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LOITERING ON THE "DIRT ROADS" OF THE "LOST DECADE"

The causes, the events, the consequences of the first Great Crisis of the 21st century, the role of the government policies, banks and international organizations will be the subjects of research in social sciences for many years to come. Books which are still published about the crisis of 1929-33 ,after more than 80 years may serve as important proofs of the possibilities for finding new data, new facts about the interrelations between politics and economics. The purpose of this paper to offer a critical overview of certain economic and policy implications of the crisis, without blaming too much on politics or the criticizing the pundits in economics and their different theories. In spite of the abundance of the available data, it would require a longer interval to give a comprehensive analysis about the type, the characteristics, the global diffusion, the main events, the different national and international crisis management efforts, the consequences (outcomes) and some relevant conclusions which may be important also for the future. More than half a decade after the beginnings of the financial crisis however one may try to put the some aspects and dimensions of the Great Crisis into a somewhat broader, historical and at the same time future oriented perspective.

The Great Crisis in the first decade of the 21st century is a global systemic crisis, conditioned by the deeply rooted structural problems of the economy, causing also major turbulence of the different subsystems, like ecology, economy, politics or society.In a typical systemic crisis the system itself runs out of options: it confronts problems that cannot be resolved within the framework of the system itself and its very foundations are ruined. In such a crisis, the whole system, its main sectors and institutions may be hit: public and private finances, industry, agriculture, services, output, consumption, investments and trade. The outcomes may be large unemployment and major losses in the wealth of the population. In most cases only structural transformations and institutional changes can direct the economies back to the path of economic growth.

In the background of the Great Crisis there have been not only the well known economic events in the US during the past decade, but severe and long term structural problems and changes in the global economy to which the institutions were not prepared. One of the most important of such changes has been the fast increase of the financial sector and the expansion of sectors, which has been characterized by some economist, like the Polish Kalecki as the paper economy.[1] The paper economy is linked to the real economy mainly through investments, loans serving both production and consumption, and the flow of profits or incomes from the real economy to the paper economy. Globally, the most important links are FDIs. This linkages transmit the adverse or the favorable trends of the paper economy to the real economy, helping economic growth or in case of uncontrolled, unregulated systems instability, volatility, turbulence and crisis.

[1] This is that part of the national or the global economic systems, where there is no material production and it is dominated by the movements of money, stocks, bonds and other financial instruments. During the past 25-30 years the "paper economy" grew more than three times faster, than the "real economy": industry, agriculture, the related services, transport, communication, commerce.

The financial system, which is the core of the paper economy has has been characterized by a British economist Susan Strange as 'casino capitalism,[2]'

The Great Crisis proved again that the financial banking crises may become exteremely dangerous[3].Once a banking crisis starts, it may spread very fast.If problems in one bank are made public, small depositors get scared and they take money out.This situation may result a masive run on the banks. The capital of the banking sector could be depleted due to loan losses, resulting in a major losses. Banking crisis may lead rapid disruptions in the real economy.The internationalization of the banking sector connects directly the banks in different countries and the affiliates of the large financial conglomerates accross the borders A home grown financial crisis can become rather fast a regional or global financial storm.

By the 21st century when unmeserable type and number of linkages exist between states, finances,production and consumption of material goods the institutions,the interconnected global system is an excellent soil for the diffusion of the processes and problems. The financial crisis which started in the largest and most developed country, in the United States became a "detonator" for the explosion created by the Great Crisis not only in the American economy.It triggered the transmission to the other sectors, and communicated the crisis to the other developed countries and also to the rest of the world.Beyond the diffusion of the US crisis, the "home grown" crisis of the Euro-zone had a very similar global impact.

There have been several country and region specific structural factors, which influenced the speed and impact of the diffusion:

-the general condition of the given economy, the "quality" of its institutions and the speed they could react by "firewall building" or other methods;

-the size, character and healty of the financial sector in the economy of the given state;

-the degree of interconnectedness of the national financial institutions with the US and with some other major financial centers;

-the degree of indebtedness of the given country and the relative magnitude of external,public, government, municipal,hosehold and corporate debts;

- The ways and channels the crisis spread to the "real economy".

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[2] The concept has been developed originally by. Kalecki,a Polish economist. Keynes also referred to the casino character of modern financial institutions. In her book, Casino Capitalism Susan Strange likens the Western financial system to a vast casino. As in a casino,"the world of high finance today offers the players a choice of games. Instead of roulette, blackjack, or poker, there is dealing to be done - the foreign-exchange market and all its variations; or in bonds, government securities or shares. In all these markets you may place bets on the future by dealing forward and by buying or selling options and all sorts of other recondite financial inventions. Some of the players - banks especially - play with very large stakes. There are also many quite small operators. There are tipsters, too, selling advice, and peddlers of systems to the gullible. And the croupiers in this global finance casino are the big bankers and brokers. They play, as it were, "for the house.' It is they, in the long run, who make the best living." She goes on to observe that the big difference between ordinary kinds of gambling and speculation in financial markets is that one can choose not to gamble at roulette or poker, whereas everyone is affected by "casino capitalism." What goes on in the back offices of banks and hedge funds "is apt to have sudden, unpredictable and unavoidable consequences for individual lives.

[3] The dangers can be partially explained by the power of brokerage houses, money traders, investment banks, mutual funds and hedge fund operators and some other financial actors, which is based in part on a complicated "process of multiplication" of loans, assets and transactions. Many investors in financial markets buy financial instruments on very thin margins, based on loans obtained by pledging the assets as collateral. This is called "leverage" in the jargon of financial markets. In turn, the borrowed funds are invested in other financial assets, multiplying the demand for credit and financial assets. As demand rises, more sophisticated financial assets are invented, including many forms of financial derivatives. A major portion of the accumulated debt remains serviceable only as long as the prices of most assets will rise or at least remain relatively stable. If prices turn down, they easily can lead to a chain-reaction. If investors respond instinctively like a herd, they will bring a far-reaching collapse that constitutes a crisis.

No country was completely immune of the transmission.Some states however have been able to avoid major decline in output and employment and many of the related problems.The degree of relative immunity of some countries,like China, South Korea and others can be explained by structural and coninctural fators.Among the structural factors,the quality of the management of government finances and private financial institutions, the size of national gold and currency (US$, Euro, Yen,) reserves and the way these were invested have been the most impotant.The conjuntural factors/export growth for example/ provided in a number of cases a relative stability for large external revenues.Domestic savings in relation to different obligations have beem also helpful.These countries contributed also to the moderation of the Great Crisis.

The spread of the crisis to the "real economy" has been particularly fast and wide spread in those countries, where the factors of relative immunity have been non-existant or weak.

The shock was certainly violent, but the reactions of the system, governments and central banks with their bailouts on an unprecedented scale, managed to avoid the worst consequences,which would have been potentially much more damaging than int he 1930.The crisis enforced a partial cleanup in the stock markets and in the banking system and to a certain extent, the actors of the real economy could get rid of worn out capacities.Taxes and social insurance programs–both much bigger than they were in 1929–acted as "automatic stabilizers." Real wages in many cases fell, but overall income didn’t decline in proportion, both because of the reduced taxes, social security measures, unemployment benefits, and other measures in many states.All these put a floor on total spending, and therefore prevented the economy’s downward spiral from going too far.These and other policies and measures had a strong preference. Profits have recovered strongly even as unprecedented long-term unemployment persists; stock indices on both sides of the Atlantic have rebounded to pre-crisis highs even as median income languishes. It might be too much to say that those in the top income bracket actually benefited from a continuing depression, but their losses have been more than compensated.

The Great Crisis proved that national "firewalls" can be ruined and policies could often be nullified by global processes and transactions over which the decision makers have no control. The crisis has been a particularly important proof for the fact that interdependence means also mutual vulnerability and the ways,the different countries interact,may become the source of chaotic relations in international life and the loss of control over many areas of national life.All these however may become incentives for making policies less dependent or stimulate collective policies and actions.

MISDIAGNOSED SITUATIONS, POLICIES PROBLEMS AND ERRORS. THE SPECIFIC CASE OF HUNGARY

The debates about the sources, the diagnose and the management of the crisis, the sources of failures, errors and more or less successful solutions enshrine issues on different levels and of different types. Did the crisis-managing generation of politicians and experts understand better the situation and problems and had they been more successful than their grandfathers, in managing the crisis and helping to limit the damage? The answer is a qualified yes. I put the role of multilateral intergovernmental institutions to the first place. The second level: the states had also great advantages, compared the 1930s. Some of these advantages were in fact structural, built into the economies and the institutions. Others were intellectual .The third level had been the positive role and correct strategies of the transnational corporations.

Due to the fact that the Great Crisis has been the first major shock since the restoration of global capitalism as the dominant system it has produced a number of issues of ideological nature, but not irrelevant for practical or technical measures either. The debates have been more open and publicized in the US both in the academia and in the administration, than in Europe. The US Administration set up a large official committee for analyzing the causes and consequences of the crisis. Its Report, published in 2011 was focusing mainly on the direct causes and the responsible groups[4] many of the different protagonists of the "mainstream", the neo-liberals have been rapidly losing traction, even among their advocates. In this context a remark of Alan Greenspan, who headed the Federal Reserve Bank of the US for eighteen years, has been often quoted. That he was in 'a state of shocked disbelief' as to how a system based on 'the self-interest of lending institutions' could have found itself in this pickle. An other group of the neo-liberals argued that the policies offered and the instruments used by the main G20 member states particularly the bail-outs were wrong. They suggested that the management of the crises should be left to the markets. Let those banks ad firms go bankrupt which lost their competitiveness or made wrong business decisions. Naturally the situation offered an enormous opportunity to those, who have been the critics of the neoliberal capitalist system, policies, instruments and outcomes. This group has been also quite diverse: the left, the proponents of some churches, the Keynesians etc. They criticized the financial institutions for the mispriced risk, the government policies for macroeconomic errors over many years. The most important multilateral group the G20 which has been revitalized and strengthened during the Great Crisis served not only as a proof of the different approaches, but also of the readiness for compromises in the common efforts for saving the global economy from the collapse. It is interesting to follow the changing position of the group concerning the main tasks of crisis management as it has been reflected in the different statements[5].The changes have been the reactions to the economic events during the cri-

[4] The Re port summarized the causes of the crisis in 9 points:
We conclude this financial crisis was avoidable.
We conclude widespread failures in financial regulation and supervision proved devastating to the stability of the nation's financial markets.
We conclude dramatic failures of corporate governance and risk management at many systemically important financial institutions was a key cause of this crisis.
We conclude a combination of excessive borrowing, risky investments, and lack of transparency put the financial system on a collision course with crisis.
We conclude the government was ill prepared for the crisis, and its inconsistent response added to the uncertainty and panic in the financial markets.
We conclude there was a systemic breakdown in accountability and ethics.
We conclude collapsing mortgage-lending standards and the mortgage securitization pipeline lit and spread the flame of contagion and crisis
We conclude over-the-counter derivatives contributed significantly to this crisis.
We conclude the failures of credit rating agencies were essential cogs in the wheel of financial destruction. / Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States. Official Government Editions. Washington DC, 2011/

[5] Sections of G20 communiqués:
Washington, Nov. 2008: We will…use fiscal measures to stimulate domestic demand to rapid effect, as appropriate, while maintaining a policy framework conducive to fiscal sustainability Pittsburgh, Sept. 2009: We will avoid premature withdrawal of stimulus. At the same time, we will prepare our exit strategies and, when the time is right, withdraw our extraordinary policy support in a cooperative and coordinated way, maintaining our commitment to fiscal responsibility.Toronto, June 2010:We agreed today on…following through on fiscal stimulus and communicating "growth friendly" fiscal consolidation plans in advanced countries that will be implemented going forward. Sound fiscal finances are essential to sustain recovery, provide flexibility to respond to new shocks, ensure the capacity to meet the challenges of aging populations, and avoid leaving future generations with a legacy of deficits and debt. The path of adjustment must be carefully calibrated to sustain the recovery in private demand.There is a risk that synchronized fiscal adjustment across several major economies could adversely impact the recovery. There is also a risk that the failure to implement consolidation where necessary would undermine confidence and hamper growth. Reflecting this balance, advanced economies have committed to fiscal plans that will at least halve deficits by 2013 and stabilize or reduce government debt-to-GDP ratios by 2016.Seoul, Nov. 2010:The plan includes our commitment to… undertake macroe-

sis, but also to the changing interests and domestic priorities of the most important G20 countries. Beyond the general, global problems in the processes and trends of the Great Crisis Europe concentrated a few specific risks and tasks. Within the EU, the members of the Euro-zone, the states of the periphery of the Union and the non-Eu members differed in many ways but have been also interconnected. The premise of European debates and policy-making has been that countries became over indebted and so unable to access markets on reasonable terms and that the high interest rates associated with excessive debt hurted the financial system and inhibited growth. The strategy has been to provide financing while insisting on austerity, in hopes that countries can rein in their excessive spending enough to reduce debt, to restore credibility, bring down interest rates and restart economic growth. The shortcomings of this strategy have been recently recognized by the IMF. The IMF and the EU unfortunately has misdiagnosed the problems in important respects and set the wrong strategic course. Outside of Greece, which represents only 2 percent of the euro zone, profligacy is not the root cause of problems. Spain and Ireland stood out for their low ratios of debt to gross domestic product five years ago, with ratios well below Germany's. Italy had a high debt ratio but a very favorable deficit position. Europe's problem countries were in trouble because the financial crisis underway since 2008 has damaged their financial systems and led to a collapse in growth. High deficits have been much more a symptom than a cause of their problems, The treating of symptoms rather than curing the underlying causes made the patient worse From among the "medicines" austerity policies have become attractive ideas for many governments because of the simplicity and direct connectedness with government fiscal and monetary policies. In practical terms, however it proved to be a difficult instrument, causing often unmanageable problems. The first question, which emerged almost everywhere, how far should it go? The second problem was the incidence of fiscal measures which have been felt differently across different levels of society. Social groups at the bottom of the income distribution may lose proportionately more than those at the top, because they rely far more on government services and have little wealth with which to cushion the blows. The implications of austerity measures have been in the European context other, and particularly relevant factors. Austerity came to Europe in the first half of 2010, with the Greek crisis. The Toronto summit of the group of twenty prematurely reversed the successful stimulus launched at the previous summits and declared, roundly, that "advanced economies have committed to fiscal plans that will at least halve deficits by 2013."The impacts of the austerity measures have been different in the countries on differing level of development, structure and institutional capabilities. The trade implications have been also contraversial. If countries which are one another's major trading partners, cut their spending simultaneously, the result can only be a contraction of the regional economy as a whole. Proponents of austerity could not properly understand these interactions, nor such realities, which have been dealt with also in many textbooks a country could benefit from a reduction in its domestic wages to become more competitive on costs only than, when

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conomic policies, including fiscal consolidation where necessary Cannes, Nov. 2011:Taking into account national circumstances, countries where public finances remain strongly commit to let automatic stabilizers work and take discretionary measures to support domestic demand should economic conditions materially worsen.Los Cabos, June 2012:Advanced economies will ensure that the pace of fiscal consolidation is appropriate to support the recovery, taking country-specific circumstances into account and, in line with the Toronto commitments, address concerns about medium term fiscal sustainability. Those advanced and emerging economies which have fiscal space will let the automatic fiscal stabilizers to operate taking into account national circumstances and current demand conditions. Should economic conditions eteriorate significantly further, those countries with sufficient fiscal space stand ready to coordinate and implement discretionary fiscal actions to support domestic demand, as appropriate./From the Wall Street JournalTuesday, June 18, 2013/

there would be other, high wage countries the consumers of which are ready to spend their money on what the first country produces. It rarely happened however that all the states trading with each other and having similar structures, cut wages in a harmonized way. There is also a third problem, not unrelated from the second. If the people anticipate and experience large austerity measures through the cut of government spending, they will be afraid of losing their job and will be much more cautious with their spending. Austerity proved to be more often than not counter-productive in serving economic growth. One must not forget of course, that most of the smaller European countries have been forced by the multilateral organizations or by certain dominating partner states to introduce austerity measures. Some of these organizations later recognized that their policy was wrong, but than the damage was already made.

There are other, mainly political or ideological sources of the differences between countries in their crisis management policies, practices and outcomes. Hungary in this respect is an interesting, special case in Europe.

The Great Crisis hit Hungary early on. The country had been in a state of economic and political turmoil even before the global crisis reached Hungary. In late 2008, Hungary's impending inability to service its short-term debt - brought on by the global financial crisis - led the government to obtain an IMF/EU/World Bank-arranged financial assistance package worth over $25 billion. The global economic downturn, declining exports, and low domestic consumption and fixed asset accumulation, dampened by government austerity measures, resulted in an economic contraction of 6.8% in 2009. It is easy to see why Hungary felt under pressure at that time. At the end of 2007 most emerging economies either had high external debt or high government debt. Hungary was the only country with both high external and high government debt. High external debt makes a country financially vulnerable, particularly if a substantial fraction of that debt is denominated in foreign currency. It has been argued, and also documented, that private sector debt, particularly bank debt, is a contingent liability of the government. In times of crisis, the government is likely to bail-out the private sector, if the country's external debt is high but government debt is low, the government has the ability to bail-out the private sector when an adverse external shock hits the private sector's balance sheet. However, if both external and the public debt are high, then the government may be unable to bail-out the private sector or if it does, it may default soon afterwards unless there is external assistance in place. The international financial crisis found Hungary in such a financially vulnerable state in October 2008. It is not easy to understand the decline of a country, which was much ahead of most of the former socialist countries in the introduction of market mechanism, liberalization and private ownership. Hungary is indeed a special case in Europe. The country is a member of the European Union, but not of the Euro-zone. Due to the EU membership, the quantitative obligations of the zone are considered as mandatory in its fiscal policies. It has a floating currency, The country in international statistics is in the developed group, in fact it is a middle level economy, into he higher middle level group. With its 10 million population and about 130 billion GDP is a relatively small market. The transnational sector of the global economy integrated Hungary into the global production and financial system at a scale, which has been close to many small Western states. Politically Hungary became an extremely divided country after the changes in 1990 and remained so. This made the governance difficult and in many ways inefficient. The situation changed somewhat in 2010.The present government has a two third majority in the Parliament won in the 2010 elections. This unusually large majority was mainly the result of protest votes, because the errors of the preceding Socialist-Liberal government, and the social con-

sequences of its austerity policies. Their policies have been in part the results of its crisis management efforts introduced in 2008 and in part the fulfillment of international recommendations, tied to the loans of the IMF. The new, government, with a two third majority in the Parliament had no political limitations or internal constraints. It was able with the using populist-nationalist slogans and the blaming its predecessors to introduce specific and very serious austerity measures, coupling with income policies preferring the higher income bracket groups. This was declared as "unorthodox policies" in contrast with the "orthodox policies of the IMF and the EU. These policies were unorthodox in the sense that most of them have usually not been implemented in developed countries. They have not been unorthodox in the sense that they could not have been considered as applicable policy mixes in the developed countries. The new government did not want to impose austerity measures directly on the population. In order to keep the budget deficit on target in 2010, without advance debates or warnings the government introduced special "crisis" taxes on the predominantly foreign owned banking and insurance industry, and also on the telecommunication and the retail industries, which have been the affiliates of the transnational corporations. Taxes on the financial sector were based on past assets and about an order of magnitude unprecedented in Europe. The government introduces also certain measures intending to stimulate economic grow. The corporate tax rate for small and medium size enterprises have been reduced. An other, more important measure the introduction of a 16 percent flat tax rate on wage income was also justified by the intentions of growth incentives. In fact, they served much more the income policy of the government, the support of the higher middle class. An other tax measure which was also unprecedented has been the nationalization of the special private pension fund. . To support at the beginning of 2011.The the assets of this pension funds were partially used to cover the revenue shortfall in 2011, partially to eliminate that part of the fund, which was covered by government contribution to the private savings. Since economic growth did not increase and tax revenues did not rise, the Hungarian government announced an increase in the VAT rate from 25 percent to 27 percent, as well as increases in the social security contributions paid by firms and several other taxes in 2012 and 2013.It also introduced several measures in order to ease the problems of foreign currency debtors. A rather drastic measure has been a law which unilaterally changed the terms of all foreign currency loan contracts by allowing debtors to make a one-off repayment of their loan at a discounted exchange rate. The costs of this scheme were to be born entirely by the banks. Later, the costs of some other measures have been shared between the government and the banks. All these imposed major burdens on the banks, justified by the government with such slogans, that they realized extra profits from these loans, and therefore they should carry part of the burdens, have certainly worsened the banks' capital positions. Introducing flat taxes has its merits during "good times", when investment opportunities attract the increased incomes particularly in the high income brackets. This was not the case during the slump period. It did not contribute to the anticipated economic growth. Taxing the financial also slowed down economic growth .These measures backfired. At the end of 2011 the government turned to the IMF and the EU to obtain financial backstop to support its efforts to refinance foreign currency debt and bond obligations in 2012 and beyond, but Hungary's" rejection" of EU and IMF economic policy recommendations led to a breakdown in talks with the lenders in late 2012. Ongoing economic weakness in Western Europe as well as lack of domestic investment and demand caused a GDP to fall 1.7% in 2012. Unemployment remained high, at more than 11%.

The European Commission objected to several pieces of government legislation including the Financial Stability Act and the National Bank of Hungary Act and others. In the final analysis the Hungarian government's policies did not address the main problems of the Hungarian economy, they made them actually worse. The sector specific taxes increased rather than decrease the long term structural problems. The over-taxing the financial sector led to lower growth and recession in 2012 and made the recovery from recession even longer. The nationalizing of the private pensions, as well as the invalidation of private contracts by governments increased the expropriation risk and undermined property rights. These and other measures contributed to the deterrence to investment in the long run. There was an other problem. Some of the austerity measures Hungary has implemented since mid-2010, which were greeted by strongly-worded protests from the European Commission and the European Central Bank. Most of these measures were nevertheless implemented. All these policy measures caused major damages not only to the reputation of Hungary in the European institutions and beyond but undermined its long term growth potentials. It was an important proof that damages can be made very fast. The correction of these damages even in optimal international environment and relevant national policies would require however many years. Will the global system or the narrower European environment provide more favorable conditions soon? In 2013 this looks improbable in the shorter run. At best, a sluggish recovery may follow the difficult years, in the worth case the global economy will be loitering in the turbulent lost decade.

SOME MAIN TRENDS AND PROBLEMS

One of the fundamental questions in 2013, close to six years after the beginnings of the great crisis are not just where the global economy stands does but where it is going during the next couple of years, towards the end of the second decade of the 21st Century? It is not too difficult to put together a "global mosaic". One may agree with Mrs. Lagard, the Managing Director of IMF, concerning the growth patterns of the global economy. She suggested that a three speed global economy emerged. In the first group there are countries which are doing well, in the second group are those that are on the mend, and the third are those, which are still struggling with the consequences of the Great Crisis. These three groups, according to Ms Lagard, face different challenges, largely interconnected, but they share the need to put in place policies that will repair the consequences of the crisis and prevent its recurrence. The first "speed" group includes emerging markets and developing countries. Because many had grappled with crises in the past, they were well prepared, and entered the crisis from positions of strength–with sound policies under their belts." Think East Asia, for example. In fact, for the past half decade, the emerging markets and developing economies have led the world's recovery–accounting for remarkable three-quarters of global growth. After a slight slowdown last year, they are bouncing back again. Today, developing Asia and Sub-Saharan Africa are the two fastest-growing regions of the world. These countries will legitimately want to consolidate their success." Countries in the second group …still have come to grips with some fundamental policy issues. "This includes the United States, but also other countries like Sweden and Switzerland, for example….the crisis began here, (United States) a result of financial excess. Since then, the United States has made rapid and substantial progress in repairing its financial system, as well as the household debt situation. This is paying off: credit conditions, housing markets, and employment have begun to tilt up. We are seeing steady growth underpinned by solid private demand….This does not mean that everything is settled. Far from it: an outstanding issue is that public finances appear unbalanced. Adjustment is too aggressive in the short term, and too timid in the medium term. This adds to uncertainty and casts a shadow on the recovery.

Third speed" group of the global economy–the countries that still have some distance to travel include the Euro Area and Japan." Starting with the Euro Area, European policymakers have accomplished a lot over the past year or so–including the European Stability Mechanism, the ECB's Outright Monetary Transactions, the single supervisory mechanism, and the agreement to help relieve the debt burden of Greece. We should applaud this–it is not easy for 17 countries to agree to and implement such major policy initiatives in such a relatively short time. At the same time there is still a lot to do. Especially in the periphery, many banks are still in an early stage of repair–not enough capital and too many bad loans on their books. Even outside the periphery, there is a need to shrink balance sheets, reduce reliance on wholesale funding, and improve business models. Because of insufficient financial repair, monetary policy is "spinning its wheels"–meaning that low interest rates are not translating into affordable credit for people who need it. The plumbing is clogged up, and we are seeing more financial fragmentation. Across the European periphery, credit has contracted by 5 percent since the onset of the crisis, hitting small and medium-sized enterprises particularly hard."[6] As the results of the "three speed" and of other factors, the global picture is mixed. First of all, the world economy, it is still growing. The emerging economies have been the source of two-thirds of global growth since the Great Crisis began. The global GDP has risen from around $32 trillion at the beginning of the century to just under $62 trillion before the crisis, and to $72 trillion at the end of last year in current prices. A part of it of course "nominal", but the real part is not negligable.2013 may be a year of stronger growth for the world economy than 2012, and in some countries better than the growth since 2010. Despite progress in slashing deficits, gross government debt in most advanced governments has continued to rise. In 2013 it is projected to reach some 110 percent of Gross Domestic Product in the United States, the United Kingdom and France, some 230 percent in Japan and close to 90 percent in Germany. In most large and advanced economies, the total debt of households, non-financial corporations and governments has risen by $33 trillion from 2007 to 2012, with debt ratios in a number of emerging economies rising even faster. In addition to slashing policy rates to effectively zero to avoid a total financial collapse, central banks also embarked on large-scale asset purchases to aid the economic recovery. Since late 2007 central banks' total assets worldwide have roughly doubled to over $20.5 trillion, or just over 30 percent of global Gross Domestic Product. Among the emerging Asian countries, central banks' assets correspond to over 40 percent of GDP as banks boosted their reserves.[7] In spite of the fact that many emerging economies have enjoyed much stronger growth no one is immune from developments elsewhere. If one would use the mosaic of the global economy in 2013 as anchors for the global trend projections until 2020, the result would still be a more unequal and divided world. Such risk as the continuing depressed growth in the developed world, a slowdown in the "fast growing" group, the continuity and the increase of the problems of the EU would represent additional risk factors... It is easy to construct believable downside forecast. All major regions of the world face challenges. Many of the different worries of the past 5-6 years are still creating problems, and some of those, which have been at least partially solved, could return at any time, particularly the problems in Europe. Economies in the West are still suffering from a lack of demand sufficiently strong for promoting higher growth rates. The pressure of the debt issue may imply additional adverse growth consequences. Fiscal and monetary stimulus may be resulting in the semblance of a renewed growth, but it may not dispel the long term structural problems and shortcomings of the economic system. The "jobless recovery" is a singe of an economy which is

[6] Christine Lagarde: The Global Policy Actions Needed to Stay Ahead of the Crisis Address to the Economic Club of New York, New York, April 10, 2013

[7] Central Bank News, June 25,2013.Atlanta,US.

better at generating process innovation (creating cheaper, more efficient ways to make existing consumer goods and services) than what business consultant "empowering innovation" (creating new consumer goods and services) and new jobs. The "repair" of the problems of the EU institutions and policies and the substantial improvement of the economic performance of the US even under more favorable circumstances would take long years. 2013 will most probable represent a shift in the policy mix. Uptill this year Monetary policy served as a "shock absorber" for the world economy with the low interest rates in the US and Europe. The Central Banks pumped more than enough liquidity into the global economy. It is not clear, to what extent the private-sector lending by the banks contributed to the growth of the real economy. The shifts would create probably major difficulties in some of the emerging economies, leading to more expensive sources of external financing and to upward pressure on currencies or rising asset-price inflation It is unclear to what extent the anticipated shifts will help the unfinished business of global fiscal consolidation, and the strengthening the still weak financial systems. In this later issue it is fundamentally important to improve the ability of European policy makers to control the euro zone which can and certainly will be hit by very strong shocks also in the future. In the US the repetitions of the domestic political struggles about the fiscal cliff clearly indicated the needs for the agreement on a long term fiscal plan. The big questions hanging over the global economy now: Is the world at a beginning of a return to normal? A second question which may be asked, what will be the "normal" in the post crisis world? What's going to happen in order to access to capital [for] developing countries?" Is the world economy still in a state of the long depression or is this a transition to an era of moderate growth? Answering those questions now is impossible. For now, the uncertainty is producing additional volatility. May this be reduced by a much higher level of international multilateral cooperation? Probably yes.

NEW PROBLEMS AND TASKS IN THE SYSTEM OF MULTILATERAL COOPERATION IN THE POST-CRISIS WORLD

The global crisis has been an important challenge for practically all the institutions of multilateral cooperation. It has been an important proof of the often emphasized reality, that globalization without effective global or regional institutions is leading the world into chaos. The Great Crisis has made clear that avoiding the derailment of globalization of trade and finance and the protection of the globe from neo-fragmentation and protectionism call for enhanced global cooperation and an efficient, flexible and coherent system of global governance.

Strauss-Kahn, the former managing director of IMF, some years ago justified by the Great Crisis, that it has become necessary again to deal with the issues of global governance: "The good news is that global governance has been renewed by the crisis. Led by the G20, country came together to face common challenges with common solutions focusing on the global common good. We saw this in monetary policy, with coordinated interest rate cuts, with swap lines between the Fed and many other central banks, and the decision to adopt unconventional monetary policy measures. We also saw this in fiscal policy, where countries with fiscal space delivered a 2 percent of GDP global fiscal stimulus, as the IMF had advised…….Thus we have so far avoided a second Great Depression, a threat that was on many minds after the fall of Lehman Brothers. This exemplary cooperation will go down in history as the first time that governments representing billions of men and women were able to work together to tackle a global danger…..The crisis also prompted financial sector reform. Aware of the errors that caused the crisis, the FSB, together with the IMF and other institutions, is leading this agenda… The recent Basle III accord on banking regulation is

a major step in the right direction and should deliver a significant qualitative and quantitative improvement in bank capital. The next step is to deal with the regulation of non-bank financial institutions, which played such an important role in the crisis."[8]

The global crisis has been an important challenge for practically all the institutions of multilateral cooperation as the world has moved into a more uncertain phase of global interconnectedness with the dangers of mutual vulnerabilities. During the crisis the restructuring, extension and central role of the G20 in the global governance process has been probably the most important "innovation" in the institutional framework of multilateral cooperation in the 21st century. As it has been already mentioned, the different measures, coordinated in the G20 group permitted to avoid the collapse of the global economy. The role of G20 will have to change and made more resilient and efficient. The United Nations system which is the central multilateral organizational structure of the post Second World War world must be also strengthened. The world system needs a strong and effective flashpoint in all areas of global politics, economic and social affairs. The specialized agencies are also crucially important in practically all the functional areas of global co-operation.

Due to the central importance of the global financial sector and the weaknesses and the volatility of the global monetary system global monetary system the most urgent tasks have been formulated in that area.[9]The present system has many problems, the management of which is and will be very difficult. Any reform measures should include the appropriate collective management of risk factors particularly in those processes and activities, which are related to the imbalances and caused already or could be resulting in major global crises in the coming decades. Effective policies and actions are needed for the long-term stabilization of the financial sector on national, regional and global level, the easing dangers and risks related to the global pressure of the still increasing indebtedness, avoiding currency wars. Most probably the global pressures will increase for the development of new global reserve currency in the multipolar world and develop mutually agreed rules in order to avoid the repetition of future financial crises, and make the system safer on macro and micro level with institutional changes, macro- and micro prudential measures. On the bases of the G20 summits declarations and the effort in the EU, one could notice a likely change of approach and scope in the regulation and oversight of national financial systems. It has become clear too, that alongside national regulation systems, while there is a need for a global regulatory framework with minimum standards and some control or oversight of global operations of systemically important financial institutions, the probability to establish a stronger international regulatory system is rather low. There is a degree of consensus regarding the need to implement effective global early warning mechanisms, and this will require the combined experience and knowledge of a wide range of institutions and actors.

As for the private institutions are concerned, the Basle oversight institutions started also working also on long term measures for the strengthening the banks, insurance companies, and improving their transparency and security. From among the measures, the new Basle rules are of

[8] Dominique Strauss-Kahn, Managing Director, International Monetary Fund :The Triple Comeback–The Impact of the Financial Crisis on Global Economic Governance.Lecture in Geneva, Dec 8, 2010

[9] The present system has many problems,the management of which is and will be very difficult.: (i) a fiduciary dollar standard (secondarily, competition of different currencies in their role as reserve currencies); (ii) the freedom of countries to choose whatever exchange rate system they prefer, with flexible exchange rates being the dominant mechanism among major currencies; (iii) largely free capital movements or the market expectation that countries would move in that direction, but with the capacity of countries to control capital flows; (iv) IMF financing that has been small relative to the magnitude of contemporary balance of payments crises; and (v) ad hoc macroeconomic policy co-ordination under crisis conditions.

utmost importance in terms of capital requirements, in terms of liquidity monitoring, and all what is the core of the new banking supervision. The rules are not only dealing with the banks themselves; it is the full body of the system the non-bank financial institutions, the money and security markets

There are proposals on the table for monitoring and supervising both the creation and the propagation of complex financial instruments, requiring the greatest transparency in the markets where they are traded. As for the latter, the idea will be to cover all market participants, be they banks, hedge funds or credit rating institutions. Similarly, a way will be found to bring the "shadow" banking system into the orbit of regulatory principles and oversight in the new regulatory landscape.

The reforming of the global trade regime is also a crucial task of global economic governance the multilateral trading system is at a fundamental crossroads. Unilateral trade liberalization has been strong over the last two decades as states have reduced barriers to trade and investment across most sectors of their economies; but the process has slowed over the last couple of years. The financial and economic crisis resulted in a growing opposition to trade liberalization increased the demand for protectionism to protect key national businesses and jobs. Most members of the World Trade Organization (WTO) kept so far the worst domestic protectionist pressures under control the regulation of the financial system and the governance of the trade regime require different policy responses but to solve the problems in one domain it is necessary to solve them in the other. The difficulties with concluding the Doha Development Agenda (DDA) negotiations demonstrate not only the difficulties of conducting multilateral trade negotiations in the 21st century but also expose serious fault lines in the contemporary architecture of trade governance in particular and global economic governance more generally. The recent trend amongst larger countries to go outside of the WTO to reach trade deals carries the risk of undermining the fabric of inclusive, fair and stable institutional arrangements that underpin international trade.

Both the global financial and the trade regime are very important for the moderation of poverty and the promotion of employment and for the sustainability of global development. All their aspects are interrelated with global production and consumption, finances and trade. The future of the global ecological system is also interrelated with the effective multilateral means to halt global warming based on institutional systems that recognize the interdependence between countries (and the differentiated role each of them has played in its development), between public, private and social actors. All those areas have also their separate specific problems, needs and institutions for promoting global rules collective actions.

It is evident that both the analytical and normative capabilities of the multilateral organizations must be improved for efficient operational potentials. There remain four important issues to address here: the balance between governments and markets, the future of the norm of embedded liberalism, the limitation of reform through regulation and the actual prospects for meaningful reform in the post-crisis environment. A crisis such as this one, with its complex origins, provides ammunition to support any almost any ideological view. On the one hand, there are growing concerns about unrestricted markets and, especially, the lack of regulatory oversight. The idea that markets do not need government regulation and can provide their own oversight is problematic. Markets have failed to self-regulate, not just in the current crisis but in past ones as well. Although excessive regulation is dangerous, complete deregulation is not the answer. Similarly, there is a

danger of reining in markets too much. A great deal of prosperity has come out of markets and the internationalization of investment. Even if markets have to be limited, there are practical problems in trying to impose greater restrictions in the short term. Despite the worries by some that the U.S. faces the prospect of socialism, Wall Street would be the first to oppose any such attempts. The real issue is not a choice between government intervention in the economy and free markets, as some contend, but the need to find an appropriate balance between the two.

Another significant issue that some have been worried about for some time now is whether international interaction, particularly in the realm of the economy, is still governed by the norm of embedded liberalism. The idea of embedded liberalism was first proposed by John Ruggie who argued that the post–World War II economic system created at Breton Woods was governed by this principle and that economic relations are still governed by it. This norm, according to him, helped ensure that states could capture the benefits of the free market while at the same time avoid the danger of becoming subservient to it. In effect, as Ruggie notes, the liberal market was embedded in the society and thus served the needs of society and not the other way around, as was the case under the classic gold standard. At the same time this also helped avoid the danger of economic nationalism and beggar-thy-neighbor policies that characterized the inter-war period.

This norm is still alive today and will remain relevant despite concerns over the rise of neo-liberalism or economic nationalism. The forces that first created a need for embedded liberalism – the benefits that free markets confer on society and the negative impact that unrestricted markets can have – are still around today. They are there in the benefits and danger of the current process of globalization. Regulation is not a magic bullet that will end crises once and for all. No such solutions exist!

The processes and policies related to Great Crisis cannot be explained and understood without the consideration of international and national politics. The analysis of the interrelation between the political process and the economic policies related to the crisis goes beyond this paper. In conclusion however it is necessary to note, that the "colours"of the political systems, the ruling parties or coalitions representing various interest groups or social strata, the degree of consensus in the management of the crisis or the disagreements influence economic ideas /ideologies/, preferences and policy instruments goals and measures. The different areas of national policies, particularly those, related to the social consequences of the crisis, the incidence of austerity policies have been never neutral. There are also major disagreements on such issues, how an economy works. The political outcomes of the economic measures are also important for the competing parties and their constituencies. Such issues as the future of the European project: the Euro or the European Union, the Hungarian situation, the "fiscal cliff" related issues in the US and many others have been heavily loaded with politics. German politics in 2013 will have also major influence on the European and global management of the post crisis recovery. It is necessary to add, that not only the direct economic effects, but the longer term and indirect consequences are considered by the political factors and forces in the different countries. /redistribution of incomes, wealth, election prospects for the ruling parties or oppositions/.The attitude and commitments of the governments in the international organizations and in such groups as the G20 depends also from their national political goals and preferences in the international economy. All these, including the various pressures on the political system must be taken into account beyond the sphere on economics concerning the future of the global trends. These

make any longer term projections concerning the length of the "lost decade" more difficult and uncertain.

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