Economic freedom, political freedom, and social orders

Judit Kapás and Pál Czeglédi

The study sets out to enrich and correct the theoretical explanations of the connection between economic and political freedom. The theory of social orders is used within the interpretation of the Hayek–Friedman hypothesis, which leads to an explanation of a new kind. This weak form of the hypothesis states that economic freedom is a necessary condition for the maintenance of political freedom in orders that ensure free access. So political freedom, once obtained, calls for economic freedom to remain stable, but the Hayek–Friedman hypothesis does not apply in systems of restricted access. The authors’ empirical studies of 130 countries over the 1970–2005 period support the weak interpretation of the hypothesis, and the results are robust.

Growth, deficit and debt – in a sustainable framework

István Ábel and Ádám Kóbor

The study analyses fiscal sustainability conditions for the Maastricht gross nominal consolidated public debt, using Hungarian data. The components of debt dynamics are grouped according to the commonly used debt sustainability approach, while the factors and their contributions to the changes in the debt are analysed using a VAR model. The stochastic properties (variance) of the macro variables used in the VAR model help to assess the risks to fiscal sustainability. This approach offers a way to determine the effect of possible macroeconomic shocks on debt dynamics. The authors present an assessment of the effects of such shocks to the macroeconomic variables, the occurrence of which cannot be ruled out with 90 per cent probability.

Analysis of housing-loan borrowers in difficulty, using micro-simulation modelling

Katalin Gáspár and Zsuzsa Varga

The study examines the dispersion of households in Hungary with a housing-related mortgage loan who found themselves in difficulty with repayments in 2009 and 2010, due to the financial crisis. The HKFSZIM micro-simulation model was used to simulate job losses and estimate the increase in the repayments required of the households. It was assumed that households will be in difficulty if their monthly repayments exceed 40 per cent of their net income, basing this on the proportion of net income spent by households on basic consumer articles. According to the authors’ calculations, over 62,000 household mortgage borrowers were in difficulty in 2009; the number eased to about 60,000 in 2010. A breakdown of the causes of the difficulty showed that about half the cases were due to excessive indebtedness in relation to household income at the time the loan was taken out.
In a substantial proportion of cases (40–45 per cent) the cause was an increase in the debt-servicing repayments. However, the proportion in which the cause was reduced income due to lost employment was moderate (2 per cent in 2009 and 9 per cent in 2010).

Minority power – generalized weighted voting games

László Á. Kóczy and Miklós Pintér

Voting games are cooperative games with transferable utility, so-called simple games, where the players are parties and the value of a coalition may be 0 or 1 depending on its ability to pass a new law. The authors introduce the concept of generalized weighted voting games where the parties’ strengths are random variables, taking examples from Hungary to illustrate the use of this approach.

A simple or an S-shaped Jánossy trend? A long-term state of equilibrium in the light of Maddison’s data and the new growth theory

Tamás Tarján

Technology-following countries follow an S-shaped path of long-term growth normalized to the technology leaders. It has been possible to devise several growth models that follow an S-shaped path to a long-term steady state, but all use naive-expectation or short-term consumption optimization, not the Ramsey method of consumption optimization that has been known and used most widely for eighty years. The article contains two new findings about the Ramsey method of consumption optimization. It shows (1) that it is not capable, in conjunction with Aghion–Howitt aggregate productivity regulation, of modelling to an S-shaped path, but (2) it is capable of S-shaped transition dynamic modelling with a slightly modified Aghion–Howitt-type regulation based on that aggregate productivity regulation, but taking capital into account.