

SINGLE-RATE INCOME TAX AND ECONOMIC GROWTH

Tibor Erdős

The Hungarian government had exaggerated expectations of the introduction of single-rate income tax: in the event, both demand and personal and national-scale savings growth have fallen short of those expectations, and the effects on the supply side have not been as hoped. The effect on demand has been weak because the change increased the income only of the wealthy and the import dependence of the Hungarian economy is exceptionally great, so that demand growth induced has largely increased imports, not domestic demand. The propensity to save among the wealthy has indeed proved sensitive to the reduction in their income tax, yet the national-level proportion of saving has failed to rise: the introduction of single-rate income tax has brought an increase in the budget deficit almost as great as the increase in the net income of the wealthy. On the supply side, the effect of introducing single-rate income tax has also been very weak. Consumption is hardly rising. The tax on banks and other crisis taxes introduced to counter the deficit-increasing effect of the tax reduction, coupled with the system for tackling personal loans expressed in foreign currencies, are reducing the banks' propensity and ability to give credit.

JOB-SEEKING ON THE LABOUR MARKET, WITH FRICTIONS

Endre Morvay

The labor market is a specialized market with characteristics that have produced several different models for analysing it. One of the best known is the search and matching model, which is suitable for analysis of several related issues. The broad range of labour market phenomena that can be described by this family of models, the conclusions to be drawn from them, and the debate on their explanatory capability have all contributed to the fact that three economists who made important contributions to developing them – P. A. Diamond, D. T. Mortensen and C. A. Pissarides – were awarded the Nobel Prize in Economics in 2010. The DMP model named after them expands the theory of the natural rate of unemployment and is capable of integrating the analysis of welfare measures and institutions. This paper follows up on the contribution of the Nobel Prize winners by examining the theoretical preliminaries of these models, a basic search and matching model, and by looking

at the typical characteristics of a new generation of models, the lessons of efficiency analyses, the possibility of investigating the role of policy measures, and the foundations of Shimer's critique.

THE EFFICIENCY AND COSTS OF MONETARY STERILIZATION IN CHINA

Tamás Gábor, Gábor Dávid Kiss and Péter Kovács

The authors examine China's monetary policy in the light of the sterilization process for excess liquidity caused by permanent foreign exchange rate intervention. They investigate the neutralization practices for the monetary surpluses, the efficiency of these, and also what they cost. The paper demonstrates by the two-stage least squares (2SLS) method that over the last 15 years, the sterilization of the oversupply of the yuan in connection with the monetary base was almost complete, but it was only partially effective for the M2 supply. Cost-benefit analysis highlights the fact that the practice of monetary sterilization – thought by other writers to be loss-making – was a profitable operation for the central bank of China.

FACTORS IN RATIONAL OPERATION OF SMALL BUSINESSES, 2006–2010

Ágnes Győri

The study seeks to identify the attributes of rational business operation, using a questionnaire survey of small and medium-sized firms made in 2006 and a repeat of it in 2010. The main questions addressed are what factors contribute to rational operation in the firms in the sector and what changes over the 2006–10 period can be discerned in business behaviour. The findings show that traces of small business-style operation (a household or livelihood orientation) could still be found, but the indicators of rationality employed in the survey show that the operation of the firms became more rational. A role in the process was played by the economic crisis, which forced small and medium-sized businesses to adapt: they recognized that it was better from the point of view of efficiency and costs to follow rational money-market behaviour, and in line with that, use spending-reduction tools to evade the disturbances of the crisis. The main factors behind the shift towards rational decision-making in the running of small and medium-sized firms are up-to-date financial information and professional expertise.