



Budapest, 5 September 2012

To:
International Monetary Fund (IMF)

Dear Sir/Madam,

On 26th July 2012, Thanos Arvanitis, IMF mission chief for Hungary, issued a statement¹, which states the following: “The authorities’ commitment to the fiscal targets under the revised Convergence Plan in 2012-13 is welcome. However, greater focus should be placed on achieving a more balanced fiscal consolidation, shifting away from ad hoc tax measures towards streamlining public expenditures, while ensuring adequate support to vulnerable groups. A smaller and more efficient state with strong and predictable policies would create better conditions for private-sector led growth, and reduce the tax burden over time.” On the same day Minister Mihály Varga, leading the discussion on the side of the Hungarian Government stated that “the international organisations [IMF and the European Commission] are urging a radical reduction of the 750,000 employees in the public sector”.²

We would like to ask you to provide us with data underpinning the correctness of the IMF’s recommendation to reduce the number of employees in the public sector. According to our data the number of employees in the public sector in Hungary is one of the lowest in the European Union, if compared to the whole population. It is not extraordinarily high even if it is compared to the total number of employed persons. However it would be very flawed to use the latter comparison. Namely, in Hungary the employment rate is the second lowest in the EU (after Malta), and it is evidently not true that if the employment rate is low, the country needs less doctors, teachers or policemen (probably and unfortunately the case is just the opposite).

From which subsector of the public sector should people be laid off according to the IMF?

The Hungarian health care system is on the brink of collapse.³ 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.

Concerning the educational system, the 2010 Annual Report⁴ of the Hungarian European Business Council (HEBC) states the following: “In terms of human resources HEBC is experiencing something that prevails in other areas as well: the one-time competitive

¹ Statement by the IMF Mission to Hungary, Press Release No. 12/276, July 26, 2012,
<http://www.imf.org/external/np/sec/pr/2012/pr12276.htm>

² Ezeket kéri az IMF, MTI, MNO, 2012. július 26., <http://mno.hu/ahirtvhirei/ezeket-keri-az-imf-1094780>.
Translation by A. L.

³ 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_legeny_vagy_szerencsed)

⁴ <http://www.skf.com/files/888730.pdf>

advantage of the country seems to be vanishing. The educational system, therefore, needs utmost attention and urgent changes. (...) A recurring problem in Hungary is the extraordinarily low financial and moral level of appreciation of teachers. The teaching profession is ranked among the less popular and favourable training faculties, and just a few of the graduate teachers choose education for their career. The Hungarian pedagogical society is elderly now but renewal is not solved either, for the above reasons." Since 2010 the situation deteriorated even more.

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

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 the Annex.)

Low wages and lack of appropriate staff at the authorities are one of the main reasons for a series of catastrophes and scandals in Hungary, for which the most striking example was the red sludge spill.

How does IMF imagine the development of the Hungarian economy with undereducated and unhealthy people ridden with catastrophes?

According to an important study by the World Bank⁵, the preponderant form of wealth in every country is the intangible capital. All the more, the share of intangible capital is much higher in rich countries than in poor countries. Intangible capital consists of human capital and the quality of formal and informal institutions. All these are produced first and foremost by the public sector. Does the IMF accept the conclusions of this World Bank study? If yes, why is it proposing measures that will substantially reduce the intangible capital of Hungary?

We completely agree with IMF's standpoint that in Hungary "greater focus should be placed on achieving a more balanced fiscal consolidation". However such a consolidation will certainly not be achieved by decimating the public sector. Neither should the pensions be reduced, because this would cause serious social tensions and decrease consumption, further aggravating the situation of Hungary's economy. On the other hand, there are many concrete proposals by experts and various organisations to eliminate harmful state subsidies, reduce tax evasion and tax avoidance, and to seriously combat corruption. In our opinion such measures must be recommended by the IMF to the Hungarian government in order to achieve a more balanced fiscal consolidation.

Sincerely yours,



András Lukács
President

⁵ **Where is the Wealth of Nations? Measuring Capital for the 21st Century.** The World Bank, Washington, D.C., 2006, <http://siteresources.worldbank.org/INTEI/214578-1110886258964/20748034/All.pdf>

Annex



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

