How high can Hungary's sustainable growth rate be? I. Theoretical questions about sustainable economic growth

Tibor Erdős

The central question with sustainable economic growth is what rate can be achieved in the long term alongside internal and external equilibrium and without irreparable harm to the natural environment. At a given employment level, the growth rate is ultimately determined by technical development, but the rate is not irrespective of the proportion of investment. But a reverse relation applies here. Rather than the rate being arrived at from the investment ratio, but it determines the proportion of investment to GDP—through the general and marginal levels of capital efficiency. This brings to the fore the questions of investment funds and domestic savings, the external sources. Countries catching up with the developed economies usually suffer from a funding shortage, due to a number of factors, which gives special importance to investment efficiency and factors that increase internal sources and improve efficiency. A salutary role in these is played by reforming the system of institutions and developing human capital. The links make clear that the growth rate can be understood from the system of internal and external conditions—growth is endogenous in nature. The study underlines theoretical connections that help to determine the growth potential of the Hungarian economy.

Business cycle harmonization in new and old EU member-states

Zsolt Darvas and György Szapáry

The study analyses the degree of similarity in the business cycles of the EMU members and eight new Central and Eastern European (CEE) EU members, for which EMU accession will be the next stage of integration. The coincidence of cycles is usually regarded as one of the most important optimal currency area properties. While the business cycles of Hungary, Poland and Slovenia greatly approximate to those of the EMU countries in GDP, industrial production and exports, the same cannot be said of consumption or services. The other CEE countries show little or no coincidence in their cycles. The EMU countries have managed to achieve increasing harmonization of their cycles, which could support the endogeneity of optimum currency areas.

Over-education, under-education and wage premiums on the Hungarian labour market, 1994–2002

Péter Galasi

The paper looks at the impact of over-education and under-education on earnings in Hungary over the period 1994–2002, using a large set of cross-section data representative of employees. Schooling was measured in years of education, while required educa-

tion was proxied by modal years of education in occupations, and the difference between employees' observed education and the modal education of their occupation allowed them to be classified as under-educated, over-educated or educated as required. The standard results were gained. 1. An extra year of required education and over-education yields positive and an extra year of under-education negative wage premiums. 2. The economic return on required education is higher than on over-education. 3. The penalty for under-education is smaller than the return on required education. Rising demand for educated workers and increases in higher-education supply were seen over the period. Initially, supply seems to have been rather inelastic, which brought rising wage premiums for the over-educated. Then it gained elasticity, leading to higher economic returns on required education. The proportion of over-educated workers increased from 11 per cent in 1994 to 24 per cent in 2002.

The flow of operating capital in the light of the theory of location choice

László Erdey

The study presents and systematizes explanations in commerce theory about the location of foreign operating-capital flow and related empirical researches. The theory of intellectual capital that can be seen as the mainstream at present has shortcomings as well as major virtues. The future would seem to belong in this narrower field to models capable of handling complex integration strategies. Examination of types of direct capital investment—horizontal, vertical and complex—adds a new dimension to the efforts to assess in a way different from the traditional one a country's state and pace of integration into the world economy.

Correction
The following abstract from the April 2004 number is reprinted here, owing to an unfortunate error of content:

The budgetary effects of the minimum wage

László Halpern, Miklós Koren, Gábor Kőrösi and János Vincze

Raising the minimum wage on the labour market has direct effects on supply and demand. But its indirect effects extend beyond the labour market. They are analysed here with a macro model that distinguishes three types of work and ten industries, whose firms differ in their price structures and the degrees to which tax and social-insurance payments are avoided. Raising the minimum wage generates tension on the labour market and *reduces employment of the unskilled.* Since the price level rises faster than average pay and aggregate employment falls, so does real consumption. The firms' profits and investment decline, but the former can be offset even by a small increase in tax avoidance. Although the rise in the minimum wage boosts tax revenues, budgetary expenditures rise more and the balance deteriorates. Advocates of a higher minimum wage need to consider these consequences if they are to reach a responsible decision.