War of the geniuses. The debate between Milton Friedman and J. M. Keynes as presented by Tim Congdon and Robert Skidelsky

György Szepesi

Last year economists marked the centenary of the birth of genius among them, Milton Friedman. The commemoration was especially topical because the world financial crisis that erupted in 2008 has brought sharply into focus again the old division in 20th-century economics between monetarism and Keynesianism. One highlight in this series of disputes was the 2009 clash between two internationally known and appreciated economists Tim Congdon and Robert (Lord) Skidelsky in the columns of Standpoint. The central element in the discussion is the role of money: what kind of economic policy to pursue, monetary or fiscal, to pull troubled economies out of crisis. The question closely resembles a decisive dilemma for Keynes in the 1930s. Though Keynes turned against some basic propositions of neoclassical economics, he never challenged the importance of money to the functioning of the economy, or the validity of the quantity theory of money. The author argues here that the issue is not about the formal category of money or demand for it, but about the far deeper economic concept of the role of uncertainty in economics. Another aspect concerns the relative efficiency of various kinds of economic policy, i.e. the strengths and weaknesses of monetary and fiscal policies.

Heterogeneity and technical efficiency – the case of Hungary’s specialized arable crop production units

Lajos Baráth and Imre Fertő

The article sets out to analyse the technical efficiency of Hungarian crop farms between 2001 and 2009, using panel data and employing both standard stochastic frontier analysis and the latent class model (LCM) to estimate technical efficiency. The findings suggest that technological heterogeneity plays an important role in the crop sector, though it is traditionally assumed to employ homogenous technology. A comparison of standard SFA models that assumes the technology is common to all farms and LCM estimates highlights the way the efficiency of crop farms can be underestimated using traditional SFA models.
Estimation of risk-augmented Taylor rules for Hungary
Gábor Regős

The paper investigates the degree to which Hungarian monetary policy has considered country risk in its decisions and if so, how. The answer was sought through the commonest method of analysing a country’s monetary policy: Taylor rules for describing it. The estimation of the rule was prepared using several risk indicators and applying various types of Taylor rules. As a sensitivity analysis, other indicators of inflation and output gap were employed than in the base rule. This showed that the interest-rate decisions of the National Bank of Hungary can be well described by a flexible inflation targeting regime: in the Taylor rules, deviation of inflation from its target has a significant role and the output gap is also significant in one part of the rules. The decision-makers also considered country risk and responded to an increase in it by raising interest rates. Insertion of country risk into the Taylor rule could improve the model’s fit to an important degree when choosing an appropriate risk measure.

The relationship of demographic effects and implicit returns in pension systems
Borbála Szüle

The focus of this study is on the implicit returns of pension systems. Two types are analysed using an overlapping generations model: the calculation of “longitudinal” return is based on cash flows in different years belonging to a given generation, while “cross-section” implicit return is calculated in a given year with cash flows of multiple generations. Values and relationships of longitudinal and cross-section implicit returns are compared in simple theoretical models of “fully funded”, “notional defined-contribution” and “traditional pay-as-you-go” pension systems. An important element of the theoretical model is the inclusion of an assumption about life expectancy. Model results point to the complexity of the relation between longitudinal and cross-section implicit returns, if expected and maximum life expectancy differ. The study maps and introduces these complex relationships.