

SUMMARY OF THE ARTICLES

Adjustment without recession: A Case Study of Hungarian Stabilization

János Kornai

On March 12, 1995 Hungary's government and central bank announced a tough program of adjustment and stabilization. This study is an attempt to assess the first results. Before the announcement of the program Hungary had a huge current account deficit for two consecutive years, and her international reputation started to decline. The program's radical measures made it possible to avoid a Mexico-style financial catastrophe. Many macroeconomic indicators show tangible improvement: the trade deficit and the deficit on the current account have been reduced significantly, the primary budget shifted to surplus. These kinds of adjustment programs are usually associated with deep recession and a large increase of unemployment. Hungary avoided these adverse side-effects: GDP instead of a drastic decline, continued to grow somewhat, and unemployment remained unchanged. There was a high price for the improvement: a sharp decline in the standard of living, and an acceleration of inflation, although Hungary is still in the range of controlled, moderate inflation.

The paper describes the heterodox instruments of the program: (1) large devaluation, followed by a new exchange rate regime of pre-announced crawling peg, and a temporary import surcharge, (2) energetic income policy, enforcing a 12% cut in real wages; (3) fiscal measures, including cuts in welfare entitlements. That happened for the first time: before the program entitlements had been regarded as "taboo"; (4) reallocation of credit supply in favor of the enterprise sector; increase of profitability; (5) tight (but not excessively tight) monetary policy, allowing the expansion of successful private business; (6) acceleration of privatisation, including large and successful steps in the privatisation of some key sectors (energy, telecommunication).

Finally the paper warns against excessive self-confidence and draws the attention to potential dangers. The macroeconomic improvement is still fragile. The most reassuring feature of Hungary's development is the impressive and persistent improvement of productivity.

Critique and expansion of the scope of investigation of traditional economics by the representatives of the new institutional school

Antal Mátyás

As distinct from the students of traditional economics the representatives of the new institutional school point out that institutions are playing an essential role in the economy. They are not neutral, but influence the course of economic processes, the economic

incentives, they are changing in the course of history, and are suited for analysis. These economists are thus trying to integrate the institutional factors with theory. For the sake of the cause they present the behaviour of economic units in a more realistic manner than done by the traditional economics. This is why they are teaching that transaction costs are to be included in the analysis, as they have an essential role in explaining the differences between institutional forms and organizational innovations. The study discusses the interesting statements of the new institutional school through the economics of transaction costs and points out that – although the school is still in an initial stage of its development – it directed attention to many important questions which have remained outside the scope of investigation of traditional economics, and also made efforts to answer them.

Impacts of the development of the private sector on employment in 1995

Teréz Laky

1995 was not a successful year from the point of view of employment: just as had been the case for years, the number of workplaces continued to diminish, though to a lesser extent than earlier. (According to the labour survey of the Central Statistical Office, from the population aged 15-74 3992 thousand were employed in 1994 and 3958.5 thousand in 1995.)

At the same time, also unemployment somewhat diminished. (The reasons for it, mostly rooted in the regulation of unemployment benefits, will not be dealt with in this place.)

Nevertheless – using the statistical term – the number of the economically inactive population, that is of those in working age but not registered as unemployed, continued to grow. The number of those voluntarily remaining out of the labour market or forced out of it amounted in 1995 already to more than one million from the 6 million people of working age. Most of them are young people unable to find a job, women forced back into the households and men losing hope and giving up the search for jobs. Their number, amounting to 654 thousand, already exceeds that of the registered unemployed. Their support devolves on the family and social aid, although presumably they also try to gain some income from occasional (even black) work.

As a matter of fact, the employment situation can be characterized already for some years with the mutually determined ratios of the employed, the unemployed and the economically inactive, rather than with the ratio of the employed to the unemployed. The main characteristic features of the labour market processes in 1995 are: declining employment, stagnating unemployment and increasing inactivity. It is in this framework that the study analyses how the growth of the economy based on private property - taking place in several ways - affected the development of employment.

Regional unemployment rate differentials in Hungary, 1990–1995. The changing role of race and human capital

Árpád Ábrahám–Gábor Kertesi

This paper is a comparative study on the role and the changing relative importance of schooling and discrimination of the Gypsy minority in shaping regional unemployment rate differentials in the course of evolution of unemployment in Hungary in the period between 1990 and 1995. First the time pattern of regional unemployment rate differentials

is examined. Then time paths of the main determinants of these inequalities are identified by a statistical model. Finally the role of Gypsy population – the largest ethnic minority in Hungary – is examined in shaping regional unemployment rate differentials. A glance at the regional distribution of unemployment rates and the Gypsy population of the country is enough to persuade someone that the density of the Gypsy population in an area has something to do with the level of unemployment rate. It is also known that the unemployment rate of Gypsies is significantly – at least three times – higher than the Hungarian average. All these suggest that the size of Gypsy population has an important role in forming regional differentials. How much is this due to discrimination or purely to low education? Using some micro data, the final part of the paper tries to estimate the magnitude of employment discrimination, as well.

The development of labour supply until 2010

János Tímár

Relying on the population forecasts as well on the analysis of economic activity by sex and age the study presents the expectable changes in the volume and structure by sex and age of the labour supply in the one and a half decades to follow. These forecasts allow to draw some conclusions for employment policy on one hand and they are a starting basis for forecasting the labour supply and the structure of demand for labour by occupation and qualification on the other hand – this being an important condition of providing better foundations for employment policy and educational policy.

The economic and social processes in agriculture and food production

Pál Juhász–Kálmán Mohácsi

Agriculture and food production have for years been a crisis area of the national economy. Yet, after the recession in 1990-1993 the value of gross output increased in 1994 in both fields. Although both of them struggled with grave problems, the microprocesses indicate that the effort at survival and adjustment is strong. In 1995 the question was what to do in the interest of solving the problems of these sectors, whether growth and structural changes would continue and whether the lasting conditions for them would gradually come about. As a matter of fact, the few favourable developments on microlevel are insufficient in themselves to lay the foundations of long-term development. A settlement of the long-term operational conditions of the fields in question is similarly needed.