, the most important thing for the European Union is to reach an equilibrium between social life and the economic, social and ecological dimensions of European integration.

Their major concrete proposals were the following: full employment (state investment program, expansion of public services, working time reduction). The consolidation of social policy (expansion of tools and resources to combat poverty and social exclusion, differentiated minimum standards for social welfare, reinforcement of the public pay-as-you-go pension system). Promotion of a new energy regime (solar energy, renewable energy sources). Significant expansion of the European budget.

The Hungarian economic policy – if we can use this term at all since the end of 2001, which I very much doubt – still fails to deal with the issue of what sort of Hungary – a new member state – the European Union should face? The Community knew the answer well in advance in the case of Austria, Great Britain and Sweden. And the answer unfolded with time in the case of Portugal, Ireland, Spain and Greece, since the markedly unique strategies of these

countries yielded more and more tangible results as the years went by. In terms of strategy design, I believe, Hungary is among the least efficient countries, at least on the basis of accessible information, documents and professional analyses.

What sort of Hungary should the European Union face, albeit with some delay? One that strives to achieve higher levels of capital assets on the basis of a solid strategy within the shortest possible time? One that does its best to organically integrate into the technical and technological level represented by the developed world? One which aims at reducing the regional inequalities? One which is interested in loosening the dual economic structure? One which can harmonise competition and wage growth interests on the basis of efficiency? One which gives priority clearly to the development of infrastructure? We get no information about any of these issues from the documents prepared dutifully on a continuous basis, mandatorily submitted to the EU organisations, and endorsed by the Government, and which are practically nothing more than general documents. In non-professional terms, the Hungarian economic policy lacks endurance, and if one examines the minimum criteria outlined above, he can easily understand that we cannot really speak about an economic policy, since this policy meets none of these criteria.

When searching for the underlying causes it is easy to formulate those additional and construed factors that reduce the chances of a relevant economic policy to the minimum. Such factors are, for example:

- the system of parameters of Hungarian internal affairs evolved by the turn of the millennium, and has remained unchanged ever since. This system can be characterised by incessant conflicts and disagreements, and enjoys the limelight of the media that claims to be independent with impossible subjectivity;

- the self-liquidation of the economic policy, the subordination of its own interest to the day-to-day objectives of politics;
- the political “elite”, which creates and operates the economy of politics under the aegis of the economic policy (J. Veress, 2004/b. and J. Veress, 2005).

Obviously, the lack of an economic policy shall be interpreted on a reduced base. The past one and a half decades changed the foundations of the Hungarian economy. Corporate structures were fundamentally changed by privatisation, and the emergence of multinational, transnational and global companies. At the current level of liberalisation, the economic policy may use only indirect tools to influence non-Hungarian owned large companies that provide 70% of the Hungarian export performance. The Hungarian economic policy must be given

a new profile. Neither liberal, nor conservative professionals can delude themselves with the hope that the European Union will become a political union in the foreseeable future, similarly to the United States of America. No matter how logical it would be from certain aspects, one cannot even see trends in this direction. The Hungarian economy is very vulnerable. Its immunity to any new crisis on any level is low: the performance of Hungarian owned business organisations has been stagnant for ten years, their productivity and assets constitute a mere fraction of the values typical for the developed world. We are very sensitive about dilemmas related to the reform of the system of public finance. We must set to solve the pressing tasks. First of all, the economic policy must once and for all break away from everyday politics.

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