The Japanese economic crisis – a liquidity trap in the new millennium?

Éva Ozsvárd and Péter Pete

Much government policy in the market economies in recent decades has been aimed at combating inflation. An important lesson from events in the Japanese economy in recent years is that the prospect of economic stagnation accompanied by deflation cannot be excluded as a danger lurking for highly developed economies. The paper begins by presenting some important specifics about the present crisis in the Japanese economy, in a concise summary of the main features and stages of a stagnation phase that has lasted more than a decade. One characteristic of the Japanese crisis is that monetary policy has ceased to be an effective means of influencing aggregate demand, so that it has become possible for the first time to study in real life the liquidity trap described by Keynes in the 1930s. The second part of the paper approaches this from a theoretical angle, showing that even the simplest macroeconomic models can provide a useful intellectual framework for describing even a very complex economic situation.

Economic growth and the depth of financial mediation

Katalin Merő

The article considers the relations between economic growth and the depth of financial mediation, especially in terms of three Central and Eastern European economies intent on catching up economically: Hungary, the Czech Republic and Poland. Publications analysing the relations between economic growth and the attributes of the financial systems have proliferated in recent years, with increasing acceptance for the view that economic growth and depth of financial mediation are closely and directly related. Indeed in several cases, research findings have shown depth of financial mediation to be a good indicator of future economic growth. The question of the relations between the two factors is especially important for these Central and Eastern European economies, where levels of financial mediation are very low compared with developed countries. The initial proposition here is that the economic growth required for these countries to catch up must necessarily be accompanied by a marked deepening of financial mediation, without which a sharp brake may be applied to the long-term trend of economic growth. Economic policy designed to support sustainable economic growth has to promote (or at least not hinder) an increase in the role played by financial affairs in the economy and a deepening of financial mediation.

The effect of changes in unemployment provision on unemployed assistance and placement

Péter Galasi and Gyula Nagy

An essential change took place in May 2000 in assistance for unemployed persons no longer entitled to benefit. Income supplementation for the long-term unemployed was
abolished in favour of regular welfare benefit for the unemployed of active age. Based on a follow-up survey, the article examines how the change has affected assistance for the unemployed and placement of them. After the rule change, fewer of those whose entitlement to unemployment benefit ran out still applied for assistance and local authorities paid assistance to a smaller proportion of the applicants. So there was a big reduction in the proportion receiving post-benefit income supplementation. On the other hand, many more took part in public works than had done so before the change, although the increase did not offset the fall in the number receiving assistance. It was found that receipt of assistance reduces the likelihood of finding a job, although the effect is small and was unchanged. So the less generous new regulations have speeded up placement, but reduced the welfare of the jobless.

From Comecon trading to EU accession. Issues of trade reorientation in the system-changing countries, especially Hungary.
I. Continuity and discontinuity in trade relations
András Köves

The first part of the article looks at how Hungary’s foreign-trade orientation changed after the two world wars. The collapse of the Soviet Union and the consequent end of the exclusively Soviet (later Comecon) orientation led to a recession in the whole system-changing region. During that recession and the subsequent recovery, Hungarian trade underwent a radical change of direction for the third time since 1945. The present 15 EU members became predominant in the early 1990s, before talks on Eastern enlargement had even begun, more than a decade before the end-2002 decision on full membership. The second part looks at some important features of the trade structure since the reorientation. Germany has become a new, strong focal point in the trade of Hungary and other former socialist countries. Trade with East-Central and South-East European countries has remained in the background, as in previous periods. Further substantial changes in the structure of Hungarian foreign trade are probably after EU entry, but uncertainties about the EU’s international situation and internal development may give rise to orientation problems in a broader sense.

Pension-reform blueprints for welfare states under ageing populations
Heikki Oksanen

The need for pension reforms is traced back (1) to population ageing stemming from low fertility and increasing longevity, and (2) to intergenerational fairness, ensuring that an unfair burden is not transferred to future generations. There are two main reform blueprints. (1) In a Defined Benefit (DB) system, partial pre-funding is needed to achieve intergenerational fairness, unless benefits are sufficiently reduced. Partial privatization is an option for the management of the accumulating funds. (2) Transition from a DB to a Notional Defined Contribution (NDC) system is a reform option, where the replacement rates are gradually reduced to levels which match prescribed contribution rates. An NDC public pillar can be accompanied by a second, private-sector managed pillar. In both options, the effective retirement age needs to be increased, to help contain the increase in pension expenditure and prevent a drastic decline in pension levels.
Student-support systems in EU countries – criteria for changing Hungarian practice

Balázs Majer

The study places in a coherent theoretical framework some theoretical aspects of the practice of supporting students out of public funds in the EU and EFTA/EEA countries. As higher education has expanded, so increasing attention has been focused on several economic-cum-fiscal and welfare considerations, whose analysis is essential for applying theoretical criteria of efficiency and fairness to this key constituent of higher-education funding. In the light of the theoretical framework and international experience presented, the study ends with a short analysis of the Hungarian system of student support. Although Hungary has allocated major resource increases to this state-funded system in recent years (with the introduction of student loans and rises in normative grants for students), there remain problems with applying the theoretical criteria. The study summarizes briefly the underlying attributes that the system of student support out of public funds should possess in this country and the specific (and feasible) social-policy measures required to alter the present system.

The Lisbon strategic goals and SMEs in the candidate countries

Zoltán Román

The paper is a translation of a presentation at the 48th World Conference of the International Council for Small Business in Belfast, Northern Ireland, held on June 15–18, 2003. Little progress has been made with implementing the Lisbon goals, and besides the long-term positive impacts, EU enlargement with ten less developed countries will increase growth rates, but decrease the relative level of the EU compared with the United States. Two-thirds of the jobs in the candidate countries are provided by SMEs, now endangered by weak competitiveness. Analysis of the present situation leads to three conclusions: (1) Our present knowledge of the SMEs in the candidate countries is insufficient. Statistics, surveys and synthesizing studies are needed. (2) Ex-ante and ex-post impact and efficiency assessments are needed on supporting programmes and measures, at national and Commission levels. (3) Enhancing productivity and competitiveness calls for integration of innovation, entrepreneurship and SME policy.

Distorting factors in the consumer price index

Ilona Kovács

Studies in the United States in the 1990s concluded that the conventional consumer price index (CPI) in the early and mid-1990s had seriously overstated the cost of living, with a best estimate of about 1.1 percentage points’ bias at an annual inflation rate of 3 per cent. A wave of research has consequently begun in the United States and elsewhere in the world, aimed at analysing this assumed bias and its impacts and possible policy implications.