# ABSTRACTS OF THE ARTICLES

### Bubbles and myths, crises and explanations II/2: the South Sea bubble

*Aladár Madarász*

The first part of the study (published here in 2009) was devoted to "tulip-mania". This article continues the account of early bubbles and crises with the 1720 boom and bust of the South Sea Company, which remains to this day one of the best known and most cited examples in history. For several decades, bubbles were not seen as an important issue in economic and financial theory, but recent events have focused attention on them again. The author introduces some historical examples of the bubble metaphor in literature, before describing the emergence of British public debt and the fiscal/military state, and summarizing various interpretations of the financial revolution. An account of the South Sea Bubble, a detailed description of the debt-equity swap, and citations from some contemporary investors and observers are followed by an overview of how the events of 1720 were used subsequently by various economists and historians in their theorizing and explanations. Such interpretations range from deliberate fraud, through irrational investment mania, to the emergence of a rational bubble.

### The impact of personal income tax reform on public pensions

*Zsombor Cseres-Gergely and András Simonovits*

The Hungarian system of personal income tax is undergoing a transformation over the 2009–13 period. The income brackets and the earned income tax credit have been disappearing, so changing the ratios of net to gross earnings within various earning brackets. Alongside the consequent significant loss to government revenues, the income redistribution has been transformed. This, however, is not the only change. Up to 2013, pension contributions continue to be proportional to gross earnings, and pension benefits to net earnings. If this rule remains, the changes in the tax system will generate a significant deficit in the pension system. The paper analyses the relative size of this deficit and the distribution of it within society.

### Lisbon prospects

*László Kóczy*

The Lisbon Treaty fundamentally changes the rules for qualified majority voting in the Council of the European Union, the EU's main decision-making body. The current mechanism, relying on a system of voting weights decided in the Nice Treaty as a result of political compromises, will be replaced by population data in 2019. The reform seeks to streamline the decision-making mechanism, making it quicker, more equitable, and able to maintain

these properties even after future changes in the Union's membership. The changes do not affect the various member-states to equal extents. The paper gauges the countries' relative influence through a game-theory model: power measures. While the Union's inertia will be reduced, some member-states will lose a significant proportion of their current say. Hungary is among the foreseeable losers, with its influence reduced by some 40 per cent, due to the reform itself and to the country's demographical trends.

**Crisis and potential growth in the European Union**

*Péter Halmai*

The dramatic fall in the European economy's output is more robust than its cyclical deviation from potential output may explain. The author overviews the effects of the crisis on the EU member states' growth performance and on the major factors behind growth: labour, capital, accumulation, and total factor productivity. Based on the production-function approach, the author made widespread quantitative analyses in five groups of EU countries (formed using a novel approach). Simulations suggest that on the assumption of current economic policy continuing, the rate of growth recovers only partly, even in the medium term. The prospects for the Mediterranean and vulnerable – Central and East European – groups of countries are especially unfavourable. In the longer term further erosion of the European growth potential can be expected. That is why it is vitally important to implement macroeconomic policies that enhance potential growth and the delayed structural reforms.