The "bright" and gloomy side of economic stagnation

László Halpern and Gábor Oblath

Hungary over the last few years has reported large and increasing surpluses in its balance of trade, and also become a net lender to the rest of the world, as revealed by surpluses on the current and capital account of the balance of payments. These developments are mirrored by significant deficits (capital outflows) on the financial account, and by a fall in the external indebtedness of the private sector and the whole country. However, the external performance rests on poor performance by the economy in terms of income, consumption and investments – partly explained by de-leveraging in the private sector. So it makes little sense to rejoice at the trade surplus while bemoaning the capital outflows and low (and decreasing) investment rate. They reveal different sides of the same story, where the various aspects relate to each other in macroeconomic accounting identities. In aiming to quantify these relations by international comparison, the paper also points out that capital outflows should not be confused with "capital flight", of which no evidence was found. It is noted that private investments and net capital consumption fell to extremely low levels. Without a turn in investment activity there is no hope of maintaining export growth and revitalizing domestic demand. However, growth in investment is likely to decrease net exports, which may impede economic growth.

The invisible hand – extracts from the history of a metaphor

Aladár Madarász

Adam Smith's phrase the invisible hand has become the best-known metaphor in economics, yet both its interpretation and its relevance are hotly debated by economists and intellectual historians. The range of opinions is wide: several leading economists view it as the founding idea in economics and social studies, some historians see it as an ironic jest by Smith. The study surveys the different uses of the metaphor in theological, political and literary texts before Smith and reconstructs the "invisible hand" passage in The Wealth of Nations as an ironic and paradoxical critique of mercantilist policy. A vast literature has emerged since the late 19th century treating the metaphor in various way, ranging from the description and justification of free markets to the claim that it is a purely fictitious mechanism. The critical approach to it has become stronger since the great recession of 2008.

Introduction to the author's volume entitled *Soft Budget Constraint*

János Kornai

The author's ideas on soft budget constraint were first expressed in 1976. Much progress has been made in understanding the problem over the ensuing four decades. The study takes issue with those who confine the concept to the process of bailing out loss-making socialist firms. It shows how the syndrome can appear in various organizations and forms in many spheres of the economy and points to the various means available for financial rescue. Single bailouts do not as such generate the soft budget constraint syndrome. It develops where a soft budget constraint becomes built into expectations. Special heed is paid to features generated by the syndrome in rescuer and rescuee organizations. The study reports on the spread of the syndrome in various periods of the socialist and the capitalist system, in various sectors. The author expresses his views on normative questions and on therapies against the harmful effects. He deals first with actual practice, then places the theory of the soft budget constraint in the sphere of ideas and models, showing how it relates to other theoretical trends, including institutional and behavioural economics and theories of moral risk and inconsistency in time. He shows how far the intellectual apparatus of the soft budget constraint has spread in theoretical literature and where it has reached in the process of "canonization" by the economics profession. Finally, he reviews the main research tasks ahead.

The transition in a 25-year perspective

Péter Mihályi

In 1989, 36 countries in the world were ruled by Marxist-Leninist regimes. Today there are two: Cuba and North Korea. This is a historic change by any measure. Celebrating the 25th anniversary of the 1989/1990 change of regime in Eastern Europe and the Soviet Union, the Peterson Institute for International Economics, a Washington think tank, and the School of Public Policy at the Central European University held a joint conference in Budapest on 6–7 May 2014. The paper gives an extended summary of the main conclusions, and of additional research by the author into growth performance by the 36 former socialist countries.

Monetary policy, inflation and economic growth in Central and South Eastern Europe

Zsuzsanna Novák

The paper reviews the monetary policy regimes adopted by new and potential EU members from the 1990s to the present day. The emerging economies of Central and South Eastern Europe have to cope concurrently with the compelling requirements of real economic performance and disinflation. Their catch-up process is influenced by their selection of a monetary policy framework. So the main research goal is to investigate which monetary strategy of those applied by Central and South Eastern European emerging economies has best served as preparation for EMU membership, and within that, compliance with price stability. The paper pays special attention to the inflation targeting regime, which has largely influenced the anti-inflationary policies of the Visegrád countries, and in recent years of Romania, Turkey and Serbia. Having introduced the main monetary policy features of the 15 countries examined, the author gauges how successful the adopted policy has been in contributing to nominal and real convergence, from the end of the 1990s to recent years, based on panel estimation.