

Transformation shock on a heterogeneous labour market

Katalin Balla, János Köllő and András Simonovits

The study extends the familiar Aghion–Blanchard model to a case where delayed adjustment of wages causes firms in the emerging private sector to create jobs in various geographical and employment segments of the economy at temporarily different profit rates and therefore speeds. Assuming two sectors, the authors examine the development of employment, wages, taxes and profits up to the point of full absorption of the shock of systemic change: a far longer period than the actual transition or dismantling of the state sector. Viability depends on the pace of job destruction and the initial shock effect on employment. The temporarily viable paths are influenced at once by benefits, taxation, and any employment subsidies available. It is shown that there exists a subsidy policy leading not only to greater equality, but to higher aggregate employment and total income. The effect of subvention is strongest where job destruction is rapid and benefits are high (a transition such as Hungary's).

Cycles and trends in the Hungarian economy, 1990–2005

Gábor Karsai

The two main contentions in the article are that a kind of creative destruction has been occurring in the Hungarian economy since the change of system, but that the trend is cyclic, not continuous. The trend encompasses a radical transformation of the market, production and ownership structures. The cyclicity – periodic acceleration and deceleration of various economic and privatization processes – derives partly from world economic processes such as external demand and international capital flows, and partly from domestic causes.

Trade within vertically and horizontally differentiated industries on the milk market of the European Union

Imre Fertő

The paper examines bilateral intra-industry trade (IIT) in the EU dairy products industry in 1993–2000, disentangling vertical from horizontal IIT and analysing the determinants of both IIT types. The results lend support to the contention that there are different determinants for horizontal and for vertical IIT. The GDP per capita variables show mainly expected and significant signs. The regression results are robust for different specifications and when alternative values to separate horizontal from vertical IIT are considered.

Global challenges and international economic adjustment. Institutionalization of economic-policy discipline in Sweden*Dóra Gyórfy*

The global liberalization of capital markets that began in the 1980s significantly narrowed the scope of economic policy in small, open countries with their own currency. Despite a high level of state redistribution, the case of Sweden exemplifies successful adaptation to the new challenges through institutionalization of economic-policy discipline. Taking the constraints of integrated capital markets into account, the regulation-based approach to monetary and fiscal policy resembles the earlier Swedish model in serving four basic economic-policy goals: growth, high employment, social equality, and price stability. Apart from this community of goals, the two periods are linked by economic-policy consensus and social trust – a basic requirement for success under either system.

Can actuaries wriggle out of their straitjackets? Comments on Miklós Arató's contribution on János Stahl's article*György Németh*

János Stahl's article and Miklós Arató's contribution on it show that the reason for the absence of a solution to a problem seen as technical by outside observers and an internal professional matter by expert insurance mathematicians – the annuities provided to their members by the pension funds making up the second pillar of the pension system – must be sought largely in the lack of an economic grounding, or deficiencies in it. The answers that have been impeding progress suffer from lack of clarity, misconceptions or plain mistakes of principle and theory, and these have been preventing progress for almost a decade. The basic condition for a solution is to escape from the straitjacket of the actuarial thinking of those schooled in insurance practice. The author of this discussion article eventually arrives at almost the same point as János Stahl, but not by the same route and drawing different conclusions. Stahl strained at the actuarial framework and met with incomprehension, while the author of these lines seeks a solution to an economic problem.