

SUMMARY OF THE ARTICLES

Financial discipline and soft budget constraint

János Kornai

The article was written upon request for the Palgrave Dictionary of Economics and the Law. If persistently loss-making firms which ought to go out of business according to the internal rules of the market are regularly bailed out, the budget constraint of the firms becomes soft. Behind the phenomenon of soft budget constraint lies a dilemma of dynamic commitment and credibility. In its declarations the state commits itself to not saving the loss-making firms, but under certain conditions it is unable to keep its promise.

The article emphasizes that although the phenomenon of soft budget constraint appears most sharply in the socialist and post-socialist economies, it is quite widespread in some spheres of mature capitalist market economies as well.

The soft budget constraint weakens the market stimulation, leads to adverse selection, dulls price and cost responsiveness, causes coordination disturbances, involves harmful monetary and fiscal effects and causes demand to run away.

The study surveys the wide and varied theoretical and empirical literature on the soft budget constraint, and the political, societal and economic reasons behind this phenomenon and then draws economic policy implications. Hardening of the budget constraint is of particular importance during the post-socialist transition, when it is one of the yardsticks for measuring the progress of the reform process.

Integration “traps” in the relationship between the European Union and East Central Europe

Péter Balázs

It was exactly eight years ago that the European Union opened towards the East Central European countries which showed promising signs of transformation. The time passed since then brought great progress in the expansion of the Eastern systemic relations of the West-European integration, yet the results are still lagging behind the expectations of the countries seeking admission. In spite of this, looking from without the European Union is still more popular than for its own citizens. The approximation to each other of the two halves of Europe is on both sides braked by tensions. In the West there is a fear of the inflow of cheap commodities and labour, of fast spreading organized crime. The Central and East-European countries catching up are, however, disappointed because of the sparse financial supply and the delay of a hoped-for quick and equal acceptance by the organizations of the market economies. Success of the two main branches of the European integration process, i.e. deepening and expansion, depends however first of all on each other, but their mutual linking is made difficult by quite a few integration “traps”.

Analysis of the trade between Europe and the Far East

András Nagy

Distribution of the extremely dynamic exports by the Far Eastern countries was very unequal among the various importing regions of the world, within it among the European regions. A similar disproportion can be found in the other direction as well: Western Europe not only

exported incomparably more to the Far Eastern regions than the two East-European subregions, but also the growth of exports by the former was much more smoother and faster. The very fast growth of exports by the Far Eastern countries could be attributed almost entirely to machinery products in the case of Japan, while in the case of the other two subregions mostly to machinery and other industrial goods. From the indicators of trade intensity one may conclude that the development of trade is strongly affected by the political relations and their changes. But also the impact of trade policy is strong. It may e.g. be attributed to this fact that the trade between Western Europe and the Far-Eastern regions does in most cases not even reach half of what would follow from their opportunities. The same could be told about the Central and East-European countries where a rapid expansion of trade with the Far-Eastern regions may be expected.

Changes of the labour market between 1997–2002

János Timár

The study is a forecast of labour supply and demand, giving a comprehensive picture on the volume of labour supply and its structure by sex, age and qualification, as well as on the composition of the demand for labour by economic branches and qualifications. The author investigates the main strategic tasks of employment policy on the basis of the above analysis.

Transitology and/or economics

László Csaba

With an almost comparable analysis of studies written at four different dates the article seeks answer to the question whether the economics of systemic change ceases to exist or it will survive in the framework of general standard analysis, and if so, how.

Direct foreign capital investment, domestic supplier relations, balance of trade and technology transfer

László Árva

The preliminary expectations towards the inflow of direct capital investment have not come true in every respect. According to latest investigations the various firms owned entirely or partly by foreigners are increasingly responsible for the deficit of the Hungarian balance of trade. The deficit caused by them is related, among other things, to the investments made with the aim of acquiring markets and to the concealed forms of profit transfer. According to the opinion of the firms in question the flexibility of domestic suppliers is in many cases not satisfactory, nor is the quality of products and the observance of terms. This is why they are frequently exchanged for foreign ones. A further lesson from new empirical surveys is that beside the formerly known forms of direct foreign investment (of colonial type, substituting foreign trade, creating foreign trade) also a new one is taking shape. Its main motive is that in the course of post-socialist privatization productive and trade capacities can be acquired relatively cheaply compared to both the green-field investments and the elsewhere usual prices of acquisition.