

**Opinion
of the Clean Air Action Group
on the European Commission's Recommendations for Hungary**

The Clean Air Action Group is a national federation of Hungarian environmental NGOs. It was founded in 1988, and since 1991 it has done a great deal of work on environmental economics.

First of all, we would like to express our thanks to the European Commission Representation in Hungary for asking us to comment the following Documents:

- (1) COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN CENTRAL BANK, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE, THE COMMITTEE OF THE REGIONS AND THE EUROPEAN INVESTMENT BANK ACTION FOR STABILITY, GROWTH AND JOBS – Brussels, 30.5.2012, COM(2012) 299 final**
- (2) Recommendation for a COUNCIL RECOMMENDATION on Hungary's 2012 national reform programme and delivering a Council opinion on Hungary's convergence programme for 2012-2015 {SWD(2012) 317 final} – Brussels, 30.5.2012, COM(2012) 317 final**
- (3) COMMISSION STAFF WORKING DOCUMENT: Assessment of the 2012 national reform programme and convergence programme for HUNGARY. Accompanying the document Recommendation for a COUNCIL RECOMMENDATION on Hungary's 2012 national reform programme and delivering a Council opinion on Hungary's updated convergence programme , 2012-2015 {COM(2012) 317 final} – Brussels, 30.5.2012, SWD(2012) 317 final**
- (4) COMMUNICATION FROM THE COMMISSION TO THE COUNCIL Assessment of action taken by Hungary in response to the Council Recommendation of 13 March 2012 with a view to bringing an end to the situation of excessive government deficit – Brussels, 30.5.2012, COM(2012) 276 final**
- (5) COMMISSION STAFF WORKING DOCUMENT. In-depth Review for HUNGARY in accordance with Article 5 of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances – Brussels, 30.5.2012, SWD(2012) 157 final**

In general, our organisation agrees with the basic principles expounded in these Documents, as well as with most of the assessments and recommendations. However, we think that the recommendations in some cases should be more concrete, maybe citing even best practices from other countries in an annex. Moreover, in our view, a number of important points are missing, or are vaguely described. In the following we make proposals for amendments of the

Recommendations in Document (2), taking into consideration also the other Documents mentioned above. (The additions proposed by us are underlined, the ones to be deleted are ~~crossed out~~.)

“1. Correct the excessive deficit by 2012 in a durable manner, by implementing the 2012 budget and reducing the reliance on one-off measures. Thereafter, specify all structural measures necessary to ensure a durable correction of the excessive deficit and to make sufficient progress towards the medium-term budgetary objective (MTO), including meeting the expenditure benchmark, and ensure sufficient progress towards compliance with the debt reduction benchmark. To mitigate the accumulated macroeconomic imbalances put the public debt ratio on a firm downward path. Prepare and implement an action plan, in consultation with the social partners and civil society to substantially reduce tax evasion and tax avoidance.”

Justification:

Document (3) states the following: “The horizontal screening of tax challenges points to concerns with tax governance. The Hungarian tax system is characterised by significant tax evasion as indicated by the large shadow economy and signs of undeclared work. The size of the shadow economy is estimated at nearly 24%, i.e. substantially above the EU average of 16%.” NGOs (among others Transparency International and the Clean Air Action Group) already prepared a number of concrete proposals to reduce tax fraud, however these were not implemented by the government.

“2. Revise the cardinal law on economic stability by putting the new numerical rules into a binding medium-term budgetary framework. Continue to broaden the analytical remit of the Fiscal Council, with a view to increasing the transparency of public finances. Substantially improve the consultative role of social partners and civil society. In all cases prepare well-documented assessments for the bills concerning the budget and taxation.”

Justification:

The consultation with social partners and civil society has been much weaker during the present government than during the previous ones. The main reasons for this are the following:

- 1. Civil society representatives were excluded from a number of bodies where they had a seat earlier. The present government either directly denied their representation or substituted it with false representatives. (An example of this practice is the National Economic and Social Council where the genuine representatives of the civil society were replaced by persons nominated by the government. See Annex I.)*
- 2. Funding to NGOs was substantially reduced, first of all to national NGOs which were capable of seriously commenting government documents. Furthermore funding for NGOs to produce studies, analyses of issues of national importance practically disappeared. Today NGOs have much less capacity to seriously take part in consultations with the government than a few years ago.*
- 3. It became much more difficult for NGOs to make their voice heard. Their opinion appears in the press (especially in the television and radio) much less than e.g. three years ago. This is partly due to the reduced capacity of the NGOs, but mainly to the change of the attitude of the press towards NGOs.*
- 4. Quite often the deadline given for the consultation is too short to make it possible to give well-based comments. It is not uncommon that important changes in legislation*



are approved within a few days or even a few hours following their submission to the Parliament.

5. *Generally no background studies, impact assessments, calculations accompany the government proposals, and this often makes it impossible to properly evaluate these proposals. The budget bill is compiled in a way that makes it extremely difficult to compare its data with those of the previous years.*
6. *Often individual Members of Parliament submit bills, and the present laws in such cases require neither assessments, nor public consultation.*
7. *The government's replies to the NGO's comments are generally vague and lacking substantive information. ("Thank you for your valuable comments, which we will take into consideration.") In many instances no reply is given at all. (For example, environmental NGO's assessed the government's 2-year performance concerning the environment, and handed over the 33-page document¹ to the representative of the Prime Minister on 29 May, 2012, but no reply was received up to this day, i.e. 9 July.)*

Proper consultation with the stakeholders will lead to more stable public administration and better legislation. Foreign investors and also the Hungarian business sector regularly complain about unstable legislation and the malfunctioning of public administration, referring to them as causing unnecessary uncertainty and market distortion.

"3. Make the taxation of labour more employment-friendly by alleviating the impact of the 2011 and 2012 tax changes on low earners in a sustainable, budget-neutral manner, for example by shifting part of the tax burden to energy taxes and recurrent taxes on property. Prepare an action plan with concrete measures and deadlines for implementation of all recommendations of "Guideline 5: Improving resource efficiency and reducing greenhouse gases" of the Council Recommendation of 13 July 2010 on broad guidelines for the economic policies of the Member States and of the Union (2010/410/EU). Strengthen measures to encourage women's participation in the labour market, particularly by expanding childcare and pre-school facilities."

Justification:

Only a concrete action plan with detailed measures will lead to the implementation of the recommendations contained in Guideline 5. A number of studies (including several commissioned by the European Commission) have proven that the proper implementation of the recommendation in Guideline 5 might substantially contribute to achieving fiscal consolidation as well as the other goals set forth by the EU 2020 Strategy.

"4. Strengthen the capacity of the Public Employment Service to increase the quality and effectiveness of training, job search assistance and individualised services, with particular regard for disadvantaged groups. Strengthen the activation element in the public work scheme through effective training and job search assistance. Implement the National Roma Integration Strategy, and mainstream it with other policies. Strengthen the capacity of all authorities so that their performance attains at least the average EU level."

Justification:

Hungarian authorities were weakened during recent years to such an extent that they are not able to fulfil the tasks required by EU and Hungarian legislation. This is detrimental also to the competitiveness of the Hungarian economy. (For more details see Annex 2.)

¹ http://levego.hu/sites/default/files/kormanyvertekeles_2012v.pdf (in Hungarian)



“5. Implement measures envisaged to reduce the administrative burden. Ensure that public procurement and the legislative process support market competition and ensure a stable regulatory and business-friendly environment for financial and nonfinancial enterprises, including foreign direct investors. Reduce tax compliance costs and establish a stable, lawful and non-distortive framework for corporate taxation. Implement ~~Remove~~ unjustifiable restrictions on the establishment of large-scale retail premises in a transparent way on the basis of clearly defined criteria. Provide specific well-targeted incentive schemes to support innovative SMEs in the new innovation strategy.”

Justification:

The centralisation efforts of the government – in this case: autocratic government decision about licensing large-scale retail premises – is harmful and unjustifiable. On the other hand building regulations for shopping centres has been very weak in spite of the growing problems including the enormous induced car traffic and distortion of local supply, resulting in empty (abandoned) shops downtown as well as lack of retail activities in smaller settlements. Good regulatory practices from the old Member States should be introduced for regulating retail and for better co-operation on local level between the cities and their surroundings.

Note: Concerning SME support, it would be useful if the European Commission took into consideration the recommendations of CEE Bankwatch Network about the EIB’s lending practices (access to finance by SMEs)

“6. Prepare and implement a national strategy on early school-leaving by ensuring adequate financing. Improve social mobility by equal and much improved education opportunities for children of all families and in all areas of Hungary. Ensure that the implementation of the higher education reform improves access to education for disadvantaged groups. Substantially improve health care services, raising health care expenditures in from the 3.99% of the GDP in 2012, to 5% in 2013, and 6% in 2014.”

Justification:

It is rightly stated in Document (3): „There are also concerns that the changes afoot to the education system may deepen socio-economic inequalities further.” Furthermore, Document (2) states: „Improving education at all levels will be important to raise the competitiveness of the Hungarian labour force.”

The Hungarian health care system is on the brink of collapse.² The exodus of medical personnel has been unprecedented during the last few years. Among others each year as many or more doctors leave the country as finish medical university. The vast majority of family doctors already reached or are very near to pension age. Coupled with the dismantling of the authorities responsible for the protection of health and environment, the dwindling of the health care system might soon lead to humanitarian disaster in Hungary.

Furthermore, the flat rate income tax destroyed the last chance for many people to have access to decent level of health care and education. Even teachers and most of the medical personnel are not beneficiaries of the flat rate tax because of their low salaries. The rich can afford private schools (often outside the country) and private hospitals. Therefore they care

² Examples of the worsening situation can be experienced by anyone in Hungary who contacts the public health care services. The press regularly calls attention to the seriousness of the problem (see eg. http://nol.hu/belfold/20120630-penzed_legyen_vagy_szerencsed)



less for the general education and health care system. Not only a two-speed Europe is emerging but also a two-speed country.

“7. Reform the ~~public~~ transport system to make it more cost efficient. Remove all direct and indirect subsidies to car and truck transport. Increase the crossborder capacities of the electricity network by regulation, ensure the independence of the energy regulator ~~and gradually abolish regulated energy prices.~~”

Justification:

The statement “Reform the public transport system to make it more cost efficient.” is a euphemism for cutting public transport subsidies. (This is underpinned by the fact that, as far as we know, the European Commission never made any concrete proposals for “reforming the public transport system”.) The direct subsidies to public transport form part of the state budget, so they can be clearly seen by anyone. However there are also huge indirect (hidden) subsidies in transport. The indirect subsidies to car and truck transport are much larger than the direct subsidies for public transport: according to one study³ they might even reach 10 % of the GDP. The European Commission must not be silent concerning a transport subsidy 10 times larger than that of public transport. It should urge the Hungarian government to completely eliminate the latter before considering any reduction of subsidies to public transport. It must be noted, too, that eliminating subsidies to public transport would certainly lead to its collapse in most of the country. In Budapest and its surroundings, which produce about 40 % of the Hungarian GDP, this would stifle the economy. It would also lead to a further increase of PM10 pollution. (According to a recent study commissioned by the European Environmental Agency, 16 000 premature deaths can be expected yearly in Hungary, if the present PM10 pollution will persist. The morbidity due to this factor is over one million yearly. The main source of PM10 is transport.) At present the European Commission is carrying out an infringement process against Hungary because of PM10 pollution surpassing the permitted limits! Moreover, the EEA, the European Commission and the European Parliament are recommending the improvement of public transport and railway services in order to reduce PM10 pollution.

Increasing crossborder capacities of the electricity network should by no means be financed by public money. Its cost must be paid by the electricity users (in accordance with the principles of market economy).

The present energy market is characterized by monopolies, therefore regulated energy prices cannot be abolished for the time being.

“8. Prepare and implement a roadmap for gradually increasing the R&D expenditure in Hungary to 1.8 % of the GDP in 2020.”

Justification:

See the sub-chapter on Research and Development as well as the Overview Table in Document (3).

³ The Social Balance of Road and Rail Transport of Hungary,
http://www.levego.hu/sites/default/files/social_balance_transport_hungary_20110131.pdf



“9. Substantially modify the use of EU funds as soon as possible: use public funds only for public goods, and not for subsidies distorting the market. Use a large part of the EU funds to implement the teachers’ career program.”

Justification:

A large part of the EU funds in Hungary is misused: often such funding causes distortion of the market, demoralizes business participants, and leads to investments which are not really necessary (for more details see Annex 3). Therefore funding should be regrouped with the main purpose of strengthening the education system.⁴

Budapest, 9 July 2012



*András Lukács
President
Clean Air Action Group*

⁴ For more detailed explanation see (in Hungarian): „Környezetvédő civil szervezetek álláspontja az uniós költségvetésről” http://www.euvonal.hu/kulugy/upload/M_29/rek5/557.pdf (pp. 142-150), and „A közoktatásra fordított kiadások nemzetgazdasági hatásai...” http://www.mgszt.hu/index.php?option=com_docman&task=doc_download&gid=69&Itemid=17



Annex 1

The following press release was signed by 74 NGOs within 3 days in August, i.e. at a time when many people were on summer leave.

Press release, Budapest, 24 August, 2011

A Mockage of Democracy in the Hungarian National Civil Fund Council

The Hungarian National Civil Fund (NCA) Council elected a person to represent the environmental NGOs in the National Economic and Social Council (NGTT) who is not supported by these NGOs. The National Meeting of Environment and Nature Protection NGOs, representing nearly 600 organizations, this spring elected in a democratic way the person whom they delegate to be their representative in NGTT.

The undersigned NGOs protest against the decision which neglects the NGOs and disregards the principles of democracy. They find it appalling that NGOs are denied the right to elect their representatives as they wish.

This decision is causing damage to our country also because of the fact that the person elected by the NCA Council has not been active in environmental NGOs, he has no experience at all concerning environmental topics and environmental NGOs, and therefore he will not be capable of representing their interests and viewpoints. This decision might cause repugnance also in the institutions of the European Union, which regularly meet with representatives of environmental NGOs and know their activities and viewpoints.

The environmental NGOs had already warned that it was a mistake to accept the law according to which the NCA Council decides who will represent NGOs in NGTT. This function cannot be fulfilled by a body like the NCA Council which consists partly of political delegates. Besides, the NCA and its Council was not created for this purpose.

NGOs can accept the NGTT only if its members are elected democratically by the organizations concerned – declared Zsuzsanna F. Nagy, Acting President of the Conciliatory Forum of Environmental NGOs. „The delegate of green NGOs was elected by our National Meeting with the participation of NGOs committed to and working on a professional basis for environment and nature protection, representing more than 60 thousand members. Therefore this delegate bears the complete support of the green movement. If the Government wishes to sit in NGTT at the same table with the representative of the environment and nature protection NGOs, then it should ensure the place for their delegate.



Annex 2



PRESS RELEASE

Austerity measures forced on Hungary harming European citizens

Austerity measures forced on Hungary is threatening the health of people and the environment in Europe, say Hungarian NGOs. Harsh cuts across public sectors, including the environmental inspectorates and other authorities, reduce them to their 'bare bones', unable to work effectively.

The groups also highlight the drastically reduced support for NGOs. A recently published report of the Hungarian Parliamentary Commissioner for Future Generations states that the Hungarian Network of Eco-counselling Offices is closing its offices one after the other in the whole country due to the vanishing of funding. These offices gave advice and other help in about 40,000 cases each year, and this advisory activity related to the everyday life of several million persons.

It can be seen day by day that control over processes and products potentially harmful for people's health is increasingly being lost in the country. One of the biggest industrial catastrophes ever in the EU occurred in Hungary in 2011. This was the red sludge spill, killing 10 persons, injuring about 150, and devastating one town and two villages. Just a few weeks before the spill, the environment inspectorate renewed the permit for the operation of the concerning red sludge reservoir without inspecting it on the site because of the lack of capacity.

In 2011, the Institute of Isotopes in Budapest was releasing for months radioactive isotopes in the air above the permitted concentration, and the Hungarian authorities started to deal with the issue only after warnings from foreign institutions that there is an increased atmospheric concentration of these isotopes in their countries, and the emission source was probably in Hungary. Plastics are being burnt illegally in households all over Hungary, emitting carcinogenic substances far above the health safety level. Dangerous agrochemicals appear from time to time in the drinking water in concentrations above the permitted limit.

"The weakening of the authorities and the elimination of important NGO services in Hungary poses a real danger to the health and safety of all European citizens. Namely, neither environmental pollution nor unhealthy and unsafe products stop at national borders," said István Farkas, Executive President of Friends of the Earth Hungary.

It is the Hungarian Government which is carrying out the drastic reduction of funding to bodies responsible for safeguarding our health and environment. However, it is the IMF which has been demanding serious cuts in state expenditures, and especially to trim down the public wage bill. "Indubitably, it is absolutely necessary that Hungary reduce its public debt. Nevertheless, there are much better ways to achieve this than eliminating those authorities and non-governmental services which protect our safety and health: first of all, the

government should remove environmentally harmful subsidies and other kinds of state aid distorting the market,” said András Lukács, President of the Clean Air Action Group, a national federation of 123 environmental NGOs.

Before Hungary joined the European Union in 2004, the European Commission in its annual country reports each time pointed out that the Hungarian authorities do not have the necessary capacity to comply with the requirements of the EU on protecting the environment and safeguarding human health, and called upon the Hungarian government to strengthen these authorities. However, since the accession to the EU just the opposite happened. For example, the budget and staff of the national public health authority (responsible for food and water safety, and prevention of epidemics, among others) was halved between 2004 and 2008. There were substantial cutbacks also for the environment inspectorates, the plant protection service and other authorities. Since then further cuts took place: the budget of the national public health authority was reduced in real terms by 43 % between 2008 and 2011, and a further cut of 32 % occurred for 2012 in comparison with the previous year. The respective figures for environmental, nature protection and water protection authorities are 47 % and 14 %, and for the national consumer protection inspectorate 32 % and 71 %. The government just issued its decision to lay off immediately 6700 persons from these and various other state organs, including highly qualified, experienced and committed experts in the state administration, responsible for preparing governmental decisions and for international relations.

Budapest, 21st January 2012



Annex 3

A recipe for destroying the economy

According to some prominent personalities of Hungary's business sphere, the funds of Hungary's Economic Development Operational Programme (EDOP) should be doubled for the entire 2007-2013 period because it has not been sufficient that additional HUF 111 billion were regrouped to economic development from the EU funds last year. Evidently, all possible measures must be taken in order to modernize the structure of Hungary's national economy and to improve the competitiveness of Hungarian enterprises, both in the short and in the long run. However, it is questionable whether the proposed regrouping of funds into the EDOP does in fact serve this purpose.

What is the EDOP? In essence, it could be described as a scheme under which applicant companies submit tenders in order to gain public funds, and officials paid from public money decide which companies will obtain grants from such public funds, and how much.

Both recent historical experience and economic theory show that the redistribution of public funds to business entities brings about serious troubles in the markets. Hungary, unfortunately, has gained more than enough experience about the consequences of a system where market players were vying for state funds instead of competing for customers. All over the world, many economists believe that the primary cause for the fall of the Soviet Union and the countries operating similar economic systems was that the prices there did not reflect the true costs. Even the price of pencils was centrally determined in Moscow, to be applied throughout the Soviet Union. Companies were haphazardly subsidized by the government, based on special case-by-case decisions and non-transparent processes. In the end, no one knew how much a given product or service actually cost, as prices did not show the reality. As a consequence of this system, mistaken economic decisions were being taken at all levels and all the time, which, among others, led to enormous squandering of human and material resources. For the Soviet Union and the associated former communist countries the moment of truth came when they switched over to the market economy: this brought about immediate collapse for the industries that had been sustained earlier by the state by means of reallocating resources drained away from other sectors of the national economy. (Heavy industries and mining were such favoured activities in Hungary; accordingly, the workforce employed in mining plummeted from one hundred thousand to just five thousand over a short period of a couple of years.) On the other hand, certain activities, earlier practically destined to stagnate owing to cutbacks by the state, suddenly surged and started growing powerfully (e.g. the telephone companies).

*[One of the background papers](#) of *Reformszövetség* (Reform Alliance, an influential business circle which prepared proposals for the economic policy of the government in the year 2009) also pointed out that the redistribution of funds by the state to various market players is a system of extremely low efficiency: "To make things worse, the calls to apply for grants often miss their goal; they do not facilitate finding solutions for the actual problems, while the funds offered generate a demand that the company concerned does not necessarily need. This trend is being even further intensified by the firms which specialized in grant application writing, and which are interested in obtaining the offered funds but are not interested in utilizing them efficiently. ... In the period between 2003 and 2006, the growth rate of enterprises that received state subsidies did not show any significant difference in comparison to companies that did not make use of such grants. In fact, many of the grant-aided firms actually registered a negative growth. In the SME category, the larger and older enterprises*



practically snatched away for themselves all available grants, and used them to sustain their low-efficiency operations. There were just a very small number of companies (approximately one-seventh part of all grant recipient companies) which achieved any substantial progress and whose success was at least partly attributable to the received grant aids.”

Several other economic experts have also called the attention to the detrimental outcome of this practice of redistributing funds: namely, that it gives rise to a series of erroneous economic decisions. Miklós Hegedűs, managing director of the influential economic consultancy GKI Energiakutató és Tanácsadó Kft. (Energy Research and Consulting Ltd.) [claims](#) that “the subsidies allocated to Hungary’s business sector do not really result in any perceptible improvement of the growth potential or the much coveted competitiveness. It is a hardly refutable suspicion that a large part of the grants arriving to Hungary are just ‘money going down the drain’, and that even with the best of intentions they do not contribute to attaining Hungary’s fundamental economic policy goals (growth, regional development, specialized training, etc.) but rather they only prolong the agony of enterprises that are unfit for survival.” Gábor Bojár, President of the Board of Directors of the famous and very successful company Graphisoft [believes](#) that “the sooner the real customer pays for a given product or service, the sooner it will be ready and the sooner it will be of good quality. Real customers demand quality and they will not be satisfied until they get that quality. State fund distributors, however, will not act like that. In the worst scenario, such fund distributors are corrupt; in a more favourable case they will use their best judgment and faith when deciding whether the quality is good enough or not. (...) The longer the development is sponsored through such subsidization, the later an exacting real customer will appear. And yet, such a real customer is just as important a factor for the quality of a product as the manufacturer itself. This practice entails enormous losses of time and financial resources, and deteriorates competitiveness to an extremely large degree.”

[One of the websites](#) assisting grant applications has very aptly expressed the quintessence of this system as follows: “The grantor will not impose any sanction on those applicants who have implemented the project in accordance with the subsidization agreement but have not managed to achieve the project’s objectives.” In contrast, the market will ruthlessly punish such enterprises. That is a huge difference!

Moreover, the state aids granted to certain stakeholders of the economy often draw away resources from other activities that are viable and competitive (let us just think of the increased tax rates). This whole process can be described as “alms-giving by looting”.

Such subsidies often make company activities unpredictable, and it is not rare that they unfairly disadvantage certain enterprises. The mayor of a Hungarian town complained to me recently that in another town a foreign company obtained state subsidies of several billions of Forints for a green-field investment project implemented there. In contrast, an enterprise which manufactures similar products, and which had settled earlier in the town of this mayor, had not received any such state aid ...

This practice of redistribution necessitates vast administration efforts, and drains away masses of well-trained and talented specialists from (more) meaningful jobs, just at a time when other domains of the Hungarian public administration badly lack such qualified professionals (which is often reflected in the poor standard of Hungarian law codification work). “Within Hungarian public administration, today it is the rapidly swelling bureaucracy of national development and the associated intermediary grant-distributing entities that promise the most EU-compliant jobs, with frequent travels to Brussels and with prospects for



much better paid career opportunities there. Thus, from among the young lawyers and economists who choose state administration as their future professional field, the most promising young talents, with the best knowledge of foreign languages, apply for such jobs. And those who go there obviously will not go to work at the Finance Ministry, the Ministry of Justice or the National Office of Economic Competition. Therefore, each and every capable and competent 24-year-old grant application evaluating specialist will cost the Hungarian society as much, as the costs incurred by having so much fewer qualified young experts working on the elaboration of the tax reform, on the theme of deregulation, or on the control and regulation of monopolies, i.e. as the costs of the damage caused in the event that these laws and decrees are only prepared slower and in poorer quality on account of that” – writes Balázs Váradi in his excellent article titled [A nyolezermilliárd átka](#) (“The curse of the eight thousand billions”). He also puts forward convincing arguments to underpin his warning: if we do not change our attitude, EU aids may cause to Hungary more damage than all the benefits they bring.

Besides, state grants provided to companies are also hotbeds for corruption and fraud. The distribution of free funds will irresistibly attract all those who aim for quick enrichment by illegal means. We can read about such cases every day in the newspapers (and, as it has been proved by several surveys on the subject, the reports published in the press represent just the tip of the iceberg). In many observers the same suspicion may be aroused by the fact that subsidy allocations performed by the state often go counter to its own declared aims (e.g. reduction of energy dependence, giving preference to activities that create more added value).

It is at least a mistake to say, as some business representatives do, that the funds regrouped into the EDOP create new resources for the Hungarian economy, for even until now all other types of EU aid have also served the economy. For instance, the subsidies granted to railway development from the Transport Operational Programme, or the funds allocated to the construction of sewage treatment plants from the Environment and Energy Operational Programme have brought contracts and orders for the enterprises, and even the education activities financed from the Social Renewal Operational Programme have trained workers and professionals partly for the Hungarian companies (hopefully at a high standard). In fact, all EU grants allocated so far must serve economic development, because all such subsidies were required to promote the implementation of the Lisbon Strategy (the primary goal of which is to make Europe the world’s most dynamically developing knowledge-based economy by 2010). If the EU subsidies allocated to Hungary have not been spent by the Government for such purposes up till now, then the EU could rightly claim these funds back...

EU financial means should not be used directly for subsidizing certain economic actors but rather for funding tasks that are indispensable for a healthy economic development but are not performed by the market on its own. Such tasks include environmental protection investment projects, required by the European Union, which cannot be implemented from private capital on a purely market basis (e.g. the construction of sewage treatment plants and waste handling facilities). The improvement of public services (e.g. education, healthcare, public transport) and the energy efficiency enhancing renovation of buildings (first and foremost the buildings of public institutions) also belong into the group of such indispensable tasks, which may provide a secure and predictable market for Hungarian enterprises. (However, even in this case, the subsidies should not be paid to certain individual companies but rather to the users – i.e. to the proprietors of the buildings –, who will then select from among the enterprises operating in the market the ones they will contract with for the work.) Research and development has been, and still is, an important and continuously under-financed activity in Hungary. Since it involves excessive risks for market players, it would be



necessary and justified to take over a larger portion of these risks from the enterprises.

Lots of meaningful measures can be taken in order to improve the competitiveness of Hungary's economy. (These possible steps include, among others, the transformation of the current system of public procurement, the simplification of the Hungarian tax system, or the consistent application of sanctions against unfair economic activities.) The practice distributing public funds to companies, however, is certainly not one of these meaningful measures. On the contrary: it is a sure recipe for wrecking the Hungarian economy.

András Lukács

President of Clean Air Action Group, a Hungarian environmental NGO

