

ABSTRACTS OF THE ARTICLES

The optimal taxation of capital income

Ákos Valentinyi

This paper provides an overview of the recent theoretical results on optimal taxation of capital income. Debate in Hungary about the corporate tax rate and about whether capital gains and interest earnings should be taxed highlights that the normative problem of optimal taxation is also of interest to policymakers. The paper shows, through various versions of a general equilibrium model, that a welfare-maximizing government will not tax capital income. This is true even if the government considers only the welfare of individuals who do not own capital. If labour productivity depends on human capital, then both the optimal capital-income tax and the optimal labour-income tax are zero, and the government will finance its expenditures exclusively with commodity taxes.

Interest, exchange rates and the remaining years of the forint

Imre Tarafás

The author wrote in this journal six years ago that the biggest challenge to monetary policy-makers would arise from the major difference between the producer and consumer inflation rates. He forecast that the consumer price level would typically rise much faster than industrial producer prices, as it had in the years up to 1995. The difference derives on the one hand from the intervening reduction in consumer subsidies and increase in taxation, i.e. the widening of the net turnover-tax band. On the other, it results from the fact that service prices (which feature in the consumer, but not the industrial producer price index) have been rising faster than those of industrial products. Monetary policy in an economy laden with external deficit, in need of major investment and running a budget deficit cannot have the savings of the economy's one saving sector, the public, consistently and substantially losing real value through negative real rates of interest. So monetary policy has to start from the rise in the consumer price level and set domestic interest rates accordingly. However, exchange-rate policy cannot be divorced from the trend in the industrial producer price level either. Exchange-rate policy adjusted to the higher consumer price and lower producer price levels offers foreign financial investors a high real rate of interest. The capital influx calls for large-scale central-bank intervention and then sterilization, which has heavy costs, while the presence of massive speculative capital brings risks of periodic destabilization. This paper examines from these points of view the events of the last six years and reactions of monetary policy, and finally, tries to look ahead.

Outline of an interpretation of the circle of phenomena known as globalization*Kamilla Lányi*

The study attempts to bring a degree of order to the circle of phenomena known as globalization and the concepts that belong to that circle. The first chapter describes four approaches to globalization as a process: consumption, power structures, financial superstructure and social structures. The second concerns modes of operation and coordination mechanisms (mainly in the economy), emphasizing changes in the dominant forms of ownership, the role of globally integrated money and capital markets, and the parallel shrinkage in the classic, price-setting commodity markets (competitive market). The brief third chapter concerns the main trends identified so far in changes in political power (the state). It gives a cautious warning against projecting into the distant future trends that apply in the short, or at most medium term.

Modern technology—more creative work?*Judit Rimler*

The author explores the relation between degree of application of modern technology and more creative work, through the example of Hungarian manufacturing. Technology and its level of development are represented by level of research and development, and the related tasks of work with the employment structure, qualifications distribution and proportion of graduate employees. The findings confirm the assumption that there is a connection between level of technical development and quality of labour force. (1) In industries where research and development were more intensive than average, the proportion of the most creative expert employees with higher or middle qualifications was higher. (2) In industries where research and development were characteristic of a higher than average number of firms, educational attainment (years of education completed) was higher also. (3) Among firms in high-technology industries, there was a closer relation between the proportion of graduates in the workforce and the pursuit of research and development.