ABSTRACTS OF THE ARTICLES

The Hungarian pension system: economic-policy and demographic challenges

Gábor Orbán and Dániel Palotai

The paper reassesses the sustainability of the reformed Hungarian pension system, focusing especially on whether the introduction of the fully funded pillar in 1998 has led to any improvement in the sustainability of the pension system. After a brief description of the 1997/8 reform of the pension system, the results from simulations with a revised pension model are presented. These show that 1) unless corrective measures are taken, the pension system is unsustainable, with net implicit public liabilities in the system of around 230 per cent of GDP; 2) the series of policy measures taken since the 1997/8 reform account for the major part of the net liability implicit in the pension system—they reflect a policy reversal and run the risk of completely undoing the progress made by the reform in improving the system's sustainability; 3) the funded pillar can help in lowering net implicit liabilities, but only if the transition costs involved in the reform are financed by budgetary adjustment; 4) the returns recorded so far in the private pension funds fall short of expectations and appear to be low in international comparison, too. If such returns persist, the benefits provided by the multi-pillar system will fall short not only of initial expectations, but also of the benefits received from the full pay-as-you-go system.

An examination of income redistribution in Hungary and single-rate tax reform, using a micro-simulation model

Dóra Benedek and Orsolya Lelkes

The authors of the study analyse income redistribution in Hungary with a new tool: the taxation and support micro-simulation model. There are diverse factors acting in several directions embodied in the 2006 Hungarian tax and support system. Tax concessions make up a sizeable sum, but they fail to reach the truly needy, tending instead to benefit the middle-income strata. Welfare and family supports, on the other hand, go mainly to the poorest third of households and raise their disposable income to a great extent. The system shows high efficiency in reaching families with children and the import of the supports rises according to the number of children.

Empirical portfolio strategies

György Ottucsák and István Vajda

The paper introduces sequential investment strategies that guarantee an optimal rate of growth of capital while making minimal assumptions about the behaviour of the market. The one assumption is that the market is stationary and ergodic. The authors review the

theoretical and the empirical properties of the new strategies. The theoretical results show that the asymptotic rate of growth matches the log-optimal one that could be achieved only with full knowledge of the statistical properties of the underlying process generating the market. The new approach is related to the classic Markowitz portfolio strategy.

Job-search monitoring and unemployment duration: evidence from a randomized control trial

John Micklewright and Gyula Nagy

The impact of the administration of unemployment benefits on time spent unemployed is a neglected issue in discussion of incentive effects in Central and Eastern Europe. The authors use Labour Force Survey data, administrative registers and inspection of benefit-office practices to show that there is good reason to investigate this issue in Hungary. They report results from a field experiment designed to show the impact of tightening the administration of benefits, in which benefit claimants were randomly assigned to treatment and control groups. Treatment has quite a large effect on the benefit-receiving durations of women aged 30 and over, while no effect was found for younger women or for men.

The risk effects of the evolution of financial conglomerates

Borbála Szüle

Supplementary supervision of the risk of financial conglomerates has been regulated since 2005 by a new directive in the European Union. In many countries, financial conglomerates have evolved in recent decades with ownership links displaying the ever stronger cooperation of banks and insurance companies. The effects of the evolution of such financial conglomerates have not been fully explored. Despite the empirical relevance of this question, indicated also by the passage of the new EU directive, the theory of the risk effects accompanying the evolution of financial conglomerates is remarkably undeveloped. The article offers a new theoretical framework that separates the transaction, motivation and portfolio effects of the establishment of financial conglomerates and analyses the consequences of these effects on the institution-level stability of banks and insurance companies.

Decisions affecting capital structure – an empirical analysis of Hungarian manufacturing firms in 1992–2001

Andrea Balla

The study concerns the capital-structure characteristics of Hungarian manufacturing firms in the 1992–2001 period. The first part presents briefly the trade-off, agency and pecking-order theories of capital structure and the empirical findings to do with the factors affecting capital-structure decisions. The second part explores indicators that also explain capital-structure decisions in the period of transition to a market economy. The third part uses empirical analysis to seek the most general attributes of decisions relating to capital structure taken by Hungarian manufacturing firms. The author concludes that a decisive proportion of the capital structure of such firms consisted of short-term sources, with an extremely low weight for long-term capital sources. The main conclusion of the

study is that the capital structure-related decisions of the firms cannot be explained by a single theoretical approach. The trade-off, agency and pecking-order models complement each other in explaining the various attributes of capital-structure decisions in manufacturing firms, so that no model alone can be applied comprehensively.

Underlying problems of the dominant theory of money – the Hahn Problem

Zsolt Gilányi

The mainstream theory of economics is receiving frequent criticism from its opponents and from its followers. Surprisingly (and precisely for that reason), the most serious criticism – arguing that many of the theory's models are not logically closed – was formulated by F. Hahn himself, co-author/co-editor of *General Competitive Analysis* and *Handbook of Monetary Economics*: the price of money can be at zero equilibrium. The study examines the negative outcome and consequences of this contribution, which has become known as the Hahn Problem.