

Some system-specific features of capitalism

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The author previously applied the outlook and methodology he named the system paradigm to analysing the socialist system and post-socialist transition. This study takes the same approach to some general attributes of capitalism. After clarifying some concepts, the author presents examples of some system-specific features of capitalism, before addressing two of them in detail. One is the dynamism of the system. The great innovations of the last century that radically altered both the technology of production and people's daily lives were all introduced and disseminated by the capitalist system and its protagonist, the entrepreneur. Only under capitalism can the mechanism of entrepreneurship and innovation emerge, with the strong incentives and flexible capital market they require. The other immanent feature is a chronic surplus on the labour market that contrasts sharply with the chronic labour shortage prevalent under the mature socialist system. Theory and experience confirm that the faster the ongoing transformation of a capitalist economy proceeds, the greater the propensity for structural unemployment to appear. It is explained by the efficiency pay hypothesis how an employer has an incentive to pay more than a market-clearing wage, thereby introducing unemployment. Capitalism is a system that can be reformed, but attention needs paying to relations between reforms of different parts of the system. In fortunate cases they complement each other, but it is commoner to find that tackling one unfavourable tendency only allows another such tendency to increase.

Budget sustainability

Levente Pápa and Ákos Valentinyi

Government deficit and level of public debt are among the economic fundamentals. The basic question to ask about fiscal policy is whether it is sustainable. This paper first studies the theoretical problem of sustainability. One implication of the theory is that fiscal sustainability is determined by future fiscal policies. Hence, it is not possible to measure sustainability in the narrow theoretical sense. The authors propose a definition of sustainability that can be used in empirical applications. Next, building on their theoretical analysis, they review the empirical literature on fiscal sustainability, with particular attention to the theoretical criteria of sustainability and the indicators used in the empirical studies. Finally, they present two simple indicators of fiscal sustainability that they use to study the sustainability of fiscal policy in Brazil and Hungary.

Reporting earnings and pension benefits: an elementary model*András Simonovits*

This paper analyses the interaction between reporting earnings and pension benefits, using a very simple, elementary model. Workers can be classified in three groups: 1. well-paid, reporting in full, 2. well-paid, reporting to a minimal extent (free-riders) and 3. poorly paid, reporting in full. In the basic version, it is assumed that free-riders save a significant proportion of their hidden earnings for their old age. Three pension systems are compared: 1. contributory, 2. contributory combined with a universal basic pension, and 3. contributory with means testing. The major result of the paper is that if free-riders are distinguishable and can be excluded, a means-tested system is welfare-superior to the basic system. The robustness of the observations can be checked by changing the assumptions of the basic model methodically. In a future model, the report and the saving are to be derived from individual optimization, and the system parameters will be set by maximizing the social-welfare function.

Some methodological questions of bankruptcy prediction and probability of default estimation*Tamás Kristóf*

Hungary's adoption of Basel II Capital Accord gave new impetus to applying and improving multivariate bankruptcy-prediction methods. This article compares the four most commonly applied bankruptcy-prediction techniques in literature and banking practice, in terms of estimation performance. The study attempts to decide, on the basis of empirical research, whether the simulation procedures with less rigorous conditions of application provide a more reliable bankruptcy prediction and probability of default estimation than traditional mathematic/statistical techniques do. The empirical research reveals that principle-component analysis does not necessarily guarantee better predictive power.