

### **The operating mechanism of fiscal policy. Friction free models – supply effects**

*Péter Pete and Katalin Szilágyi*

The article employs some well-known types of macroeconomic model to draw attention to the possible supply-side effects of fiscal expansion. These effects, mostly simplified or neglected in basic economic training, add new viewpoints to professional thinking on the operation of fiscal policy. The intention is to show that the strong statistical correlation between government expenditures and aggregate economic performance can be triggered by supply mechanisms as well. This is an important statement because the Keynesian IS–LM system has remained to this day the interpretative framework for examining fiscal policy mainly because of its empirical applicability in economic-policy and – with the spread of micro-based neo-Keynesian models – academic discourse. Yet it is far from clear what type or size of role or weight these play in the process of adaptation of nominal frictions to economic shocks. If the relation between government expenditures and output can also be shown in friction-free models with perfect adjustment to prices, the analyses must clarify not only the adaptation difficulties, but the subsequent channels.

### **The structure of Hungarian public revenue and expenditure, 1991–2004**

*Dóra Benedek, Orsolya Lelkes, Ágota Scharle and Miklós Szabó*

The article describes the structure of government revenues and expenditures in Hungary, using aggregate statistics for the years between 1991 and 2003. This leads to four important observations: (1) Taxes on capital are relatively low, which may be justified in the short run by the need to encourage investment and hence accelerate the convergence to EU income levels. (2) The structure of revenues approaches the European Union's average in most dimensions. The exception to this is the distribution of taxes on capital and labour: taxes on capital are lower, while taxes and social-security contributions levied on labour are much higher than in most EU member-states, which is likely to create an incentive for unregistered employment. (3) The levels of expenditures and of public consumption are high, which may slow economic growth. Finally (4), the combined redistributive effects of revenues and expenditures seem to favour middle or high-income groups (as compared to low-income groups) more than in other EU countries.

### **Corporate pension liabilities and risk of stocks – leverage and cross-holding**

*Dániel Móricz*

The paper deals with corporate defined-benefit pension plans and their effects on the risk of stocks. Within the assets of defined-benefit pension plans, the ratio of stocks is usually

high, while the benefits do not depend on the investment performance of the fund's assets. So through an increase of leverage and through a cross-holding effect (since the funds largely invest in the stocks of other sponsors), the performance of the pension fund's assets influences the value and risk of the stocks of the sponsoring company. The importance of this phenomenon became apparent due to the market trends in the first years of the new millennium, when falling interest rates appreciated the value of pension liabilities, while pension assets were hit by the poor performance of the stock market. It is demonstrated here in a CAPM-based model that the leverage and the cross-holding effect due to un-immunized benefit obligations of corporate defined-benefit pension plans may increase the volatility of the stock market, and may change the systematic risk of stocks and the proportion of the individual, non-diversifiable part within the total variance.

### **Tightening and loosening – on the structure of the fiscal policy of systemic change**

*Balázs Kotosz*

The study sets out to examine the budgetary policy of the transition from a planned to a market economy. There are precedents in the literature for the method chosen, mainly in the works of Alberto Alesina and co-authors. Essentially, the actions of budgetary policy measurable at balance level are placed in interpretable categories. The analyses just mentioned concern OECD countries, while the study examining the peculiarities of the East-European transition is Catriona Purfield's, but this pioneer work can be criticized at several points. The main conclusion of this study is that the budgetary actions affected the macroeconomic indices primarily by altering expectations: the desired effects were easily obtained where and when governmental intentions appeared clearly. The actions not sustainable from the theoretical point of view proved in practice to be transitional.

### **The Arrow-Debreu Model and Kornai's critique, thirty years after**

*József Móczár*

More than thirty years have passed since János Kornai's book *Anti-Equilibrium* appeared. This was the first work in international literature to criticize comprehensively the general theory of equilibrium, moreover through the value theory of Debreu and the Arrow-Debreu Model. The sharpest reaction to the criticism came from Frank H. Hahn, and Kornai returned to this in his recent autobiography. This article reconstructs the main points in the Kornai-Hahn debate, including its antecedents in the history of theory, and examines the validity of the criticisms and ripostes. It will be seen that Hahn's objections have not been endorsed in every respect by the latest economic theories.