

ENGLISH ABSTRACTS

László ANDOR: From Rome to Rome

The political economy of the EU's 60th anniversary

The European Union is celebrating the 60th anniversary of the Treaty of Rome, signed in March 1957. The Italian government invited leaders to Rome to reflect on the future of the integration. The White Paper recently published by the European Commission serves as food for thought in this debate and helps identify possible directions.

This paper starts by summarizing the White Paper and touches upon some of the key challenges the EU is facing today: from Brexit to democratic deficit. We highlight the reform of the monetary union which should go ahead urgently in order to avoid crises like the EU went through in the 2011-3 period. On the other hand, and largely because of Brexit, budgetary debates for the post-2020 period are also expected to be rather difficult, together with the development of policies regarding migration and asylum. On the last two issues, the deepening of an East-West divide within the EU can be expected.

Interview with András SIMONYI: The beginning of an Unexpected Era. Trump Era: New Deal II.

On February 22nd 2017 we interviewed one of the former students of the Corvinus University, András Simonyi, former ambassador to Washington, currently teacher at the Johns Hopkins University. Mr. Simonyi shared with the audience: After 09. 11. 2001 the politics of the United States have fundamentally changed, what every American president accepted as a general framework. Donald J Trump has expressed this with the following statement: "We will never forget the lesson of 09.11." George W. Bush responded to the 09.11. challenge with a war in the Middle East. It wasn't just a distant war, it has transformed Americans' everyday life. Due to the terror attack on WTC, in America the conventional turned into the unconventional. The first cycle of the Obama's administration was determined by the Arab Spring, which wasn't only a policy regarding the Middle East, but it impacted the entire international relations. The second cycle of the Obama administration can clearly be classified as a failure.

Imre FORGÁCS: United States in the European Economy? (Strengthening the EU's federal institutions via regulations)

The plenary session of the European Parliament has approved three ambitious resolutions, exploring its vision for the future of the EU. The first report presented by Guy Verhofstadt, former Prime Minister of Belgium, initiates comprehensive reforms of the Lisbon Treaty. The MEPs suggest creating a new finance minister position and giving the Commission the power to formulate a common EU economic policy. The second resolution focuses on institutional issues: it proposes, inter alia, that the Council should completely switch to qualified majority voting, to avoid blocking important economic laws. The third resolution outlines a convergence strategy funded by a specific euro area budget, financed by its member states and a European Monetary Fund, with adequate lending and borrowing capacities to absorb economic shocks.

Péter FARKAS: World Economic Crises: Changes in Economic Theory on the Role of the State

Most probably the neoliberal, that is transnational monopolistic capitalism, having been in depression (“secular stagnation”) for almost a decade can recover (similarly to the 70s) by modification of its mode of production. However, the capitalist groups interested in maintaining the previous neoliberal world system are practically untouched with the help of state rescue packages. Consequently, recent leading ideologies haven’t changed that much. However, the hegemonic new classical views provisionally accepted the stabilizing role of the state putting in practice mainly monetary methods, but they have not changed much. Voices of representatives of neokeynesian schools (emphasized Stiglitz and Krugman) have become stronger, role of the state budget’s structural policy has been newly stressed, but to return to the developmental state considered unrealistic. Even international organizations have turned to economic policies stimulating real economy. First part of the study being published, introduces the altering views on the role of the state of most important representatives of different schools.

Judit RICZ: The classic approach of developmental states: in the wake of a bygone world

Debates on the role of state in economic development go back to the beginning of the history of economic theories, the aim of this study is however much narrower: we structure and synthesize economic literature related to the (North)East-Asian developmental states (DS). We draw up the classic paradigm of developmental states and sum up the changes and causes leading to its demise. Meanwhile we aim to demonstrate the consensus present in economic literature, that the classic model of DS was valid and successful only in its time and space constraints, but the model cannot be emulated, and cannot be applied successfully (without significant changes) in other countries, amid different circumstances.

István MAGAS: Financial Intermediation in the EU: Some Chronic Problems

By calling for a new quasi fiscal architecture, the paper is making a general argument to improve the current financial intermediation capacity of the European Union with a new, stronger fiscal authority, one that has its own revenue-collecting capability, well beyond the member countries’ contributions. Such a new architecture would enhance the intermediation amongst the goods, the asset, and the money markets, respectively. It would provide a better transmission mechanism between travelling funds (for both assets and liabilities) in cross border transactions. In addition, and it would better represent real-country - performance when any debt issued, it will be measured against the same credit market benchmark. In such a new fiscal setup, with a good enough size, the newly issued euro-denominated sovereign debt would immediately get a stronger promise of credit worthiness and future servicing guarantees. To admit, in the first half of 2017, the official EU decision makers are far from welcoming and adapting such a long desired change in fiscal capabilities.

Júlia KIRÁLY: Central Bank's Balance Sheet as a Mirror of Monetary Policy

The study examines central banks' balance sheets from multiple perspectives. The banking approach is suitable for the systematic analyses of certain balance sheet items, but it is unfit to answer relevant money-theoretic questions. For this, the balance sheet must be rearranged from a monetary point of view by which three important issues can be dealt with. First, the nature and significance of central bank money can be analysed. Second, the rearranged balance sheet mirrors monetary policy used in normal times. Finally, it makes possible to study unconventional tools. The comparison of existing central bank balance sheets proves that there is no typical central bank balance sheet.

Barnabás VIRÁG: Changing Times - Real Economic Issues in Present Monetary Policy

In most countries, inflation targeting had led to persistently low inflation. Meanwhile, however, problems emerged in the financial intermediary system, resulting in the most severe financial turmoil of the past century. The global crisis of 2008-2009 prompted a revision of the framework and instruments of monetary policy hitherto thought to be predominant by almost all of the world's central banks. Since then, the role central banks play in the economy has changed fundamentally. Current global trends show that monetary policy focusing exclusively on inflation may eventually give way to a broader monetary policy framework, in which real economic and financial stability considerations, in addition to inflation, are taken into account with greater efficiency. Moreover, especially in the case of moderately developed small, open economies, such as Hungary, the importance of creating harmony between the different components of the macro-economic policy mix (i.e. monetary, fiscal and supervisory policies) has increased.

Pál GERVAI – László TRAUTMANN: Values – Money – State

The aim of the paper is to prove that the origin of the money comes from the basic values and the state-building process. Discussing with the vulgar Marxist thesis namely the origin of the money is the commodity of exchange we argue that money was just a tool for several economic policy and it was just a rare moment in the history when the economic policy used it for the exchange of commodities. Hence, the Marxian approach was a special moment in the history of economic thought and not the usual case, however, very important point. The importance of Marxian theory is that it was a starting point of the development of economics in the 20th century and Western economics, especially monetary theory, which cannot be understood without Marxian theory of the money. The whole theoretical framework of the monetary theory in the 20th and 21st century can be summarized by the representation of the state in money in a more profound way.

Csaba LÁSZLÓ: Fundamental Issues of Tax Policy in the History of Taxation

It can be seen from historical researches and the subsisted laws that from the beginning of Hungarian history taxation was a significant part of the state's function. It can be seen from Olson that the settling kings of Árpád-kinship could levy more tax in the evolved

and stabilized state structure instead of filches of earlier peregrinations. Even the first laws established by King St Stephen would calculate with the effect of tax evasion. The right to impose the yearly taxes, the tax exemption of the nobility or efficiency of spending of levied taxes were a significant part of political battles from the beginning of statehood. Tax resistance is not a new development either, although it often manifested in revolution, rebellion, riot instead of current tax evasion. So the tax lessons appearing in Hungarian history can be instructive for the readers of modern age.

Márton NAGY: A Big Step - Terminating FX Loans of Households

The economic and social risks built up before the crisis and realized in the crisis years justify the termination of foreign currency loans. With the re-denomination of retail loans, the Hungarian financial system made a huge step towards a healthier balance sheet structure. Besides avoiding the CHF shock in January 2015 its positive effects will continue to prevail in the coming years through the stabilization of households' wealth, through the increasing shock resistant capacity of the financial system, and through the enhanced effectiveness of monetary transmission.

Erzsébet VARGA: Equal Sacrifice Principles and Progressive Taxation in the Spirit of Justice

Tamás Bánfi stated in his essay titled Fair Tax (System) or Ethical Taxpayer? (2014) the question of fair tax system is inefficient while the three types of equal sacrifice principles can support the lump-sum tax as well. It is an unreasonable statement in the usual model frame, however a regressive tax rate is possible in deed. In my essay the fairness of the principle of equal marginal utility sacrifice is doubted since it injures the criterion of neutrality.

János SZÁZ: Dollar Exchange Rate Now and Then. Exchange Rate History from Multiple Perspectives

The paper gives a statistical overview of the last six decades of the USD/HUF exchange rate. The syllabus of the related Finance courses at the universities has been changed substantially during this period – mainly as a side effect of the appearance of the computerized FX trading and the easy availability of the statistical packages for analysis. Financial education is one of the most important financial derivatives. There is a dramatic shift towards the statistical (mathematical) analysis of the financial derivatives, and at the same time neglecting more and more the important messages of basic economics from the previous decades.

Éva Katalin POLGÁR: Economic Growth of Russia in the Light of Oil Prices and Economic Sanctions

In this study I am analyzing the relationship between Russian economic performance and oil price movements. The Russian economy is inconceivable without natural resources at its disposal, namely crude oil and natural gas. Russian economic cycles are co-moving strongly with international oil prices. This naturally brings up the research question about the role played by oil in the Russian economy, i.e. how large is the share of the oil sector in overall economic production, through what channels can oil price

movements impact economic performance, and whether economic sanctions introduced in past years had a role in the recession of the Russian economy over the following period. This short study aims at finding answers to these questions, obviously without being exhaustive given space limitations.

Eszter BOROS: The Changing Patterns of Savings in China

China's external surplus is largely determined by saving behaviour. Based on empirical results of the literature, the essay seeks to answer the question how economic and social consequences of market liberalization, consumption-oriented global value sets and traditional culture jointly influence Chinese saving decisions. In this approach, the standard life-cycle optimization framework of economics is extended and enriched by behavioural focus. Results show that changes in China give significant incentives to lower saving rates. This is also reflected in recent data. However, the decrease of saving ratios is actually coupled with much uncertainty about the future. It is an open question how traditional values will guide behaviour of young people raised during decades of market liberalization. Meanwhile, we cannot precisely predict whether modernisation could have a transformative effect on the attitudes and behaviour of millions of the rural population.

Gábor KÜRTHY: An Amendment to the Money - Substitute of Money Debate

In a recent study it is argued that the classical banknote and the classical paper currency can be considered as money instead of considering them as „substitutes of money” (Bánfi 2016). Accepting the claim about the paper currency leads to understand more thoroughly why gold could be driven out of being the medium of exchange. The claim about the classical banknote is arguable. The excessive growth of its quantity instead of raising prices reduces trust. Further, it can fulfill the role of medium of payment only in a limited way. Thus, classical banknote is not money, it is a substitute of money.

Sándor LIGETI: Certain Issues of Macroprudential Policy

The main objective of macroprudential policy is financial stability using primarily prudential tools to limit systemic risk. Systemic risk can be caused by exogenous aggregate shock hits on many banks at the same time, or by idiosyncratic shocks if individual stress is transmitted to other financial institutions. The tools of macroprudential policy can impinge on the cyclical or structural elements of financial risk. The tools are rule-based or discretionary, which means the different regulation of systematically important financial institutions. The macroprudential regulation can be assigned to the central bank or institution/s/ outside the central bank.

Erzsébet KOVÁCS: The Risk of the Student Loan

Both types of student loans in the Hungarian higher education system lack proper underwriting. The paper examines the characteristics distinguishing the student loan from the bank loan; and gives an overview of the financial and demographic risks prevailing both in the case of the maintenance loan (Student Loan 1) and of the fee loan (Student Loan 2).

András MIKOLASEK: Some Problems of Credit Risk Modelling in Financial Institutions

Models quantifying risks promise to compress in some indicators such difficult things as the risk of a loan portfolio. However, these indicators sometimes behave rather oddly, which justifies the suspicion about the methods in use. Based on the Vasicek-model, the study deals with one of these issues. Two types of problems of the model can be shown. First, definitions used during the implementation are not always consistent with the model. Second, there is no proof for the existence of a long term, average probability of default central to the model. For these reasons, regulatory frameworks in use can impede the development of risk management.

József VARGA: Of the Definition of Inflation and its Direct Redistributive Effects

The study provides insights into the difficulties of measuring the costs of inflation. Its starting point is the short overview of the debate about the definition of inflation in the Hungarian literature of the 1970s. Based on this review the study deals with the redistribution effects of inflation. It can be shown that the lack of homogenous inflationary groups - i.e. groups that are effected by inflation only on some special area - makes it difficult to measure inflation properly. Clarity is subdued by the fact that even the assumptions about the mechanisms of inflation are unexplained, for example the role of anticipation and the role of balance are not properly dealt with.

Iván BÉLYÁ CZ: Persisting Enigmas in Corporate Governance (Critical discussion about the weaknesses of corporate governance)

The essay reviews the more profound causes of the operational challenges of corporate governance. When separation of management and ownership became the norm at companies, they had to face the relatively decreasing governance role of the owners and the increasing power of the managers. The first part of the essay examines how the ownership of the company became an obsolete concept. The second part discusses the role of corporate boards in governance, clarifying the boundaries of creating dependably competent corporate governance. The third part elucidates how risk management became derelict. The fourth part confronts the principle of “maximizing shareholder value” with “minimizing interest bearing loss”. In the end, the author, by the creation of a positive model, explicates the persisting loss of direction in corporate governance.

András Olivér NÉMETH: A Brief History of Growth Theory, Part I: From the Beginnings to the Solow Model

Growth theory is one of the most important and most interesting branches of economics. In this article we provide a brief overview of the development of this field. We start with the ideas of Malthus and Smith, then survey some formalized growth theories from the Harrod–Domar model to multisector models and the Solow growth model. Although the latter is a fundamental achievement in macroeconomics, some empirical and conceptual problems arise, which are also cited here. In Part II, we will continue with later developments, including the optimization-based neoclassical models and endogenous growth theory.

György SZAKOLCZAI: The International Monetary Fund: Bretton Woods, Savannah and the Tragic Death of Keynes and White

This paper is the sequel of this author's two former papers that appeared in the *Közgazdasági Szemle*. All these papers support the view that the whole life and activity of Keynes point towards his last work, the proposal to establish the International Monetary Fund and the elaboration of the ideas supporting this proposal. The paper reviews the Bretton Woods conference (accepting at least partially), and the Savannah conference, distorting his ideas, which led to his tragic death. It also describes the life of White, the proponent of the American ideas, and his tragic death caused by his underground activities.

Zoltán FELMERY: Is it possible to measure the role of the state with one index? A critical analysis of domestic security government expenditure (percentage of GDP).

The social and economic activity of the state is measured a number of times by government expenditure (percentage of GDP). This paper would like to draw attention to the fact that – for that purpose – usage of the index faces several burdens. To legitimize this statement – putting to use a social function separate from ideology: the guarantee of inland security – the paper reviews some of the most important concerns. Moreover it emphasizes the need of indicators that project a more realistic image of the role of the state – and other participating actors – in inland security.

Pál CZEGLÉDI: Economics as a Discovery Procedure

This review looks at two books, Erwin Dekker's work on the cultural origins of the Austrian School of Economics (Erwin Dekker, *The Viennese Students of Civilization: The Meaning and Context of Austrian Economics Reconsidered*, Cambridge University Press, New York, 2016, xii+220 p.) and Levy and Peart's work on the role of experts in economic policy (David M. Levy and Sandra J. Peart, *Escape from Democracy: The Role of Experts and the Public in Economic Policy*. Cambridge University Press, New York, 2017, Kindle Edition). The two books are complements: both doubt the orthodox approach to the relationship between economics and economic policy and suggest a humbler role for economists.

Marcell BÍRÓ – Alexandra TAJTI: Book Review: Condoleezza Rice: A Memoir of My Years in Washington**The Bush-administration's Internal Criticism in the Dawn of the New Republican Government**

A Hungarian translation of a memoir concerning the writer's tenure has just seen the light from the Oval Office's former frequent guest, after the devotees of Donald John Trump made him sit in the presidential chair as the 45th President of the United State of America. Condoleezza Rice, from 2001 as the first female National Security Advisor, and from 2005 to 2009 the head of the Ministry for Foreign Affairs, as the 66th Secretary of State, the second female who had the opportunity to fill this position served her country. Besides the titles she works as a political scientist in the University of Stanford, and in 2004 was voted to be the most influential women on planet Earth by Forbes magazine.