

BOTOS Katalin: East to Eden

Here, on this side of the River Lajta, we all are East to Eden. How many years we had been longing to make a shopping trip to Vienna, to see the Big Ben of London and the Eiffel Tower of Paris. All these places were the symbols of Eden. Nowadays, we may go to 'the West' to see these miracles if we have enough money.

Yet, the western part of Europe, too, is East to the USA.

There is a great international competition between the leading centres of the world. There are no arguments: priority is not dubious. But is this situation so determined that it cannot be changed? Since what depends on a human being, it may be changed! Or is there any objective feature for which the American methods cannot be copied at all? By any means, what is there in today's science-based and postindustrial society that depends on external fundamentals and is independent of human beings?

Lisbon targets

It is sure that Europe must accept the challenge. Therefore, ambitious targets have been set to increase competitiveness in Lisbon.

The EU would like to form a fast-growing, **competitive** and science-based community out of its member countries **which will realize social cohesion, too**. This is the goal of the EU the member of which we already are. The goal involves a double task, i.e. we should be competitive in an international context but should not give up the notion that the members of society are responsible for one another, i.e. we have to guarantee social cohesion as well. These two tasks are not easy to be implemented! May they be carried out? And what is the relationship of Hungarian economy and society to them?

My favourite saying is: we are shooting at *the moving game*. We seek to adapt ourselves to the EU challenges, and the conditions of competitiveness but the pattern to be followed is changing and altering. The competition of international power centres makes Europe play according to the rules of the Eden desired. The question is only that these rules can be copied or not. And are we, Hungarians, able to create a competitive economy in compliance with these rules?

In my present paper I would like to discuss what the secret of the success of a model state is. My figures rely on the 2003 Annual Report of ECB and its Statistic Pocket Book, November 2004^{1/}. I compare *currency units and not countries*. I hope, at the end, it will turn out I do it *not by accident* since the role of the currency system is great in real economy relations established. We study the data of USA, the euro area and those of Japan through a special logic.

The three centres

The unified Europe cast covetous glances on to the U.S. economic results. For the time being, that we have exceeded the number of U.S. population, it would be nice to reveal the secret to what the fantastic success of the USA can be attributed; what is the reason of the fact that **the GDP per capita is 1.5 times higher in the USA** than that in Europe or that of Japan.

Truly, after World War II USA's share in the world GDP was even higher. Europe succeeded in catching up but it can be seen that the ability to create incomes is higher overseas.

If the sectorial structures are under scrutiny, it is apparent that the economies of all the three territories are dominated by the postindustrial sector. In this field, too, USA is in the frontline, here the proportion of the servicing sector is the highest, Japan and the

euro area are almost at the same level. The data of agrarium is within a hair higher, with one percentage point in the euro area, but compared to East-European data and, thus, to the Hungarian ones, too, are much lower.

Manpower market

Is the clue to the aforesaid that people in the USA devote their lives to work more than people in Europe? Certainly, the activity of people is much higher in the New World. They start to work early and stop working late. American students earn the money which they need to their studies and elderly people become 'war dead' of work. We do not say less when stating that a particular American character and the love of independence above all manifest in the approach that people like to stand on their own legs and, perhaps, to avoid the others' assistance - what is also a constraint, at the same time, because there are no social care and welfare network similar to the European ones. Because of a particular social organization and ideological background there is a high activity among the Japanese, too. What are impressing, not to say, enviable, indeed, are the low American and Japanese unemployment rates. That is, he who wants to work will find a job in these countries. But why? Would we be just lazier than they are, or have we given up work because there is another solution owing to social market economy and one does not starve to death necessarily if he/she does not work? It cannot be denied there is something in this statement.

But it is also true that manpower should be associated with **capital** in order that a working process should emerge out of it even if we live in an economy of service type. Or we must accept a certain degree of overemployment, a lower level of productivity in order that everybody should have a job - what may corrupt morals and undermine the work morale, moreover, may deteriorate

competitiveness. (I put it in brackets: we need eastern morale, the maximum degree of the sense of duty that the aforerunning should not come true. Besides high employment the competitiveness of Japanese people originates from this.)

Where do Americans acquire enough capital to make so many people employed? Would there be so much domestic net savings to this? Not very likely, as it is widely-known that all market participants are indebted. But how *is this possible* for the market participants? *Because the market makes it possible...* That is, the institutions which are able to raise money are willing to extend credits for the activities of the market participants. Why does this possibility exist for American market participants and why does it not for the Europeans? It may be stated that here, too, we may give a sociopsychological answer. Although the American citizen is sensitive to his freedom, he is less sensitive to indebtedness as a factor of dependence. Contrarily, it is typical of many European nations that they like to live within their purse. To tell the truth, a European feels to be free only if he does not depend on creditors and the Japanese are famous for their thriftiness. If we want to find an explanation of economic psychology, by all means, I provide that, too. The American financial system prefers capital market financing, so the dependence on creditors is less since he who has purchased my securities, which are, actually, loans, can hardly intervene in what I do with his money - the risk is with him. In the European systems based on credits the patronizing attitude of banks is stronger since it is they who are responsible for repayment to the creditors. Thus, dependence is stronger, too. Therefore, let us have a look at the other side, as well! It is not indifferent either *why capital flows to the venturesome American willinly*. Probably, we are not wrong if we trace the cause of this *to the favourable U.S. taxation system*.

Direct taxes are lower, so are the indirect ones. They are lower than the tax on venture incomes in other places, i.e. capital flows here willingly. The personal income tax is lower than elsewhere, i.e. the basic wage can be raised without the deterioration of cost competitiveness. Turnover-tax is lower what is favourable again in the reduction of price level. (The level of direct taxes is lower only in Japan than in the USA. The Japanese government does its best to maintain competitiveness.)

Thus, the income concentration is smaller than in the other two regions, namely, the proportion of the compulsory redistribution is also lower. Its value is considerably lower than that in Europe, although it is true that expenses cannot be reduced that much. Therefore, it is not surprising at all that American deficit is higher than the European one, although it does not reach that of Japan...It can be seen that the Japanese do not increase their revenues but they try to stimulate boom from the side of expenditure. This results in the nearly 7% budgetary deficit that is approximately the double the American figure. The Japanese economy has been struggling with continuous deficit for long. No wonder, because from the three regions the state debt is the highest here. The American figure, as compared to GDP, takes the third place but taking into account the absolute amount of the U.S. GDP and the fact how long - practically, since Reagan's coming into power - the USA has been struggling with a serious budgetary deficit and has accumulated debts, it is true that the USA is *the greatest debtor of the world*.

In the USA the level of *social security contributions* shows a record lowness; it exceeds half the European contribution level somewhat. This is why Americans have to remain - willy-nilly - active since there is not enough money for welfare targets. From European budgetary expenditure it is spent nearly as much as on

social expenses (17%) as on final consumption (20.3%) while in the USA both figures are 5 percentage point lower - naturally, it is always estimated in the percentage of GDP. With regard of social expenses financed by the budget Japan diverts from the aforesaid to the greatest extent: it stands out with the lowest level. Corresponding to Eastern philosophy the provision of a family and a small community is a typical phenomenon rather than reliance on the impersonal state and, as far as the pensions are concerned, we have already referred to the extraordinary length of working years.

But the deficits of the budget must be financed from somewhere! Obviously, the domestic financing of deficit is a smaller problem where private savings are high. Basically, in the USA external financing can be taken into account.

External trade and the balance of payments

Europe is a more open economic region than the USA. For the countries of the euro area external trade is not only a possibility but a constraint as well, since the acquirement of energy needs may take place in the international market. However, the external trade which functions, more or less, according to liberalized rules makes the production in every competitive sector face a challenge. Therefore, the preservation of competitiveness is extraordinarily important. Undoubtedly, it is a great advantage if somebody can pay for his imports with his own currency since, in this way, he averts the currency risk to his partners. **The currency of international trade is still the dollar decisively.** The continuous deficit of the U.S. balance of payments has assured the expanding liquidity of the growing international trade over the sixty years, and for the USA it has ensured a pleasant external financing.

The U.S. balance of trade is passive even if we take the services into account. But the partner who has the imports surplus,- in a sense of real economy, if financing is not a serious obstacle -

benefits since domestic demand faces the abundance of goods, and this is favourable from the aspect of inflation. And the current balance of payments shows even a deficit higher than the deficit of the balance of trade (4%): it makes up 4.6%, as compared to GDP.

Europe cannot afford the luxury of deficit; the euro area 'produces' only a modest deficit. The role of euro as a currency of international trade is strengthening only slowly. And Japan struggles with a continuous surplus of the balance of payments. Its currency strengthened by exports surplus and its extraordinarily low price level threaten the country with a deflation problem.

The status of reserve currency is changing slowly, too. The world is full of dollars which cannot be converted, e.g. to euro in a great number without a loss.

The world economy flooded by dollars can be described like this: they, both, are not able to get rid of themselves.

European possibilities

Thus, let us study the sketch given above. Can we copy U.S. solutions to catch up with it in competition? Can we afford here, East to Eden, the same techniques as our great rival can? Esp. when we say that we would like not to weaken but strengthen social cohesion.

The answer is briefly as follows: **No, we cannot.** Not only because it is not easy to alter the psychological characters of a society; not only because we have not the same quantity of natural resources, but because the international monetary system was based on the standard of dollar what, as has been pointed out, strengthened U.S. positions with favourable financing possibilities.^{2/} And when it turned out clearly after the two first oil price explosions that the competitiveness of an energy-wasting economy decreases; that it

loses continuously through its terms of trade; that a flight from the dollar began, the IMF changed the rules of the game. This helped the situation somewhat: the system of floating exchange rates was instituted in which it was also difficult to get rid of the dollar load. He who wants or would want to get rid of his dollars, probably, will/would experience a considerable loss of wealth. (By all means, the great volume of dollar funds moving to and fro may shake the economies of individual countries, e.g. through the enforcement of revaluation. The exports sectors of countries which acquire a significant proportion of dollars in their external trade, will face unrealizable challenges because of the drastic revaluation of currency, esp. if this is strengthened by speculative exchanges. Obviously, this is inadmissible, and induces the intervention of currency market in compliance with the practice of dirty floating. However, the making of a domestic surplus money threatens with the growth of inflation, what demonstrates that the sovereignty of currency policy is violated greatly in these countries.) To this situation the response was the European currency integration; that was why the Germans, too, replaced their successful mark with euro.

What has been discussed less so far is with what USA strengthened its position besides the change of the rules of the game in the currency system.

It was nothing else but *Reagan's economic policy*.^{3/} Here I do not think of the run-out ideas of supply-siders, just the simple fact that *military development* financed from budgetary sources was *concomitant with enormous advantages*. It increased the U.S. military and civilian level of technology what made it possible for the USA *to preserve its leading role and competitiveness in key technologies*. As a result, U.S. share in international trade has been

maintained for more than 30 years. The price of this was that the U.S. debt trebled during the Reagan administration; around 2003 it reached \$ 4000 billion *so the USA is the greater debtor of the world.*^{4/}

Yet, this can be financed! The immense amount of dollars 'that is wandering about' in the world finds no securer and more liquid investment than the purchase of U.S. government securities.

This economic policy may be pursued for quite a time but not infinitely though. However, for us, Europeans, this policy cannot be followed, this is why the state of the budget is so important in the stability pact. Naturally, there is another way to increase competitiveness: it is *the reduction of expenses with the lightening of public burdens*. However, this necessitates the reorganization and cut back of the large systems which will probably be concomitant with the shaking of social cohesion. Thus, it will be difficult to meet Lisbon principles. And how difficult for us, Hungarians, it will be to chase the moving game, I cannot even say.

Appendix

ECB Statistics. November, 2004. Structural Indicators.

References

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- 3/ J. Stiglitz: The Roaring Nighties, 2004.
- 4/ Stanislaw - Jergin: The Commanding Heights. A Touchston Book, 2003, New York.