Levegő Munkacsoport

Comments
on the Draft Country Specific Recommendations for 2013 for Hungary[1]

by the Clean Air Action Group (Levegő Munkacsoport)

Below we put the text cited from the Commission's Draft Country Specific Recommendations in quotation marks and in italics.

"1. Implement a credible and growth friendly fiscal strategy by specifying the necessary measures focusing on expenditure savings and preserve a sound fiscal position in compliance with the medium-term objective over the programme horizon."
There is no evidence whatsoever that the economy of countries with lower public expenditures develop better than that of countries with higher public expenditures.[2] We cannot find any hint in the Draft CSR or in the accompanying Commission Working Paper, why the Commission thinks that reducing public expenditure would be beneficial for Hungary, nor are there any specific recommendations which would concretely specify which expenditures should be "saved".
Further doubt on the soundness of this recommendation is cast by the following. A large proportion (about 3% of GDP) of public expenditure in Hungary consists of EU funds. A further substantial part is made up of co-financing for these EU funds. As both the European Commission and the Hungarian Government is eager to spend the appropriated EU funds to the last cent, the only way to reduce public spending is to cut expenditures on basic public services (i.e. reduce the wages of teachers and health care personnel, decrease funding for public transport etc.). In short, on the one hand the EU is urging Hungary to reduce public spending, while on the other hand it is providing an enormous amount of money for public spending. It seems that the left hand does not know what the right one is doing.

"3. ... Continue making taxation of labour more employment-friendly by alleviating the tax burden on low-wage earners, inter alia by refining the eligibility criteria for the Job Protection Act, and by shifting taxation away to environmental taxes."
It is highly commendable that the Commission recommends alleviating the tax burden on low-wage earners and shifting away to environmental taxes. At the same time it should be noted that the present flat-rate personal income tax is very unjust as it is an enormous tax

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[1] Recommendation for a **COUNCIL RECOMMENDATION on Hungary's 2013 national reform programme and delivering a Council opinion on Hungary's convergence programme for 2012-2016** {SWD(2013) 367 final}, Brussels, 29.5.2013
[2] See:
Mekkora legyen az állami újraelosztás mértéke? http://levego.hu/sites/default/files/allami-ujraelosztas_osszefogl_1006.pdf, http://levego.hu/sites/default/files/ujraelosztas_110608_lukacs_0.pdf
Az államháztartás ökoszociális reformja, http://www.levego.hu/sites/default/files/kiadvanyok/zoldkolts_tan_2008.pdf, 33-44. oldal

subsidy to the richest part of Hungarian society, and at the same time deprives the public budget from a sum equalling more than 1% of the GDP.

"3. ... Fully implement and step up the already announced measures to improve tax compliance and reduce the cost of tax compliance.
This recommendation is an important step forward, however, it should be more specified. According to another document of the Commission "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%." At the same time, the Hungarian Government seems unwilling to implement any serious measures to combat shadow economy. Therefore we propose to add the following to the CSR: "Prepare and implement an action plan, in consultation with the social partners and civil society, to substantially reduce tax evasion and tax avoidance. First of all reform taxation on car purchase and car use, and take serious measures to reduce VAT fraud."

"5. Create a supportive business environment, in particular restore an attractive environment for foreign direct investors, by making the regulatory framework more stable and by fostering market competition."
Market competition is hindered mostly by the enormous amount of state aid (in a large part from EU funds) to individual companies. This aid greatly distorts the market and makes business environment unpredictable. Therefore we propose to include in the CSR the following: "Drastically reduce state aid to business."

"5. ... Ensure the prompt implementation of measures envisaged to reduce the administrative burden, improve competition in public procurement and take adequate measures to tackle corruption."
Unnecessary administrative burdens must be reduced. However, the CSR should emphasise at the same time that environmental, health, safety, social etc. regulations and control must not be relaxed. In Hungary, by far the most important administrative burden lies in the taxation system, so a simplification of the taxation system could help most in reducing administrative burdens.
The recommendation "*take adequate measures to tackle corruption"* is highly commendable. According to estimates by experts at the Hungarian Academy of Sciences, the economic loss caused by corruption in Hungary equals to 3 to 6 % of the GDP. Experts (including experts of several NGO's) already prepared a number of concrete proposals to reduce corruption, however, these were not implemented by the government. On the contrary, many measures were taken by the government and the Parliament, which, in fact, made corruption practices easier.[3] For this reason we propose that a stronger recommendation should be made: "Prepare and implement an action plan, in consultation with the social partners and civil society, to substantially reduce corruption."

"5. ... Remove recently introduced barriers in the services sector, including in retail services."
This should be better specified. The problem is not the restriction of permissions given for the establishment of new shopping malls (such restrictions exist in many EU countries for environmental and other reasons), but the fact that the process of granting permission lacks clear criteria and transparency.

[3] See, for example: http://atlatszo.hu/2013/05/08/the-coming-dark-age-of-democratic-governance-in-hungary/

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“6. Implement a national strategy on early school-leaving and ensure that the education system provides all young people with labour-market-relevant skills, competences and qualifications. Improve access to inclusive mainstream education, in particular for Roma. Support the transition between different stages of education and towards the labour market. Implement a higher-education reform that enables greater tertiary attainment, particularly by disadvantaged students.”
This is a very good recommendation. Unfortunately, what the Hungarian government is doing, is just the opposite.

“7. Gradually abolish regulated energy prices while ensuring the effective protection of economically vulnerable consumers.”
It is difficult to see how regulated energy prices could be abolished while energy providers constitute a monopoly.

“7. ... Ensure the financial sustainability of state owned enterprises in the transport sector by reducing operational costs and increasing revenues.”
This recommendation, if implemented, would seriously worsen the state of the environment in Hungary, and it would cause serious economic and social problems. Public transport would suffer a serious setback. This also contradicts EU policies set forth in various documents.
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 study[4] 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. Transport accounts for about 40 % PM10 emission.) 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.
It is also strange that the Commission did not propose “*reducing operational costs and increasing revenues”* in public transport in any of its other CSR’s. In fact, in the case of Luxembourg and Malta, it proposes increasing subsidies to public transport.

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[4] http://www.levego.hu/sites/default/files/social_balance_transport_hungary_20110131.pdf

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