

ABSTRACTS OF THE ARTICLES

Analysis of a special sequence of events – the crisis on the secondary mortgage market and its consequences (also for Hungary)

Júlia Király, Márton Nagy and Viktor E. Szabó

This paper provides an overview of the antecedents, main triggers and spillover mechanisms of the turbulence emanating from the United States sub-prime market in the summer of 2007. Its primary goal is to discuss the facts and interrelationships featured in the various analyses and statistics, using a uniform, non-standard approach, to separate the ‘centre’ from the ‘periphery’ in terms of the impact of contagion, and to understand causes and effects. It is found that the primary causes of the turmoil were a persistently low international interest-rate environment and financial imbalances caused by globalization. The combination of rapid house-price inflation and asset price rises due to securitization of sub-prime mortgages (the origination and distribution model), coupled with the bursting of bubbles, were responsible for the severity of the distress. The spillover, in turn, was a consequence of increased international financial integration. One innovation in the paper is detailed analysis of the channel of contagion within financial integration: a major role at the epicentre was played by a confidence crisis, coupled with turbulence in inter-bank markets, while the triggers on the periphery were internal vulnerability, rises in risk premiums, and reduced access to credit.

Oligarchic versus democratic societies

Daron Acemoglu

This paper develops a model to analyse economic performance under different political regimes. An “oligarchic” society, where political power is in the hands of major producers, protects those producers’ property rights, but also tends to erect significant entry barriers for new entrepreneurs. Democracy, where political power is more widely diffused, imposes redistributive taxes on producers, but tends to avoid entry barriers. While taxes in a democracy are high and distortions caused by entry barriers low, an oligarchic society achieves greater efficiency. But because comparative advantage in entrepreneurship shifts away from the incumbents, the inefficiency created by entry barriers in an oligarchy deteriorates over time. The typical pattern is one of rise and decline of oligarchic societies: an oligarchic society may first become richer, but will later fall behind a similar democratic society. The author also discusses how democracies may be better able to take advantage of new technologies, how intra-elite conflict in oligarchies may cause a transition to democracy, and how unequal income distribution may keep inefficient oligarchic institutions in place.

Pension contributions and acquired pension rights 1997–2006*Mária Augusztinovics, Márton Gyombolai and Levente Máté*

This paper provides hitherto largely unknown information, collected from administrative databases, analysed, arranged, and interpreted by introducing a number of new concepts and terms. Six million contributors have been counted over ten years, as opposed to the annual average of 4.2 million in Hungary, as 38 per cent of all contributors have already left or just entered the labour market within the period examined, mainly due to demographic factors. The remaining constant contributors exhibited differentiated and mostly variable, fragmented contributing (working) careers. Variability, however, has been strongly polarized: 55 per cent of individual, annual changes have remained within the almost permanent range of employment and 25 per cent within the marginal range. The employers' contribution base has been only 80–85 per cent of gross average earnings as published by the Central Statistical Office. Time-proportional eligibility for old-age pension according to present rules—five accrual years in ten, the equivalent of 20 years over 40 years—has been acquired by 67 per cent of individuals. The remaining 33 per cent would be eligible for extremely low pensions even if the 20-year accrual threshold had been lifted. The paper concludes with a few observations on the integrated use of administrative databases, the desirability of further research, and the dilemma to be faced in prospective pension reform.

Social reproduction of the operating problems of the state*András Sajó*

The research sought to discover the broader social and state-administrative environment into which the present mechanisms of legal enforcement and state operation fit. The starting point was the “disorderliness” of the state and society, in the sense that the organs of the state, the institutions of society and much of the public do not operate in accordance with the transparent, stable system of norms accepted by consensus and laid down in legislation, as they have no incentive in the short term in maintaining the predictability of everyday life, the public nature of decision-making processes, and the stability of institutions. This remains true even though the unpredictability is damaging for society as a whole.