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# FOREWORD

*"Happy families are all alike;*
*every unhappy family is unhappy*
*in its own way."*

Leo Tolstoy: Anna Karenina

This thematic Special Issue of *Acta Oeconomica*, the seventh of its kind[1], is devoted to the commemoration of the ten-year anniversary of the 2008 international financial crisis. Back then, when the collapse of the prestigious investment bank, Lehman Brothers on 15 September froze the financial markets first in the United States and then in many European economies (the crisis hit Hungary on 9 October), many politicians explained the events as the consequence of individual greed. The fire of their canon was directed at the financial sector in general and bankers in particular: "This is a man-made crisis. To put it simply, they did steal, mislead, lied, falsified or hid real facts in order to grab more money. Therefore the deepest roots of the current financial crisis can be found in greed,

[1] The first occasion, back in 2004, was linked to a memorial conference devoted to Hungarian-American economist *John von Neumann* (1903–1957) on the occasion of his 100th birthday (Vol. 54). After a 10 year long break, the second special issue covered the 25th Anniversary of Post-Socialist Transition (Vol. 64). It was primarily a celebratory collection of 8 papers with a strong emphasis on the historical economic achievements and the surprising peaceful political transition from central planning to a market economy. The third publication (Vol. 65) carried a more sober title, "Transition Economies in Trouble". With 9 commissioned papers, we covered 14 countries. Our sad conclusion was that the catching-up process for these economies has turned out to be much slower than generally expected. Furthermore, and not independently from the economic performance, many countries have failed to create a democratic political system. In 2016, our chosen topic for the fourth occasion was "Grexit, Brexit – The future of the European Economic Integration" – a sensitive, unfinished story described and analysed by 8 authors (Vol. 66). The fifth Special Issue was a celebration again, not of an event, but of a person, the Hungarian-born, British economist, (Lord) *Nicholas Kaldor* (1908–1986). That volume and an international conference in Budapest a year earlier marked the 30th anniversary of Kaldor's death. Of the conference material, 11 papers were selected and re-edited for publication in *Acta Oeconomica* (Vol. 67). The sixth Special Issue which came out in January 2018, was devoted to the 90th birthday of *János Kornai*, the best known and most revered Hungarian economist of all times (Vol. 68).

excessive yearning for acquisition."[2] In America, the same feeling was expressed by the metaphoric contrast of Wall Street versus Main Street. The bad guys, the bankers played roulette with the money of the ordinary people, and when they lost the money, they asked for a bail-out at the expense of the taxpayers. This was a widely shared view back then, and many observers extended this argumentation 8 years later to explain the outcome of the British referendum on Brexit (June 2016) and the election victory of Donald Trump (November 2016).

Arguably, the first couple of quarters of the crisis brought an alarming slowdown in the world economy. Many analysts feared that eventually the unfolding recession would become a depression, with a reduction of output and employment as severe as the Great Depression of 1929–1933 had been. By now we know for sure, that world economy and the US economy (still the most significant growth engine of the global economy) did not slow down that much and for that long. The curve of the world's GDP went into negative territory only in a single year, and even in that year, the contraction was well below (minus) 2.0 per cent. It is true that the volume of world trade dropped in 2010 by 10.5 per cent, but it quickly bounced back in the next year (+12.5 per cent). All this was not dramatic or unprecedented at all.[3] In the United States, the quarter-to-quarter output growth was already back into the positive territory by the third quarter of 2010, and the upswing continues as this writing goes to press. The current phase of recovery is the second-longest in American history. Unemployment stands at 3.7 per cent, the lowest rate since December 1969. The Dow Jones Industrial Average's highest closing record was 26,828 set on October 3, 2018 (which needs to be compared with the bottom-number of 6,594 recorded on March 5, 2009). Thus, so far, we can safely say that the facts speak for themselves: the crisis is over. But still, a large number of questions arise, for which there is little consensual agreement among economists.

One of the unfortunate consequences of the initial phase of the financial crisis has been the perception that "experts have failed", as it was then famously formulated by the British monarch, Queen Elizabeth II. The Queen, whose personal fortune was estimated to have fallen £25 million in the credit crunch during a few weeks, demanded to know from academics at the London School of Economics "why no one saw the financial crisis coming".[4] My own answer is based on the lesson learned in 1989 when the communist system collapsed. Then, exactly the same question arose: why it was not foreseen? How come the academic and non-

[2] Lecture, delivered by Mr. Viktor Orbán, then leader of the opposition in Hungary on 17 October, 2008. (Our translation from the Hungarian original.) http://2010-2015.miniszterelnok.hu/beszed/kapzsisag_mertektelenseg_all_a_valsag_hattereben

[3] In 1982, the world economy slowed down to 0.4 per cent per annum, and world trade to 0.5 per cent, but nobody was really alarmed.

[4] *The Telegraph*, 5 November 2008.

academic experts, such as the intelligence agencies of the great Western powers, did not anticipate that this would happen, or even that it could occur. As in the Autumn of 2008, the world was taken by complete surprise in 1989 by the transformations that emerged in Moscow, East Berlin and elsewhere in Central and Eastern Europe. In their celebrated essay, entitled *Anticipations of the Failure of Communism* Seymour Martin Lipset and György Bence[5] gave a simple, but very persuasive answer. Scientific conjectures and predictions are based on some probability calculations, even if they are not formulated literally in that way. Sensible people would not go into public with a future-scenario describing a low-probability event. Back then and later in 2008, there were indeed some experts who did speak of imminent seismic changes.[6] However, even these authors were cautious by writing that "horrible things *can* happen", and even they did not dare to say that such things *will* happen.

Three contributing papers to this volume (Tanzi, Kotlikoff and Török – Konka) picked up the next logical question. If everybody agrees that something significant happened, then what is the appropriate theoretical framework which can help most to understand the *causes* of the crisis? Vito Tanzi, a former Director of the Fiscal Affairs Department at the IMF goes back to the decades when Keynesianism ruled many parts of the developed world and concludes that the growing public debts were the culprits. For decades, governments consciously tried to accelerate economic growth (and combat unemployment) through deficit financing and hoped that once they succeed, public debt will somehow disappear (or at least contract as a percentage of GDP). Until 2008, as everybody agrees, the opposite happened. The public debt ballooned in the US and virtually in all OECD economies. Laurence Kotlikoff from Boston University and a write-in candidate for President of the United States in the 2016 election, goes as far as claiming that the crisis did not have any particular underlying and/or intrinsic reason. It was merely a sequence of unexpected events which led to a bank run. In his view, such a panic and the ensuing loss of trusts in banks can happen any time in a monetised capitalist economy – even tomorrow or a year from now. This is the nature of the capitalist system, and if there is a political will to get rid of this risk *forever*, the solution is a fundamental banking reform by replacing leveraged, trust-me banking with fully transparent, 100 per cent equity-financed mutual fund banking. Such a Limited Purpose Banking system, focused on financial intermediation, not leveraging taxpayers, can handle all aspects of finance, including lending, risk allocation and the payment system. By contrast to Kotlikoff, Professor Ádám Török (whose distinguished positions in-

5 *Theory and Society,* Vol. 23, No. 2 (April 1994): 169–210.

6 See, e.g. https://www.intheblack.com/articles/2015/07/07/6-economists-who-predicted-the-global-financial-crisis-and-why-we-should-listen-to-them-from-now-on

clude – *inter alia* – the chairmanship of the Editorial Board of Acta Oeconomica)[7] and his co-author Boglárka Konka argued that the crisis was not merely an episode; most implications of the 1998 crisis do have a *long-term* character. In their judgment, it is more appropriate to speak of hysteresis in three important fields: human, financial and growth-related areas. These interrelated problems predate the year 2008, but they are still waiting for practical remedies. Thus, policy proposals based on a too limited view of society, and economy might lack widespread professional and political support and be therefore of little practical use.

The second block of papers looks at the devastating "side-effects" of the 2008 crisis on the less developed economies of Europe, namely *Greece*, the *Western Balkans* and *Hungary*. Anders Åslund[8], a Senior Fellow at the Washington-based Atlantic Council contends that one cannot overestimate the importance of understanding the Greek example. No European country has performed worse in the past 10 years than Greece. Indeed, it has been the greatest economic tragedy in Europe after World War II. The Greek crisis has been extraordinary in its social cost at home and its cost of an unbelievably large amount of money to European taxpayers. The causes of this failure were, as always, multiple. But the main burden, in Åslund's opinion, lies with the consecutive Greek governments that did not carry out the necessary reforms at the time of joining the Eurozone (at the latest). Paradoxically, for the European Union (EU), the Greek crisis has prompted many positive developments.

Contrary to many predictions, *the euro* has not only survived but *grown stronger*. The Greek crisis has led to the institutionalisation of the European Stability Mechanism (ESM) so that the next time a severe financial crisis hits a member country, the Eurozone has the necessary financial firepower to finance a crisis resolution. Another lesson, hopefully understood by the political elites of other weak and heavily indebted member-countries, such as Italy, is that while many voters are determined to resist the necessary structural reforms as salaried employees, pensioners or students, when it comes to a final decision, they are not willing to give up the euro and return to their former sovereign currency (the drachma or the lira), because on Day 1 after exiting the Eurozone, their personal wealth – both the productive assets and their accumulated financial reserves – would lose their value by 50 to 70 per cent.

Marek Dabrowski[9], Co-founder and Fellow at the Polish Center for Social and Economic Research (CASE) and his co-author Yana Myachenkova contributed to

[7] His most recent publication in this journal was "Brexit and the Cat", 2016(S): 5–19.

[8] His most recent publication in this journal was "Ukraine's Economic Reform: What has been Done and will It Succeed?" 2015(S): 25–38.

[9] His most recent publication in this journal was "The Future of the European Union: Towards a Functional Federalism", 2016(S): 21–48.

this Special Issue with an extended paper on a politically defined region of Europe, the Western Balkan.[10] Since 2000, the region as a whole has managed to move forward on the political and economic reform fronts largely, thanks to the prospect of the EU accession that the 2003 EU Thessaloniki Summit opened up for them. The six countries have also succeeded in partial income convergence with the EU. From the perspective of the subject of this Special Issue, the painful fact is that since the start of the crisis in 2008, the convergence process slowed and, in most countries, even temporarily went into reverse. Economic growth has started to accelerate again only very recently, following the economic recovery in the EU.

The Editors of Acta Oeconomica commissioned the last two papers from two formerly highly positioned Hungarian central bankers, who were asked to write about the very same issue: how Hungary had bean affected by the crisis. The Hungarian case was also unique in some way. In early October of 2008, Hungary was the first country to be forced to make use of financial assistance from the EU and the IMF. So, this happened in a very early phase of the crisis, when most analysts were concerned about the unfolding pernicious effects of the so-called toxic papers (sophisticated American, mortgage-related financial products of the latest fashion) – something the Hungarian banks did not have at all and *therefore* thought to be stable and solvent. György Surányi, the former Governor of the central bank of Hungary (MNB)[11], convincingly argues in his paper that first and foremost it was the inadequate level of *foreign exchange reserves* that made Hungary to request outside financial assistance. In his view, this was simply a crude mistake of the pursued bank strategy. Furthermore, the country's macro policy turned out to be painfully pro-cyclical. Due to the lack of sufficient reserves, the MNB was virtually powerless to intervene, when it was absolutely needed, and could only watch from the sidelines as events unfolded. The fiscal authority also lost its capacity before the crisis to reduce the severity of the output fall (as Poland could). Thus, with an excessive and incorrect structure of fiscal correction, coupled with an unjustified orthodox monetary policy, in Surányi's view, the contraction of the Hungarian economy went much beyond the inevitable amount.

Júlia Király, who served the MNB as Deputy Governor in the period between 2007 and 2013, prepared a very detailed account of the events before and after the moments of the Hungarian collapse on the basis of the minutes and the press releases of the Monetary Council. In her recollection, she and other first-level

[10] The Western Balkans is a geopolitical term coined by the governing bodies of the EU in the early 2000s referring to those countries in south-eastern Europe that were *not* EU members or candidates at the time but could aspire to join the bloc. Originally, the Western Balkan region consisted of seven countries – Albania, Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Montenegro and Serbia – but Croatia has already joined the EU.

[11] He served in two critical periods of the Hungarian economic transition, in 1990–1991 and 1995–2001.

decision-makers of the central bank made two major mistakes. First, they underestimated the strength and global consequences of the Lehman-tsunami. Second, they were simply "too close" to the events. They were aware of all the relevant facts (including those now listed by Surányi in his paper), but they could not put the pieces of the "puzzle" together for weeks, and when they succeeded, it was already too late. The Hungarian financial system was knocked out, and only an unprecedented 20 billion dollar bail-out could save Hungary from a default on her international and domestic debts.

By way of closing this short preface to this truly excellent collection of thought-provoking papers, I would like to speculate about the long-term impact of the 2008 crisis on *globalisation* which was – in the view of many analysts – halted or even reversed by the crisis and the subsequent political changes in the United States, in some Western European countries, as well as in some of the transition economies.[12] I see the post-2008 form of globalisation as a crucial, praiseworthy new stage of the world economy. At the global scale, the combination of fast-growing foreign trade, the international movement of capital and labour (migration) leads to *cross-country equalisation of incomes*, while the within-country inequalities rise both in the core economies and in the emerging countries. In other words, the two trends are inter-linked, but they change in opposite directions, and the cross-country equalisation is the more significant trend. What is unfolding in front of our eyes is arguably *the greatest emancipatory achievement of humankind since the Enlightenment*. Tens of millions of people are on the road escaping wars, natural disasters, and poverty. Many more are economic migrants; their only aim is to create humanly acceptable conditions for themselves and their families. However, is that a crime or a danger for the advanced liberal democracies? After all, was the extraordinary growth of countries like the US and Canada in the 19th and the 20th centuries not driven by "economic migrants" from Ireland, Italy, and Eastern Europe?[13]

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12 The history of globalisation, as a major world-shaping development goes back to the beginning of the 20th century, to the years prior to World War I, but as a technical term of economic analysis it was first used not long time ago, in the 1994 Annual Report of the International Labour Organization (ILO). Before this, the term was only occasionally used by economists. It is also interesting to note that back then the ILO used the term "globalisation" to describe labour migration across the globe.

13 For a more systematic and elaborated presentation of this argument, see our forthcoming book, Péter Mihályi – Iván Szelényi: *Rent-Seekers: Profits, Wages and Inequality (The Top 20%)*, Palgrave MacMillan, 2018.