István Magas

Globalisation and national markets

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The subject of István Magas' book makes it not only possible but in fact unavoidable to consider it based on the latest developments of the world economy. The current financial crisis came like a bolt from the blue on countries, economies and individuals: consumers and employees alike. *The crisis has been increasingly deepening and nobody can see the end or even the deepest point of it.* The financial crisis that was set off in the financial system of the United States has developed into a global crisis in a year; it has spread beyond the US borders and seriously affected the real economy as well. The cause of the crisis, a disorder in the American mortgage lending system, has by far not been a unique phenomenon in the past 15–20 years. From Argentina to Japan, from Russia to Mexico, numerous countries have suffered most serious financial crises. The United States itself has experienced severe stock exchange drops on several occasions (e.g. in 1987 and 1997). There have been other warning signs, too, like the collapse of NASDAQ, the high-tech stock exchange, or the last breaths and collapse of the American energy giant ENRON due to severe misuse and interpenetration, which have shattered confidence in the American corporate governance model.

Among the warning signs of crisis, mention must also be made of the increasingly fast and mobile speculation manifested in increasingly huge transactions. In many cases, this has caused serious damage not only because of the mass psychosis, i.e. the flight in herds in the same direction (e.g. at the times of the above disorders of American stock exchanges). Even conscious individual action by some speculators may gain a size of importance in the global financial system that may cause the devaluation of currencies or even the absolute bankruptcy of companies; what is more, of whole national economies. There have been examples for these latter as well. Yet, what makes the intolerability of the lack of inner and outer control, a self-regulatory mechanism of the global financial system clearer than sunlight for all is that reckless or even conscious misuse by individuals punishable under the law may cause similarly gigantic damage (Szanyi, 2009).

It is thus imperative to do something since *in the environment hallmarked by globalisation, the institutions of capitalism have started to fail one after the other.* Under the conditions of globalisation, the practical application of the neoliberal ideological system proclaiming the policy of non-intervention has been unable to trigger the establishment of effective self-regulatory mechanisms for the global market. Mechanisms that could have adequately managed or restricted the growing number of operational risks and the increasing potential losses. The now quasi renationalised bank systems of developed countries indicate a sharp turn: a kind of return to an earlier mainstream economic philosophy, neokeynesianism. For the time being, this return has been merely an obligation. It is *not sure* at all *that the omnipotent state will once again get a decisive role* in the economic political practice since this mainstream, too, was taken over by the process of globalisation unfolding in the 1970's and 1980's. What else is then there to replace the neoliberal mainstream? No one knows the answer yet, I believe; the economist to create the economic paradigm by which the processes of globalisation and its negative effects can be satisfactorily interpreted and treated has probably not even been born yet.

The book by István Magas can be read and interpreted from this long-term forward looking perspective, too. When the book was born in 2007, the mortgage market problems triggering the crisis had just started in the American economy. Yet the book, from the beginning to the end, is about the risks the potential negative consequences of which could be predicted by the author in their order of magnitude only. Also at a professional debate organised by the Committee of Economic Sciences of the Hungarian Academy of Sciences in December 2008, the author emphasised that the serious operational problems of the system elements had been apparent and yet no analysts had expected that the problems would set into motion like an avalanche, spreading beyond the border of the United States and the financial sector, and get global. This extension of the crisis, however, makes the system-level management of the anomalies outlined also in this book definitively pressing.

Globalisation and national markets is not an easy to read book. As is mentioned in the introduction already, this book assumes familiarity with the basic principles of international economics, comparative economics and world economics. It was made for the needs of masters level economist training and it offers no description of the major institutions or processes of the global financial system, of international capital movement or the modelling theories describing the operation of these. It should rather be treated like a logical experiment based on the knowledge of the above and merging the approaches of the above disciplines. The goal of the experiment is to get closer to understanding the interactions between the global financial system and, in close correlation with that, the globalising real economy. The revelation of interactions will lead to the causes triggering operational disorders. It will help understand that global problems, be those either short-term operational disorders or long-term, global processes (in other words, various issues of sustainable development), have outgrown the frameworks of national economic policies by far and demand global solutions. Unfortunately, although this is not a novel realisation, its practical application has been prevented in almost all aspects by partial interests.

In the analysis of the financial and real economic processes of globalisation, the attitude of the book merging several approaches has generated interesting and novel revelations. *Two of these fields can be highlighted on* here even within the narrow framework of the review. The *correlation between the global capital market and operating capital movement* described in the first part of the book and the analysis of the *contradiction between global processes and the regulation- and economic political efforts restricted by national boundaries* in the second part of the book are most interesting.

■ As regards the first issue, a system approach to international corporate operation as well as the presentation of the fact that multinational companies are able to establish and operate global systems are especially important. Through the system guarantees (useful redundancies) thus incorporated, they get much more tolerant to errors and conflicts than national companies. According to the author, an important function of international operation is upgrading operational safety, which significantly increases stability and competitiveness. Such "useful redundancies", in the author's approach, are generosity observed in global strategic planning or, as regards actual measures, the extremely enhanced costs of advertising, for instance. Multinational companies "try to prevent all disturbing factors in advance or draw them to their field of influence by generous spending, thereby maximally serving the basic system function, the operation of the company, and ensuring a high and reliable influx of incomes to their shareholders … By this generosity (which may seem a useless waste to outside observers), … the company mostly protects itself …" (p. 30) In this case, it is with respect to the whole global network of the company that this "strategic generosity" gets in balance with the basic cost-benefit attitude determining corporate operation. The principle of profit maximisation becomes apparent in an increasingly relative way, as one of the company's success indicators. The motive of profit maximisation is increasingly replaced by an effort to attain "sufficient profit", besides which there are other important strategic goals, such as expansion or stability and safety, significantly influencing corporate leaders' decisions (Chikán, 2003).

Multinational companies as organisations are among the major players of global economic operation. The other global force that is less transparent and not easily predictable in its behaviour is the system of international money and capital markets that provides the environment of corporate operation. It is most important to highlight upon the fact that *the development of global corporate operation and that of global capital and money markets are interdependent and simultaneous.* Without the financial services of the latter, multinational companies would be unable to establish and operate their global systems or enforce the above highlighted positive redundancies. It must also be noted at the same time that *the financial system does have its significant own movement as well.* It carries out the individual momenta of its activity no longer as a mediating agent of real processes; these are rather determined by its inner laws and development processes (in a bad case, by the personal interests of its certain participants and agents misusing opportunities, sometimes even violating prudent behavioural norms or even the law).

There have been many to draw attention to the existence or necessary development of these anomalies before. A prominent Hungarian representative of this view has been *Kamilla Lányi* (Lányi, 1997). In the debate triggered by her article, those emphasising the positive effects of the global development processes of the financial sector argued for the necessity and usefulness of financial globalisation in view of the demands of the real sphere

(Csontos – Király – László, 1997). István Magas points out in his book objectively that the beneficial effects of globalisation should not be ignored but nor should be the dangers following from the lack of control of global processes. The book makes allusion to many kinds of potential sources of danger, only one of which should be mentioned here, which has played a key role exactly in the formation of the current crisis. "Since the involvement of international sources has become remarkably easy from the technical point of view, the traditional commercial bank positions specialised in judging the solvency of national, corporate and individual solvency have become increasingly risky." (p. 38) It is not difficult to find a parallel here with the bank practice causing the collapse of the American mortgage loan market. Magas also makes reference to the correlation to be observed between the looser loan placement conditions at times of source abundance and the growth of the real economy, which leads to oversized real economic capacity (p. 39).

Through the above, the author draws attention to the inignorable fact that, since the beginning of the 1990's, in Southeast Asia as well as in the Central-European countries in transition, extra capacity has developed, the demand for the issuing of which has been ensured by global money markets, too, through using abundant liquidity under softened conditions, widening consumption. The above thus means that *the current crisis is also an overproduction crisis at the same time* (Szanyi, 2009). This course of ideas generates another conclusion as well, i.e. that, absolutely contrary to the principles of the neoliberal mainstream and against the economic political efforts applying these, global capital and money markets have provided the financial sources of the artificial demand expansion necessary for sustaining growth themselves. We can say that, by using the room granted by the neoliberal economic policy which bans the means of the Keynesian demand expansion and puts the rational decisions of markets and market players in the foreground, *the global financial system has, paradoxically, ensured the application of Keysian demand expansion itself!* Moreover, it has done so in an essentially uncontrolled, uncoordinated and unrestricted way, since international financial organisations have prevented state intervention. With some exaggeration, it can be stated thus that, as an effect of the neoliberal economic policy, the problems that have developed in the world economy are similar to those generated by the use of Keynesian measures!

■ In relation with the other highlighted issue, Magas provides detailed criticism of the theorems of the neoliberal mainstream and points out rightly that, although direct state involvement in the economy has decreased in form and in many fields, it has increased in new areas, on the other hand. The hardly falling or sometimes even growing extent of state reallocation in a number of developed countries in itself proves the above (pp. 130–131). While the state as an owner has lesser presence in developed market economies, it does have permanent presence in income reallocation and in regulation-stabilisation. Novel areas of intervention or those of growing weight are decreasing regional inequality, subsidising innovation and creating employment, while bailing out crisis branches and regions continue to be areas of state involvement. It can thus be stated that in the period influenced by the neoliberal mainstream, the role of the state has not shrunk, only the methods applied and the areas of intervention have changed.

The author justly points out also that even the international financial organisations most supportive of the practical application of the neoliberal mainstream have come to the realisation that *capital market regulation today is indispensable even at the global level!* The problem is mainly that the financial organisations that exist today are neither suitable for nor willing to deal with this task. IMF and the World Bank are unable to guarantee the security of global capital and money markets meeting the arising needs. They lack the capital strength to do so and their management does not make them suitable for the task, either. Since it is the United States that is their largest shareholder by far, it is only when and where there are serious American economic interests at stake really that they intervene fast and efficiently. But, from this point of view, the financial structure of the European Union has not proven more efficient, either. It is national governments that have taken the first serious steps in managing the current financial crisis. (Inotai, 2008)

Coordination and control arranged at an international level or carried out within the framework of international cooperation are indispensable not only for the solution of the current crisis but also in the joint provision of the conditions necessary for sustainable development. This is pointed out also in this book (pp. 133–138), similar to the works of other authors on the crisis (Simai, 2008). *The serious economic effects of the current crisis directly affect the societies of developed countries, which is thus a more dramatic call than ever for joint action.* The way out of this crisis can most probably be found through serious international negotiations and by restricting the implementation of national interests. These will all the more be necessary because the crisis equally affects all developed countries: there is no engine among them to get the other, stuck economies moving again. Besides, the crisis itself is of global origin and its causes do include a change of economic power relations in the world. This in turn demands that developed countries give bigger room and influence to regions and countries with a fast growing economic and political weight (Simai, 2008). If, during the treatment of the crisis, there is some efficient interest coordination system established in the world economy, joint and implementable solutions could be found for other long-term and global problems concerning the future of humanity in similar ways.

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