

ABSTRACTS OF THE ARTICLES

Hungary's Fiscal Council: Early lessons

György Kopits and Balázs Romhányi

Over the past decade, Hungary pursued a markedly pro-cyclical fiscal policy: a prolonged expansionary stance, followed by a sharp adjustment. The deterioration in public finances was reflected in a significant buildup in public indebtedness. As Hungary experienced considerable pressures from the global financial crisis, Parliament enacted a rules-based fiscal policy framework, including a Fiscal Council. The principal goals of the Council consist of promoting fiscal transparency and restoring public debt sustainability. The Council is comprised of an independent group of experts supported by a technical staff—in essence, a combination of the Swedish and the US models. Like most other similar institutions, the Council is empowered with dissuasive rather than coercive means. In its first year of operation, the Council issued an assessment of the Government's macro-fiscal projections, against a current-legislation baseline generated with an enhanced DSGE model. Also, it evaluated the conformity of the 2010 budget bill and of proposed amendments with the fiscal rules: the real debt rule, the expenditure rule, and the pay-go rule. In addition, it assessed the consistency of the budget bill with the transparency standards mandated by law. So far, on balance, the Council appears to have been effective in discharging its assigned functions through dissuasion, although admittedly the jury is still out with a final verdict. Early lessons highlight, among other things, the need for the Council to be vested with a high degree of independence, as well as the need for a skilled technical support staff, with unlimited access to timely and relevant information, to facilitate real-time surveillance of fiscal policy.

Does macroeconomics face a dilemma?

Tamás Mellár

The financial crisis that broke out in 2008 drew attention to mainstream macroeconomics, which appeared to have performed very weakly in forecasting and explaining the crisis. The neo-Classical and neo-Keynsian school have been drawing closer in the last 15–20 years, to produce a new neo-Classical synthesis. The basic models of the synthesis – the dynamic, stochastic, and general equilibrium (DSGE) models – and the neo-Keynsian monetary model had become decisive players in macro modelling. Now it appears that these models are decreasingly capable of eliciting short-term forecasts and economic-policy analyses. This places macroeconomics in a dilemma: should it continue to build on the DSGE models, or should it seek new models and thereby new development paths?

A new approach to the basic issues raised by the PAYE system

Zsuzsa Mosolygó

The lively recent debate on the PAYE pension system has included suggestions for abolishing its second, private pension-fund pillar. For this reason the author sees it as important to reappraise the basic issues of the PAYE system. A macroeconomic approach to the system shows that the second pillar in itself does not resolve the problem of an ageing society. For the consumption of pensioners under the pay-as-you-go and the capital-funded systems is still covered by the savings of the active cohorts, which becomes a serious problem as the proportion of active to pensioned declines. Nor do the equity and foreign investments in the capital-fund coverage system resolve the ageing problem either. The system reduces implicit state indebtedness, but the normally concomitant rise in the explicit state debt leads to a deterioration in investor confidence, which also raises the risk premiums. The pension funds/retirement plans are key players on domestic capital markets and also in economic growth, through their role in financing the economy. So the absence of a short-term approach to the investments or a macroeconomic approach to them, including the criteria of financial stability, poses a serious problem.

Risk diversification of insurers

Borbála Szüle

Insurance is generally characterized by a heterogeneous insurance population made up of several (homogeneous) sub-populations. Risk diversification in the “insurance portfolio” containing these sub-populations can appear as a difference between the risk of the total population and the sum of the risks of the separate sub-populations, and it can also be analysed based on the relation of risk and return. Examining these aspects of risk diversification with a model covering the main features of insurance activity, the study analyses how far the risk diversification effects of the insurance portfolio resemble the results of classical Markowitz portfolio theory. Based on the results from the study’s theoretical model, it appears that alongside several similarities, there are some individual features in the determination of “efficient insurance portfolios” and optimal investment weights.

Risk or uncertainty? A fragment of the history of theory on an old dilemma

Iván Bélyácz

The repeated financial crises of recent times have drawn attention to the old dilemma of “risk or uncertainty”. Following Knight [1921], a distinction is made in theoretical and financial economics between risk based on known or estimated likelihoods on the one hand and uncertainty on the other. Both the outcome and the likelihood of the latter are treated as unknown. Great strides have been made in recent decades in numerical expression of risk, and in market pricing, distribution and allocation, but it is still doubtful whether real progress has been made in measuring risk or only in measuring uncertainty. The study increases the doubts about the strength of our knowledge of risk by recalling a fragment of theoretical history. Measurement and treatment of risk based on refined methods have become a huge industry even though many important sides to the dilemma between risk and uncertainty remain unexplained. The author seeks to contribute to dispersing the doubt by taking an unusual approach.

The competition-enhancing effect of retail price maintenance*Barna Bakó*

Retail price fixing has been a disputed issue in theoretical economics for decades, to which attention was drawn again by a recent decision by the US Supreme Court ending the illegality of such price restrictions as such. Assuming a dynamic environment instead of the customary static model leads to the conclusion that it is frequently advantageous to a profit-maximizing producer to use retail price maintenance to avert the possible appearance of a reseller cartel. This will have a clearly positive effect on producer profits, and also in terms of increasing consumption. It is also argued in the study that it is unjustified to qualify such vertical pricing restrictions as essentially illegal, after the manner of the competition rules in most countries.

Modelling business relations*Andrea Gelei, Imre Dobos and Erzsébet Kovács*

The study places in the centre of discussion the cooperative dyadic relations that form one element in the chain of supply. Writers have taken numerous approaches to describing the development of such relations between buyer and supplier firms. The various theories discuss on a theoretical level the development over time of these dyadic relations, but they eschew empirical examinations. An attempt is made in this study to conduct such an empirical examination of the chain-like relations of supply, with the aim of discovering whether the life-cycle hypothesis can be applied to the development of business relations over time.

An empirical examination of consumer decisions requiring self-control*László Lippai*

The empirical examination presented in the study looks at consumer decisions that require self-control. The concept of consumer self-control in the author's research covers the overall effect of the intra-psychic and situative variables that influence the rational course of consumers' inter-temporal decisions. After the theoretical background to the concept comes an examination of consumers' behaviour in three decision-making situations with the same structure but in different contexts. The contextual differences are analysed and then an attempt is made to identify the psychological variables in the temporal preferences of the consumers, by gathering numerical information.