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## *After the Crisis?\**

**SUMMARY:** The economic crisis is not over yet, but it is already apparent that the developing, emerging countries are the big winners. The Hungarian economy is an open economy, and the issue of openness must be handled by securing new markets. However, it should be noted that 70 percent of Hungarian exports are destined for the European Union. Much greater emphasis should be placed on cooperation with MNCs, and it is also important to determine how to increase added value and how to eliminate the duality of the Hungarian economy. EU funds should be used to develop exports, join multinational networks, offset imports and improve competitiveness.

**KEY WORDS:** economic crisis, competitiveness, export development

**JEL-KODES:** A11, E60

### INTRODUCTION

What reason for the question mark? Because the current crisis consists of at least four stages. They had been and are still manifesting themselves with shifts in time. Even new waves cannot be ruled out, either by the returning of previous stages or by experiencing new potential crisis waves still ahead of us. For the definition of different stages, the first level of the crisis is financial, the second macroeconomic, the third social and the fourth ideology and men-

tality-related. What did we really leave behind? It is certainly the financial crisis, at least its first big wave. However, everybody knows that, on the one hand, substantial bubbles have still remained in the global financial system, while, on the other hand, new bubbles had been arising, not least due to the management of the crisis. The fact that part of the previously idle capacities have been reincorporated into production indicates that the macroeconomic crisis may have been overcome and become part of the fragile recovery started in 2010. Nevertheless, unused and uncompetitive capacities have still remained. Nobody has yet performed the task of the next period, to either abolish them, or, according to a more optimistic view, include them into a successful structural transformation process. This remark does not only address the unused physical capacities but, also, a substantial part of the labour market as well.

It has to be emphasized that, in global comparison, the „returned growth” reveals a rather mixed picture. While large part of the emerging countries were able to overcome the crisis successfully and with additional (continuous)

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growth, recovery in the developed world seems to be much more modest. This is particularly true to most member countries of the European Union. In several EU countries not only is growth expected to be very slow but a further decline or a long stagnating period will have to be reckoned with.

Social and labour-market-related impacts, representing the third level of the crisis, have emerged with full impact in the period between 2010 and 2012.

Finally, as far as the fourth level, namely the mental preparedness, crisis resistance and crisis solving capacity and readiness of the respective societies, signs of serious concern can be registered. One of the obvious forms is the inward-looking attitude of the population that can be observed in several EU member countries. This is in sharp contrast to the basic economic facts originating from the degree of openness and high level of involvement of the respective economies international division of labour. It was just this economic reality that made possible the return to positive economic growth and the negative welfare effects of the crisis could be kept at a minimum. The lack or the perceptible decline of solidarity, both within the society of the individual member countries and among member countries constituting to European integration can be considered as an alarming signal not just for economic considerations. Trends towards exclusion have markedly increased. Populism and demagogy, both ignoring fundamental economic realities, gained ground, with already short-term, very serious and costly consequences. Still, it can be mentioned as a positive element that, in most member countries, the above processes have still remained under control.

Following this short introduction, I would like to address three issues: global developments, the European Union and some remarks to the current situation and tasks for the Hungarian economy.

## GLOBAL ECONOMIC DEVELOPMENTS IN THE MIRROR OF CRISIS MANAGEMENT

In the beginning, attention was turned to the fact that, between 2008 and 2010, different countries opted for crisis management with sometimes rather different policy instruments – provided they had such instruments at their disposal. Following the dramatic decline of GDP caused by the crisis, the leading economies of the world started to experience a unanimous recovery but with different speed. This positive development should not hide the fact that the „post-crisis” period is still burdened with question marks and financial bubbles. Several experts consider such a bubble the Chinese housing market (despite the fact that its structural substantially differs from that of Spain, Ireland or the USA), the future of the Eurozone or the management of the budget deficit and the accumulated debt of the United States.

Following an unprecedented collapse in 2008 and a not so unprecedented dynamism in 2010 the return of global trade returning to the pre-crisis level within one year is a definitely an encouraging phenomenon. Similarly, although with some delay, welcoming signs can be observed in employment as well. The potential mental „pollution” derived from the crisis may become the „crisis product” of the next few years but will not be addressed here as it does not fall into the key area of my work. (Still, it seems to be more important to undertake the necessary steps to get prepared for the management of this problem in all countries, particularly in Europe.)

When comparing the depth of the crisis in 2009 and the years needed to bring back the economic performance (measured in GDP) to the pre-crisis level, we face a varied picture. Some countries did not experience crisis at all, at least with their economic growth, even if it temporarily slowed down, it remained (highly)

positive (see China). It is more interesting to look at the developed economies and how quickly they can be able to overcome the growth-related impact of the crisis. Based on statistical figures of GDP growth (which, definitely, is not the only and unanimously shared criterion), the national product of the USA already returned in 2010 to the level of 2008 (as well as Turkey). In contrast, and based on most recent forecasts, the EU-27 may need three years to reach the 2008 level, due both to the sharp decline of GDP in 2009 and the sluggish recovery started in 2010. In addition, the 27 member countries indicate rather different performances. Poland's economic growth, the only one in the EU-27, did not stop in 2009, and even shows an additional acceleration. In contrast, six member countries of the EU will require two years, and another six countries three years to reach the 2008 level of GDP. Moreover, according to the forecast of the IMF, there are ten other member countries that are expected to need more than three years to return to the GDP level of 2008. Not surprisingly, this group includes the most crisis-ridden Baltic countries, the well-known „sick members” of the Eurozone, but also Italy and, among the new member countries, Romania and Slovenia, or Croatia waiting for accession in 2013. Providing there is a healthy and sustainable economic policy, Hungary could bounce back to the 2008 level in three years, 2012 (see Table 1).

In contrast to previous, largely modest and non-global (regional) recessions of the last two years, in 2009 it was the global trade that practically collapsed. In previous periods, international trade used to prove a „mitigating factor” of the crisis. This however was not the case during the most recent and deepest crisis. On the average, the GDP of developed countries declined by 3.4 per cent (that of the EU-27 4.1per cent). It was accompanied (and to a large extent caused or deepened) by the shrinking of

global trade by about 20per cent. There were several countries registering even larger falls of exports (and of imports). In this situation, the question was raised whether the export-oriented growth pattern that had been characterizing the successful catching-up process in many countries, including the large majority of the Central and Eastern European that underwent democratic changes and transformation into market economies (and was a backbone of the unprecedented rise of China's economic power), can be sustained. Or, a „change of pattern” is unavoidable so that sustainable development in the future would require a sharp turn from the export-driven to a demand-driven growth.

Before going into some details of crisis management, two issues have to be stressed. First: it was the very strong interdependence among national economies that had been established in the last decades – not least as a result of the global network of transnational companies – that raised a barrier to each country to opt for national trade protectionism that had definitely deepened the crisis of 1929 to 1933. It is not unlikely that just the crisis of 2009 made people aware of the political and economic leadership of several countries and the fact that it is impossible to leave the interdependent system without huge costs, because each individual initiative would have led to very grave and sudden market-driven retaliation. This rational thinking, of course, does not mean the world economy could have been saved from different protectionist endeavours. We can identify such efforts in industrial policy, in international finance and, sometimes, even in trade, but particularly in the economic policies of several countries facing the crisis and trying to find national solutions in the first stage of crisis management of the EU member countries. No doubt that the quick reaction to the crisis and the following economic recovery have contributed to prevent further protectionist prac-

Table 1

**REAL GDP GROWTH (IN %) AND YEARS OF RETURNING TO PRE-CRISIS LEVEL**  
(2008=100)

Country	2009	2010/2009*	2011/2009*	2012/2009*	Number of years
World	-0.5	104.5			1
Advanced economies	-3.4		101.9		2
Emerging and developing economies	2.7				0
USA	-2.6	100.1			1
Japan	-6.3			100.8	3
China	9.2				0
Europe	-4.5		100.1		2
EU-27	-4.1			101.5	3
Eurozone	-4.1			100.9	3
• Austria	-3.9		101.2		2
• Belgium	-2.7		101.3		2
• Estonia	-13.9			(95.1)	More
• Finland	-8.2			100.0	3
• France	-2.5		100.5		2
• Germany	-4.7		101.1		2
• Greece	-2.0			(91.8)	More
• Ireland	-7.6			(93.7)	More
• Italy	-5.2			(98.4)	More
• Netherlands	-3.9			100.7	3
• Portugal	-2.5			(96.9)	more
• Slovakia	-4.8		102.8		2
• Slovenia	-8.1			(97.1)	More
• Spain	-3.7			(98.5)	More
• Czech R.	-4.1			102.7	3
• Denmark	-5.2			100.7	3
• Sweden	-5.3		103.7		2
• United K.	-4.9			100.2	3
• Bulgaria	-5.5			100.9	3
• Hungary	-6.7			(99.8)	Just
• Latvia	-18.0			(87.8)	More
• Lithuania	-14.7			(93.8)	More
• Poland	1.7				0
• Romania	-7.1			(97.2)	More
• Croatia	-5.8			(95.8)	More
• Serbia	-3.1		101.6		2
• Turkey	-4.7	103.1			1
• Russia	-7.8		100.5		2
• Ukraine	-14.8			(97.3)	More

\*base year 2009 (=100)

Source: IMF, World Economic Outlook, May 2011 and own calculations

tics that could have seriously endangered the future of international trade in general, and its possible dramatic collapse. Fortunately, just the opposite happened. In 2010, as compared to 2009, global trade produced a unique recovery and exports became the unquestionable driving force of positive, even if modest, overall growth. Making reference to statistics: in 2009, world exports declined by 23 per cent, while in 2010 they grew by 22 per cent, as compared to the previous year. It means, global exports practically reached the level of 2008 one year after the crisis, in 2010. In the European Union, exports in 2010 reached 97 per cent of the level of 2008. Moreover, nine EU member countries registered higher exports in 2010 than in 2008. Hungarian exports of 2010 also approached the level of 2008 (98.4 per cent). Substantial lag, as compared to the level of 2008, can only be identified in some countries and for rather different reasons. Greece and partly Italy have been struggling with structural problems aggravated by Eurozone membership for a considerable amount of time (there is no possibility of devaluation of the national currency). Completely different reasons – needed for special analysis – led to a substantial export decline in Denmark and, first of all, in Finland. In contrast, Ireland, a „sick” member of the Eurozone could once again reaffirm its international competitiveness by exceeding exports in 2010 by 5 per cent the level of 2008. Also, it has to be noted that, among the EU-27, Ireland’s exports were least affected by the crisis (*see Table 2*).

The evident winner of the global economic crisis has been a group of emerging developing countries. Although this catching-up process had started at least a decade ago, it was the global economic crisis that manifested the change in position (and in comparative statistics) for key players of the international economy. The share of the developing countries (including that of the emerging economies) in

global GDP (at purchasing power parity) first exceeded that of the developed countries by 1 percentage point in 2010. This shift of power will continue for the next decade in favour of the developing countries. In 2020, the relation may be 40 to 60 in favour of the latter. More importantly, in 2020, measured at purchasing-power parity, China may become the leading country of the global economy (in fact, it overcame Japan in 2010 and occupied the second place next to the USA). The aggregated GDP of Latin America and India may exceed that of the USA and of the EU as well (*see Table 3*). Therefore, developing countries (of course, not all of them, but mainly those emerging countries that build on the high growth dynamism) will be representing an ever growing share of the GDP *increment* of the global economy. According to estimates, their share may grow up to 70–75 per cent of the total *growth increment*.

One of the uncertain or even alarming factors of short and medium term forecasting of the global economy is the price rise of energy, raw materials and food just at a crucial stage of global (post) crisis management. This rising trend is nurtured by several factors, with serious and longer term inflationary dangers for the future of the global economy. First, stronger demand is based on overall recovery. Second, it has to be admitted that the key emerging countries keep on generating large demand for raw materials, energy and food (products). Third, one should not neglect the impact of the rising and structurally changing demand of a large part of the population in emerging countries. If, for instance, 100 million Chinese citizens stop eating just vegetables and drinking tea, but start consuming poultry and other commodities, the impact of global demand on the respective products, and, of course on their price, has a relevant impact. Fourth, in a period of unprecedented low banking (deposit) interest rates and due to the

Table 2

**CRISIS AND RECOVERY OF EXPORTS**

Country	Euro billion			Change 2010/2008*
	2008	2009	2010	
EU-27	4.010.3	3.293.9	3.887.4	96.9
Belgium	323.3	265.2	310.9	96.2
Bulgaria	15.3	11.7	15.6	102.0
Czech Republic	99.4	81.0	100.3	100.9
Denmark	79.5	67.3	73.6	92.6
Germany	993.9	803.0	957.1	96.3
Estonia	8.4	6.5	8.8	104.8
Ireland	84.5	83.1	88.4	104.6
Greece	17.2	14.7	15.8	91.9
Spain	182.4	163.0	185.3	101.6
France	411.7	347.4	393.0	95.5
Italy	365.8	291.7	337.9	92.4
Hungary	73.2	59.5	72.0	98.4
Netherlands	430.4	357.0	432.1	100.4
Austria	123.0	98.2	115.0	93.5
Poland	114.3	97.9	117.5	102.8
Portugal	38.0	31.8	36.8	96.8
Romania	33.6	29.1	37.3	111.0
Slovenia	23.2	18.8	22.2	95.7
Slovakia	48.2	40.2	49.2	102.1
Finland	65.5	45.1	52.4	80.0
Sweden	124.6	93.9	119.7	96.1
UnitedK.	311.7	253.0	306.1	98.2

Source: IMF, World Economic Outlook, May 2011 and own calculations

uncertain international financial environment, huge savings (including speculative capital) are flooding the commodity markets. This, again, moves raw material and food prices upwards. Last, but not least, the size of the available and cultivable agricultural land is affected by incentive programs for producing alternative (bio-based) energy, some environmental considerations and technological innovation linked to genetically modified crops (GMOs). All developments indicate that each economic policy decision, even those considered the most necessary and rational at any given time, create not only positive consequences but also negative impacts in form of socio-economic „pollution“. As a result, the importance of impact

studies examining comprehensive interdisciplinary and longer-term consequences has to be upgraded in the future. In this context, the majority of politicians and of the society will have to learn the fundamental „lesson“, that decision can never be based on (political and economic) profit-maximalisation but only on profit-optimisation and not without clear costs. In other words, it is impossible to carry on in all areas a populist practice based on „I will make everybody happy and you do not have to do anything“. Such a practice will very quickly strike back, while burdening the given society with additional costs and the threat of lasting lagging-behind.

Here is my last remark on global economic

Table 3

**GROWTH AND SHIFTING BALANCE OF GLOBAL ECONOMIC POWER**

Region or country	Growth		Distribution		Contribution to world GDP growth		
	2010	2020	2010–2015*	2015–2020*	2000–2010	2010–2015	2015–2020
Advanced economies	49.6	39.4	1.8	2.2	0.9	0.9	0.9
• USA	18.2	14.9	2.1	2.3			
• EU-15	17.6	13.3	1.3	1.7			
• Japan	5.7	4.2	1.0	1.3			
• others	8.1	7.0	2.9	2.7			
Emerging and developing economies	50.4	60.0	6.3	6.3	2.8	3.3	3.6
• China	16.2	23.9	9.1	7.9			
• India	5.3	8.0	8.3	9.1			
• other Asia	5.1	5.7	5.1	6.0			
• Latin Amerika	7.9	7.6	4.0	3.8			
• Middle East	4.1	4.3	4.4	5.3			
Africa	3.1	3.4	4.8	5.9			
CEE	4.2	3.7	3.5	3.0			
Russia, etc	4.5	4.0	3.2	3.1			

\* average annual growth

Source: The Conference Board. Global Economic Outlook 2011. <http://www.conference-board.org/data/globaloutlook.cfm>

processes. In fact, for some years, the crisis has hidden the fact that short and longer term development factors and tracks started to get differentiated. Imminent crisis management *did* crowd out a number of long-term key questions. However, they did not disappear from the agenda of key global economic challenges. Instead, they are waiting for urgent and reliable (?) answers concerning our common future. Sometimes, I think it is not feasible that, in the global framework, many economists and politicians are ready to organize knife-edge-debates on next year's growth of 2 or 2.1 per cent or inflation of 4.2 or 4.4 per cent. At the same time, decision makers absolutely forget to deal with issues that can statistically be fully supported and will be influencing our future for more than next year's growth, budget deficit, inflation, unemployment, current account balance, etc. Namely, the relevant demographic, educational, health-related and labour market processes can be predicted with a high level of

probability for the next 15 to 20 years. Their management would definitely need adequate economic and social policies not in the future but just in the period of the crisis (which, of course, „could not have been foreseen“). As an example: everybody who was born in Hungary or in any part of the world, will enter the labour market in 20 years (the latest). Those at the age of 45 will become pensioners within 20 to 25 years, with consequences not only for the labour market and the pension fund, but, even more, for the viability of the health care system. It is more than striking (and shocking) that (economic) policy-makers do not deal with such issues at all or in a very superficial way. Similarly longer-term challenges are posed by climatic change and its potential impacts. Being not an expert in this field, I only try to follow the international discussion on the likely contribution of the inhabitants of Earth to this problem, and what is going ahead in the universe surrounding us, without any possibil-

ity of us interfering. To be sure, we have to be getting prepared for everything we can, and both damage limitation and further damage prevention must belong to our environmental related priorities. In addition, a growing and stressing social challenge in the next few years has to be paid attention to. It may affect several countries, disregarding their level of economic development and welfare. There seems to be more argument in favour of the assumption that the „social bomb” may explode earlier than the environmental bomb planned for the next 15 to 30 years. Why do I think so? First, the social and mental consequences of the global crisis used to become evident when almost all, but particularly politicians and economic decision makers) believe that the crisis is over, and, at least, according to statistical figures, growth has returned. Second, because there is a rapidly growing gap between political and economic „rationality”. In democratic regimes, political rationality is limited to a four-year (re)election cycle. Namely, a politician behaves rationally (although by far not morally) when he/she can achieve re-election for the next four-year cycle. In fact, political and economic rationality *can* observe synchronism as long as economic decision-making is based on short-term and politically controllable decisions, so that all problems and conflicts can be successfully managed within the given political cycle and mistakes be corrected without questioning the re-election of the given political „elite”. However, the reality is different. At the beginning of the 21st century both global and national challenges (not necessarily the solutions!) have emerged the required eight, ten or fifteen (or even more) years to manage and resolve . As a consequence, economic rationality has to (should) move in a different track than political rationality. Until now, this dilemma could not be successfully answered in any country. All over the world, but particularly in Europe, the basic precondition

of providing a successful answer would be based on the chosen values and longer-term responsibility of the decision-makers, including the responsible and conscious preparation of societies for ever stronger external and internal challenges. It does not belong to the core issue of this article to identify the current and past) responsibility of different policy-makers in this process.

## CONSEQUENCES OF CRISIS MANAGEMENT IN THE EUROPEAN UNION

To start with an introductory but fundamental remark: in many policy areas we can and we are right to criticize the European Union. Some of these areas will be dealt with in the next paragraphs. However, and most importantly, it shall not be ignored that Hungary is a member of the EU and as a highly external-economy-dependent country; it is the European integration that determines its margin for manoeuvre. In 2010, alongside several successful trade reorientation efforts, 77per cent of Hungarian exports were directed to the EU. At the same time, the lion’s share of foreign direct investments came from EU countries. It means that Hungary’s economic (and overall) policy should not be directed *against* the EU. In turn, Hungary, as a *member* of the EU, should make the best choice of possibilities originating from membership and the global role and influence of the European integration.

European reality in general, and the crisis management of the last two years, in particular, have been correctly characterized – both on the level of the Union and of the Eurozone – by the following statement: both the integration and member states have been moving on the path „from the impossible to the inevitable”. In other words, the crisis has made all policy-makers aware of the fact that what might have been „impossible” before the crisis became an



„inevitable reality” at present. Therefore, a new quality of integration-level coordination has to be implemented that necessarily and significantly cuts classic nation-state competencies. In addition, the European economic governance and its rapidly growing set of instruments, let alone the legal, economic, institutional and financial milestones set in order to sustain the functioning of the Eurozone clearly demonstrate that most member countries are ready (or obliged) to consider previously unforeseen compromises. Namely, it has become obvious that any other step against the mainstream would question the very existence of the integration, with unpredictable economic and political consequences. On the one hand, it can be taken for granted that most countries have recognized the „inevitability” of a qualitative jump. However, it is not yet sufficient to trace the path – and even less the speed – of the integration process. The shaping of the future remains the challenge and the task of the next few months, rather than the coming few years.

The current (post-crisis?) situation of the European Union can be described as the „management of the costs of crisis management”. This is where the EU is at the moment. No further forward or back. Due to the applied (mostly) national crisis management, most member countries, not least those of the Eurozone, have generated substantial budget deficit. At first glance, it seemed to be inevitable to mitigate or successfully remedy the most burning problems of the crisis. As a result, the budget deficit of the EU-27, at 2.4 per cent in 2008, well below the 3 per cent Maastricht criterion, sprung to 6.8 per cent in 2009 and practically remained on the same level in 2010, already in the „post-crisis” (6.4 per cent). In 2010, three member countries reported a budget deficit over 10 per cent of GDP, and another ten countries registered a deficit between 5 per cent and 10 per cent. The Hungarian budget deficit with 4.2 per cent of

GDP proved to be the seventh best among the EU-27, however, still high enough to reinforce the excessive deficit procedure.

A more problematic area is represented by the increasing public debt of most member countries, not least in those of the Eurozone. In the latter group the Maastricht criterion of 60 per cent has been more significantly surpassed than in most non-Eurozone countries. The Hungarian figure of 80 per cent of GDP is evidently high and hardly sustainable. However, in 2010 this was ranking 8th, or better than that of Germany or France, let alone the respective indicators for Greece, Italy (representing a special category), or even that of Portugal, Ireland and Belgium (*see Table 4.*)

It is a fundamental question how the budget deficit can be brought back to the less than the 3 per cent level. It seems, however, even more important, how the high public debt can be reduced in the framework of a sustainable economic policy and in a credible and reliable form also accepted by the international financial markets from the current level to the Maastricht indicator. Of course, it cannot be achieved in a few years without facing catastrophic economic and social consequences. It is not by chance, that the European Commission’s proposal aims at reducing the difference between the current level of public debt and the 60 per cent prescribed by the Maastricht agreement by 2 per cent each year. This, in itself, seems to be a unique challenge, even if the international financial markets were ready to acknowledge this effort as lasting, sustainable and reliable. Considering this uncertainty, in theory, five possibilities can be considered for a substantial reduction of public debt.

The first already belongs to the realm of dreams. Its precondition would have been that member country governments had not spent a lot of money for short term crisis management but for the construction of the future. In other

Table 4

**BUDGET DEFICIT AND PUBLIC DEBT OF SELECTED EU MEMBER COUNTRIES:  
FACTS (2008–2010) AND PROSPECTS (2011–2012)**

Country	Budget Deficit					Public Debt		
	2008	2009	2010	2011	2012	2008	2010	2012
EU-27	-2.4	-6.8	-6.4	-4.7	-3.8	62.3	80.2	83.3
Eurozone	-2.0	-6.3	-6.0	-4.3	-3.5	69.9	85.4	88.5
Belgium	-1.3	-5.9	-4.1	-3.7	-4.2	89.6	96.8	97.5
Bulgaria	+1.7	-4.7	-3.2	-2.7	-1.6	13.7	16.2	18.6
Czech Republic	-2.7	-5.9	-4.7	-4.4	-4.1	30.0	38.5	42.9
Denmark	+3.2	-2.7	-2.7	-4.1	-3.2	34.5	43.6	47.1
Germany	+0.1	-3.0	-3.3	-2.0	-1.2	66.3	83.2	81.1
Estonia	-2.8	-1.7	+0.1	-0.6	-2.4	4.6	6.6	6.9
Ireland	-7.3	-14.3	-32.4	-10.5	-8.8	44.4	96.2	117.9
Greece	-9.8	-15.4	-10.5	-9.5	-9.3	110.7	142.8	166.1
Spain	-4.2	-11.1	-9.2	-6.3	-5.3	39.8	60.1	71.0
France	-3.3	-7.5	-7.0	-5.8	-5.3	67.7	81.7	86.8
Italy	-2.7	-5.4	-4.6	-4.0	-3.2	106.3	119.0	119.8
Latvia	-4.2	-9.7	-7.7	-4.5	-3.8	19.7	44.7	49.4
Lithuania	-3.3	-9.5	-7.1	-5.5	-4.8	15.6	38.2	43.6
Hungary	-3.7	-4.5	-4.2	+1.6	-3.3	72.3	80.2	72.7
Netherlands	+0.6	-5.5	-5.4	-3.7	-2.3	58.2	62.7	64.0
Austria	-0.9	-4.1	-4.6	-3.7	-3.3	63.8	72.3	75.4
Poland	-3.7	-7.3	-7.9	-5.8	-3.6	47.1	55.0	55.1
Portugal	-3.5	-10.1	-9.1	-5.9	-4.5	71.6	93.0	107.4
Romania	-5.7	-8.5	-6.4	-4.7	-3.6	13.4	30.8	34.8
Slovenia	-1.8	-6.0	-5.6	-5.8	-5.0	21.9	38.0	46.0
Slovak R.	-2.1	-8.0	-7.9	-5.1	-4.6	27.8	41.0	46.8
Finland	+4.2	-2.6	-2.5	-1.0	-0.7	34.1	48.4	52.2
Sweden	+2.2	-0.7	-0.0	+0.9	+2.0	38.8	39.8	33.4
United K.	-5.0	-11.4	-10.4	-8.6	-7.0	54.4	80.0	87.9
As compared to								
USA	-6.2	-11.2	-11.2	-10.0	-8.6	71.5	92.0	102.4
Japan	-2.2	-8.7	-9.3	-9.7	-9.8	195.0	223.1	242.1

Source: European Economic Forecast, Spring 2011

words, governments would not finance the artificial maintenance of outdated structures – from the car industry to the labour market – but would have given clear priority to training, education, development policy and innovation. Unfortunately, with the rare exception of Sweden, with a rather modest crisis management policy, no country has embarked on this way.

The second and third options are based on the well-known recommendations of the IMF, where budget income has to be raised and expenditure be reduced. However, at the beginning of an anyhow fragile and modest recovery raising tax incomes could jeopardize even the uncertain recovery. Of course, expenditures can be cut in various fields, not least in the area of social welfare programs. But, where do we

find a politician who would be ready (and able) to curtail social expenditure at the height of an economic and social crisis. (Here, again, the difference between political and economic rationality becomes evident.)

There are two additional options. One year ago, even the mentioning of both of them would have been considered as an obvious „heresy”. However, today, these options seem to be far from being ruled out. I will address these „choices” not because I would be glad to make them happen. But, calculating the total economic and social costs of different choices, it still seems the second worst solution as it allows a (large) part of the public debt to inflate. The budget deficit of the United States, which has been over 10per cent of GDP for years now, as well as a decade-long current account deficit, being financed by external sources, cannot be maintained, even if the willingness of external borrowers is not questioned (however, it has been, most recently). One should not forget the magnitude of this debt. This 10per cent budget deficit is not the product of a third-class small country, that certainly would have serious consequences for its economy, but would otherwise leave the global financial markets practically untouched. The current US budget deficit equals one-third of the annual GDP of Germany (or amounts to ten years accumulated GDP of Hungary). This huge debt can hardly be managed without making use of two complementary instruments. Both of them may seem highly unpleasant and are likely to meet sharp criticism – but without any efficient counterproposal they could be introduced with the necessary level of socio-political responsibility. One part is the conscious inflation of a larger part of the public debt. We all know that inflation used to be fundamentally anti-social. However, drastic budgetary restraints may be more so. As long as the negative impacts of inflation can be substantially weakened over a relatively short time (pro-

vided a reasonable economic and social policy), the consequences of a self-imposed straight-jacket, ignoring basic development and catching-up requirements and, not less importantly, obvious social and domestic political barriers, may damage future generations. The other part consists of spreading the reduction of the abolition of the public debt burden across a longer period of time. This, of course, raises an inter-generational issue. In order to implement such a plan, it is necessary to sit down with responsible representatives of the „younger generation”, and to come to an agreement that part of the credit taken by the „older” generation will be paid back by the „younger”. In other words, an honest and sincere dialogue should be started as soon as possible.

There is, however, one addition pressure on inflation, even if its appearance supported the negative scenario. If, namely, some of the public debt will be reduced by accelerated inflation and this process will be overlapped by higher energy, raw material and food prices, due to raising global demand, and to several financial market operations (including large-scale speculation), and by growing social pressure for higher wages (incomes), inflationary processes, originating from different sources, may reinforce each other. Such an inflationary pressure, rooted in different factors, would definitely need a new level of global economic cooperation. Obviously, it would be desirable to avoid the negative scenarios completely. Still I would like to underline that a restrictive economic policy, some countries may consider desirable or obliged to insist on, would put more substantial limits to economic recovery both on the national and the global level than a *deliberately accepted* inflation that, hopefully could be kept under control and would be spread over a few years.

In the last two years, the reformulating of the basic rules of the Eurozone became the Achilles heel of the European Union. In this

context, really „revolutionary” changes took place. The task of this article is not to provide a detailed analysis of the steps undertaken. Still, it has to be noted that some problems of the monetary integration seem to be managed (or partly even remedied) by courageous reform steps. However, the elimination of the birth defects requires a completely new fundament for the European Monetary Union. Regrettably, this requirement cannot be side-stepped either by the boldest amendments. The currently (and partly still to be) renewed system gives hope that the Maastricht criteria and the reinforced Stability and Growth Pact will be strictly observed without any exception (previously granted particularly to the most influential members). Although after heavy convulsions, the contradiction between the common currency and the common interest rate policy (due to the different inflation rates and real wage increase from country to country) seems to be corrected by the international financial markets. Still, the relationship between the monetary, the fiscal and the political union seems to be wide open. Even in case of a political union, an economic zone based on common currency can only function if a fiscal transfer system is implemented among the differently developed regions (countries) of the currency area. This is „normal” in the USA, Canada, Germany, Austria, Spain, Belgium (all of them federally organized countries), but also in centrally administered countries as well (of course, including Hungary, even if the instruments may be different). Since, however, the European integration is far away from a political union, the urgent establishment of such a transfer systems seems to be even more indispensable. This seems to be the only way to keep alive the Eurozone consisting of 17 countries with highly different production structure, economic development level and competitiveness. On the one hand, the instrument of the fiscal transfer would have a clear impact on

the common budget (financial framework) of the EU. Namely, the discussion should not start about 1per cent of the gross national income of the member countries, but would have to take into account a much higher national contribution to the common budget. On the other hand, it is obvious that such an „alternative” would only be acceptable for the net transfer contributors if they got an adequate impact on shaping the economic policy of the net beneficiary countries. This is, however, the point, where the establishment of some kind of a political union is unavoidable. Another solution would be the limitation of the Eurozone to those members with similar development level and international competitiveness. This, however, could have unpredictable implications not only for the future of the Euro but it could quickly undermine even the half-century architecture of the European integration.

Although not being the product of the crisis, the crisis and its management have definitely strengthened the need for a medium-term economic strategy of the EU, including the creation of an adequate set of economic policy instruments. In this context, several important coordination endeavours can be registered (see, first of all, the constantly widening package of the European Economic Governance). In a strategic aspect, the EU 2020 program deserves some observations. In eventual overlapping with the Hungarian EU Council Presidency, starting at the beginning of 2011, the European Commission has designed a ten-year strategy focusing on increasing competitiveness of Europe not only facing the challenge of the United States but also of a growing number of emerging economies as well. In the recent initial stage of the project it would be premature to formulate any well-founded opinion on how much and in what form the key objectives will be fulfilled by 2020. There are, however, particularly in the first years of the program, some

framework conditions that cannot be ignored. First of all, it has to be underlined that the first years of the EU 2020 project will be characterized by the „management of the costs of crisis management”. Is it possible to achieve sustainable and substantial growth in conditions when in almost all member countries the fundamental economic policy goal includes the action plan, which consists of reducing the budget deficit and in halting or, in a more optimistic scenario, even reversing the steady growth of public debt? Will fiscal consolidation leave sufficient room for strengthening competitiveness, transforming economic structures and carrying out relevant shifts in the traditional revenue and expenditure pattern of the national budgets within a relatively short time? To what extent can growth be based on domestic demand and on exports? Will future-oriented investments start, which not only depend on money (capital), but on the supply-side of the labour market, as well as the regional and professional mobility of the society (in the longer-term the quality of education), and not least, society’s willingness and capability to change. The above questions do not rule out that in some areas and in some member countries progress in line with the EU 2020 objectives could not be registered. However, on the level of integration, two sources of danger can be identified.

▶ On the one hand, the interdependence between the two key pillars of the EU 2020 program (namely growth and job creation) is by far not clarified. (The same dilemma can be formulated concerning the viability of one of the key goals of the current Hungarian economic policy, as well.) For 30 years we have known that a competitive economy would not risk its competitiveness, it needs an annual and sustainable growth of 2 per cent to 2.5 per cent in order to enlarge *the absolute volume* of the labour market. Up to 2 per cent growth can easily be generated by technological innovation

(without any new „technological revolution”), adjustment capability of employers and employees, new management methods, or, in sum, productivity growth anyhow enforced by growing international competition. Regrettably, no medium term plan of the EU is based on sustainable growth above or even reaching the 2per cent level (although, GDP growth in some member countries, may substantially exceed this limit). What can be done in such a situation? Obviously, the disposable labour (time) volume can be distributed among more employees. Part-time employment, work at home, shorter labour week, etc. are well-known „solutions”. This kind of flexibility may have essential positive impacts on the labour market and, not least, on the stability (or stabilization) of the social structure of the given member country. However, it should not be forgotten that no or hardly any additional impact can be generated on the disposable income, because – on macro level – salaries and other benefits paid for the employed people can hardly increase the aggregate disposable income. In addition, even successful job creation (or rising demand volume on the labour market) cannot hide the challenge of growing differentiation between the really competitive, the potentially competitive and the uncompetitive labour. Although this is a worldwide phenomenon, it appears with particular weight in several EU member countries. In this situation, not only should priority be given to education, training and retraining, because it only affects the really competitive and the potentially competitive labour. All governments face a new reality of what to do with the growing share of uncompetitive labour in all countries, when global challenges of the 21st century give utmost priority to – sometimes merciless – competitiveness, provided a country wants to remain or become part of the „modern international economy”.

▶ My second remark addresses the already

visible and potential future wedges within the European integration. One wedge can be identified between the „old” and the „new” member countries. At least temporarily, this wedge seems to be less important today, both due to the successful catching up of the new members of the EU and, maybe even more, to the crisis of the Mediterranean members of the Eurozone. In fact, the majority of new countries have become fully-fledged members of the European integration, even if membership could not be transformed into a visible and active policy-shaping role. However, most of them could strengthen their position in international competition, became competitive locations of transnational companies. In addition, the crisis did not only hit these countries (Poland was the only new member that achieved with positive growth rate during the crisis in the EU-27). Regrettably, the elimination of decade (or sometimes century) long stereotypes needs much more time and persistent „enlightening” activities as well as honest dialogue among governments (politicians) and numerous groups of the societies. This task has to be particularly stressed at a period when the decade-long catching up process suffered a particular setback in the Baltic countries and seems to be stopped in most others. In this context, the discussion had started already before the basic document of the European Commission (June 2011) on the financial framework between 2014 and 2020 was published. Future destination (rationality) and room of the cohesion policy, including its financial instruments and new priorities bear particular importance for overcoming the first wedge.

Wedges manifests themselves much more markedly in another field, not exempt of other and partly new EU-specific stereotypes, namely between the „lazy, utilitarian and parasitic Southern” and „hard-working, economical and rational Northern” societies. Although, until

now, the current discussion has been carried out within the Eurozone, its impacts on the EU-27 are evident or will become visible within a short time.

There is, however, a third potential wedge. At present, not even policy-oriented research and forecasts pay attention to its eventual consequences. The fact is that in the first two years of the post-crisis period, the German and the French „growth pattern” reveals substantial differences. In 2010, Germany produced the highest growth, about three times that of the French economy. Evidently, this difference does not deserve special attention if it characterizes a one-year performance. However, if it remains characteristic of the next 5 to 8 years, similar problems (although in a different structure) may emerge, the Eurozone had already been facing a problem concerning its sustainability in a period of substantial widening of the gap between „strong” and „weak” members. An additional difference of 10 per cent to 15 per cent in the economic power of Germany and France could substantially burden the backbone of the European integration built on Franco-German cooperation. In fact, the potential wedge may be deeper than just the difference in growth rates. Different growth hides two different economic policy concepts and different structures. They had been present for a long time in the process of European integration. However, close economic and political links, several times reinforced cooperation despite all kind of difficulties as well as external impacts felt by both countries kept differences covered in the past. The current crisis has brought this deeply rooted „gap” to the surface. The export-oriented character of the German economy, its global economic involvement, the relevant role of small- and medium-sized companies, the recently approved energy strategy, the conscious selection of geographic orientation of global and regional cooperation (in the last years Central and Eastern Europe,

most recently China and partly Russia) fundamentally differ from the priorities of the French „economic ideology”. It is an open question how the European Union will be able to manage Franco-German bilateral relations that are (still) of fundamental importance for the European integration, if the above mentioned differences remain lasting, its consequences may produce a new wedge.

### HUNGARY'S MARGIN FOR ECONOMIC MANOEUVRE IN THE POST-CRISIS PERIOD

Neither the structure nor the limited size of this article has the goal to provide a critical analysis of the Hungarian crisis management and the country's post-crisis economic policy. Here, exclusively some elements of the manoeuvring of the Hungarian economy have to be addressed. As an undisputable positive development, Hungarian foreign trade outperformed all expectations, for the trade balance registered a surplus of Euro 3.5 bn in the crisis year of 2009 and of Euro 5.5 bn in 2010. Such positive trade balance statistics have been unknown in the last 30 years of Hungary's economic history. Despite all contrary evaluation and critics, official statistics reinforce the fact that the export sector representing about 70 per cent of GDP has preserved its international competitiveness during the crisis and in the first post-crisis year. It is another question how long this competitiveness can be sustained and, more importantly, that the foundations of future competitiveness should be created today. There is no doubt that, also underpinned by statistical figures, there is an evident duality between the main geographic orientation of exports and imports. However, this feature can be identified in most small countries (not least in China, as the second largest economy of the world) that became an integral part of the global economy. The duality of geographic orienta-

tion means that exports are mainly oriented to the European Union, while large part of the substantial import content of export-oriented growth originates in the Far East (manufactured goods, spare parts, electronic accessories) and in Russia (energy, partly raw materials), respectively. This duality can best be observed in Hungary's export and import balance (surplus vs. deficit) by regions and countries. In 2010, trade with the EU produced a surplus of more than Euro 10 bn, while trade outside the EU registered a deficit of almost Euro 5 bn (mainly due to deficits in trade with most Far Eastern countries and with Russia). More than „pure” economic aspects have to be taken into account when statistical figures indicate that the trade surplus of Hungary with Romania and Slovakia precisely cover the trade deficit with China, or that trade surplus with the United Kingdom can easily cover deficit in Hungary's trade with Russia (*see Table 5*). Of course, it is evident that foreign trade statistics report on bilateral trade in the international economy more and more dominated by production and marketing organized by transnational companies (according to reliable estimates, these companies account for 60 per cent of global trade).

The interdependence of growth, exports and domestic demand (stimulus) is rightly considered a fundamental economic strategy issue. In other words, can domestic demand become the decisive growth generating factor in the next few years? Without forgetting the relevance of the domestic market (in case of mainly domestic market-oriented products and services), post-crisis recovery has been everywhere unanimously supported by exports. Facts of 2010 and forecasts for the period until 2012, summarized in *Table 6* reveal a fundamental difference between the dynamics of domestic demand and of exports. In each „new” EU member country disposing of limited domestic market (demand), exports keep on playing a key, if not

Table 5

**MAIN BILATERAL SURPLUS AND DEFICIT RELATIONS OF HUNGARY'S FOREIGN TRADE  
(2010)**

Country	Surplus Euro mn	Coverage*	Country	Deficit Euro mn	Coverage*
United Kingdom	2.604	309.7	China	3.143	25.5
Romania	2.254	235.6	Russia	2.309	50.3
Spain	1.480	279.7	Rep. of Korea	1.774	10.2
Italy	1.175	142.8	Japan	911	31.7
Germany	1.175	145.6	Taiwan	869	6.3
France	1.147	144.3	Austria	503	86.1
Slovakia	1.118	105.7	Netherlands	410	84.6
Ukraine	796	238.4	Belgium	342	75.7
Croatia	618	347.2	Singapore	247	61.9
Serbia**	564	304.7	Poland	200	92.3

\* exports/imports where imports are always 100

\*\* excluding Kosovo

Source: Central Statistical Office and own calculations

Table 6

**GROWTH OF REAL GDP, EXPORTS AND REAL PRIVATE CONSUMPTION IN NMS,  
WB AND CIS (PER CENT)**

Country	Real GDP 2009	Real GDP 2010/12*	Exports 2009	Exports 2010/12*	Private Consumption	Private Consumption
Bulgaria	-5.5	6.8	-11.2	37.2	-7.6	6.5
Czech Republic	-4.1	7.1	-10.8	38.4	-0.2	3.6
Estonia	-13.9	10.4	-18.7	32.9	-18.8	2.9
Hungary	-6.7	6.9	-9.6	35.3	-6.8	1.0
Latvia	-18.0	7.1	-14.1	24.7	-24.1	7.0
Lithuania	-14.7	10.0	-12.7	39.4	-17.7	0.7
Poland	1.7	11.6	-6.8	25.2	2.0	10.8
Romania	-7.1	4.6	-5.3	33.8	-10.2	3.4
Slovakia	-4.8	12.5	-15.9	34.6	0.3	5.9
Slovenia	-8.1	5.7	-17.7	21.7	-0.8	3.9
NMS	-3.5	9.0	-9.0	30.7	-3.1	6.4
WB	-3.0	7.0	-12.8	33.1	-4.2	3.5
CIS Europe	-8.2	14.3	-7.3	18.5	-5.7	18.4
• Russia	-7.8	13.9	-4.7	17.1	-4.9	17.8
• Ukraine	-14.8	14.2	-25.1	24.7	-13.9	19.9
Turkey	-4.7	18.3	-5.3	15.6	-2.2	20.3

\* cumulative growth for the three-year period

Source: IMF, World Economic Outlook, May 2011 and own calculations



an exclusive role in generating economic growth between 2010 and 2012. This statement holds even for the Polish economy, with the lowest level of international openness and with by far the highest domestic demand. Despite the spectacular increase of domestic demand, a unique feature in comparison with other new member countries of the EU, Polish exports are expected to grow two-and-a-half times quicker than domestic demand does. In most cases, the expected growth rate of exports is sometimes more than ten times (!) higher than that of the domestic demand (Czech Republic, Estonia, Lithuania, Romania). Not surprisingly, Hungary also belongs to this group. However, other examples can also be quoted. In 2010, the outstanding German GDP growth of 3.4 per cent originated in 80 per cent in export growth. And, in this case, we have to do with a domestic market of 80 million, hardly comparable with the 10 million population of Hungary, with much lower disposable income. In China, ten years since the Communist Party have been insisting on turning from export-oriented to domestic demand-oriented growth. Facts, however, contradict this expectation: in 2010, Chinese GDP grew by 10 per cent, while exports skyrocketed by 32 per cent.

In 2009-2010, during the global crisis some Hungarian (economic) policy makers also criticised the previously pursued export-oriented growth „model”. Reference was made on the fact that the Hungarian economy is too open, the structure of its production is faulty and characterised by duality. I feel obliged to add some remarks to these criticisms, mainly due to the evidence of foreign trade statistics of 2010, but also considering the fundamental economic realities (in other words, Hungary’s the margin for economic manoeuvre). In fact, Hungarian economy is highly open, because 70 to 75 per cent of the GDP is exported. However, openness (as a given fact) should not be treated („remedied) by withdrawing into

our own shell (which, otherwise, does not exist), since such an „approach” would almost suddenly produce widespread welfare-reducing effects. In turn, the correct behaviour is to make increasing efforts to gain new markets. Where are such possibilities offered? Not by chance, almost everybody would immediately mention China, Russia, the Western Balkan countries and selected developing (emerging) economies. All these markets undoubtedly offer substantial export opportunities, in most cases much larger ones than those to be the comparably modest export potential of the Hungarian economy, even if the latter could be fully used. Concerning the recently widespread „geographic reorientation euphoria” two observations have to be made.

► First, China is definitely a dynamic market with extraordinary importance. In the last few years, Hungarian exports to this country (mostly those of transnational companies located in Hungary) experienced a spectacular growth. In 2010, Hungary’s exports to China reached Euro 1.158 m (similar to exports to Belgium and less than 6.5 per cent of exports to Germany), or just 1.5 per cent of total exports. Let us suppose that exports to China would be doubled in the next two to three years (which would certainly be desirable), while all other exports stagnated (which, hopefully can be ruled out). In such a hypothetical case, China’s share in total Hungarian exports would reach 3 per cent, while the share of the EU would decline from the current 77 per cent to 75 per cent. Therefore, it would not be harmful for the Hungarian economy, if its decision-makers could finally be aware of some of the fundamental differences in magnitude (basic mathematics).

► Second, much more attention should be devoted to the cooperation with transnational companies. A large part of Hungarian exports has been marketed by these firms in different parts of the world, not least in emerging

economies. I do not have any reliable statistics about how many engines produced by AUDI in Győr will be built into AUDI cars sold not only in Germany, but from Brazil to Russia and from South Africa to China, practically worldwide.

The second critical observation refers to the production and export structure, in other words, the decade-long specialization pattern of the Hungarian economy. To begin with, it has to be underlined that the current structure of the Hungarian exports is by far not bad. Just the opposite, based on technological and productivity indicators, it is generally more developed than that of most other Central and Eastern European economies. Certainly, its vulnerability to the crisis proved to be above average (similar to the Czech or Slovak exports). However, this fact can be explained easily. The sharply declining demand (either based on the reduced disposable income or the unwillingness of money-holders to spend more) most seriously hit the durable consumer goods market (such as cars, telecommunication and electronic devices) as compared to the markets of primary (basic needs) commodities. This (temporary) situation, however, must not imply that, as of tomorrow, Hungary should produce Vietnamese flip-flops – evidently, with Vietnamese wages and Vietnamese living standard. (Otherwise such products could not be competitive in any market.) In this context, it is a key government task to increase the domestic value added share of production that has embedded Hungary in the international production chain. This includes serious efforts to replace part of the imported intermediate goods incorporated in different final products (both for exports and for domestic use) by domestic production that proves competitive in price, quality and delivery conditions (export-oriented import substitution). This would not only have additional positive impact on the trade balance, but would favourably

influence employment, regional development, genuine cooperation among large-scale and small and medium sized firms. All in all, the positive impact would be felt in the upgrading of the production structure of the Hungarian economy.

Finally, concerning duality, the management of which is another key government level economic policy task. It is a fundamentally incorrect and misleading approach to condemn, curse, or even chase away foreign owned companies in general, and transnational firms, in particular. Representatives of such an ideology should be aware of the fact that the consequences could be much easier be digested by these companies than by the Hungarian economy. The real challenge consists in how the economic policy of the Hungarian government could contribute to creating a more organic link between the efficient and competitive small and medium sized companies on the one hand, and the mainly foreign owned large companies, on the other. The question of how EU funds available for small and medium sized companies should be used in the most convenient way, has to be raised in this context. Such areas include the development of competitiveness and export capabilities, genuine incorporation into the production, service and marketing, network of multinational companies in a sustainable cooperation framework, and the replacement of certain, currently imported, commodities by competitive domestic production.

Finally, two remarks on international competitiveness, crucial for the sustainable development of the Hungarian economy. International competitiveness has several traditional factors, such as price, quality, delivery time, reliability of the partner or, to a limited extent and with provisional impacts, even exchange-rate policy. However, utmost attention should be paid to the new elements of global competition. They include the quality of

institutions, transparency of decisions, political (and social) stability, reliability, sustainability and predictability of key elements of the economic policy, quality and speed of the decision-making process, as well as the most efficient use of available resources, including not only natural resources but also human capital and network capital. In all developed countries, the shaping (sustaining) of competitiveness has been fundamentally based on social dialogue, social cohesion and solidarity, and not least, on the future-orientedness of the respective society. Irrespective of all current problems, Finland

and Ireland (let alone the successful countries of the Far East) had developed a future-oriented approach based on clear and solid fundamentals, instead of going back into the (misty and sometimes mystic) past. I would like to stress: not only politics but the lion's share of the society has to develop a future-oriented mentality and attitude. Not to mention the international *image-building* of the given country in shaping the economic strategy, and not least the predictability and credibility of politics and politicians (or of those who can be considered responsible for such a goal).