

# Dear Reader,

The 2<sup>nd</sup> issue of the 70th volume of the Public Finance Quarterly offers the Reader a great variety of content that is worthy of the journal. This issue covers topics such as the investment market, history, inflation, and corporate performance. In addition, the relationship between monetary and fiscal policy is discussed from a more hands-on perspective, while fostering the encouragement of knowledge dissemination through our conference reports and book reviews.

Perhaps the overarching lesson of this issue is that a country's economy can only grow steadily if the real and financial sectors grow in balance. An important precondition for this is that the state is not the facilitator and regulator of economic processes. At the same time, the protective role of the state is important to prevent financial turmoil and recession and to preserve financial stability. This healthy role can be played in many ways but can also sometimes fail. The 2008 global financial crisis, the 2019 COVID pandemic, or the high inflation caused by the Russian-Ukrainian war have brought the need for state intervention, capital injections, share acquisitions and various guarantees in the financial sector back to the fore in all countries. While the state has the means to balance the financial system, views on the behaviour of the financial and investment markets in response to these instruments are divided.

The first study to be presented looks at the development of the financial sector, with a particular focus on the distortions in the investment system. The Reader will gain a comprehensive insight into the complex system of interdependencies in financial markets. The authors deal in detail with investment behaviour, the decline in real capital investment, the adverse consequences of value extraction and the adverse effects of share repurchase. The main conclusion of the paper is that without a narrowing of the gap between the cost of capital and the minimum expected rate of return, the position of real capital investment cannot improve sufficiently.

The second paper provides a historical perspective on the relationship between the banking system and state regulation. The authors use the example of France to illustrate the transformation of the banking system, which underwent a major modernisation after World War II. While recognising the initial successes of state intervention, the paper draws attention to the risks and negative consequences of prolonged maintenance of strong regulatory control. The Reader will gain insight into the impact of active state intervention on the modernisation of financial markets and the behaviour of industry players. The issue of regulatory control is raised from time to time by practitioners and academics alike, and this study adds considerable value to the debate on the subject.

Our third study has important lessons for investment decisions in times of crises. The authors draw on prospect theory to provide a more precise explanation for the risk-taking of investors' decisions in times of crisis. The Reader can use this study to gain a more accurate picture of risk seeking and risk avoidance, as well

as the hummingbird effect, which the authors have now been able to demonstrate for stock trading using the results of their research. As with the previous issue on inflation, our editorial team welcomes papers that engage in academic discussion on this topic.

The fourth, and one of our international papers, is closely linked to the inflation dialogue in the journal. Through the theoretical framework of behavioural macroeconomics, the author seeks to provide a more precise picture of the psychology of inflation expectations. On the one hand, the paper offers a critique of the Rational Expectations Hypothesis, offering an alternative perspective on it. On the other hand, it illustrates empirically, using data from the US and the EU, the relationships between inflation expectations and actual inflation, and the diversity of patterns. The Reader will also learn about the practical uses of behavioural macroeconomics to support regulatory decisions. We hope that the presented paper will provide the necessary inspiration for further exploration of what the author calls a new era of economic modelling.

Finally, our second international study takes the Reader on a longer geographical journey. The authors assess the performance of public sector companies that have signed a Memorandum of Understanding (MoU). The study examines the impact of such agreements on firm performance using traditional indicators such as return on equity, return on assets, productivity of net income per employee and sales per employee. The research is based on a solid empirical foundation, analysing 15 years of data, and the authors draw important conclusions about the performance of firms and these types of arrangements.

The following part of this issue presents a review of Branko Milanovic's very recent book *Visions of Inequality, From the French Revolution to the End of the Cold War*, published in autumn 2023. The author's latest book, which puts inequality in a completely new perspective and professional-scientific framework, brings together the work of prominent figures in the field in a historical framework. The reviewer summarises the book's major content motifs in a sufficiently engaging way to contribute to the very important debate on socio-economic inequalities. We are particularly pleased that this review also comes from a doctoral student, confirming that the quality of the Hungarian academic community continues to be secured.

In our interview section, we feature a very special person. On the occasion of Hungary's EU Presidency, Mihály Varga, Hungary's Minister of Finance, answers important and timely questions. In the interview, the Reader can find out more about the concept of budget deficits, how they can be managed, the independence of central banks and the highly complex relationship between monetary and fiscal policy. In addition, our interviewee discusses the Stability and Growth Pact, its impact on growth in EU Member States and the EU's position in the global economy. The interview concludes with a discussion on the communication challenges of fiscal policy. We plan to feature the views of similar speakers in future issues.

And finally, continuing our recently launched conference report column, this issue presents the experiences of the 38<sup>th</sup> ECMS International Conference on Modelling and Simulation, summarised by the Institute of Finance of Corvinus University of

Budapest. Participants from around 20 countries attended the conference, which featured two plenary sessions and more than 80 academic presentations, several of which focused on common economic phenomena in the V4, sparking a lively debate between Hungarian, Polish and Czech experts. It is hoped that the report will encourage participation in the next ECMS and in further conferences related to the topic of the journal. ■

János Lukács  
Editor-in-Chief

