

Conclusions regarding economic policy made at the 44th Economic Convention

(Information for the Government) Document

Nearly one hundred presentations and comments were made on various subjects at the itinerary congress. No closing declaration has been agreed on by the participants, neither did the organizers endeavor to develop a single position regarding the presented ideas. This explains why the following opinions, proposals and recommendations are so diverse.

1 The participants of the itinerary congress agreed on the necessity of the adjustment efforts that commenced well into 2006, and, what is more, *they regarded the strict measures aimed at improving the equilibrium as unavoidable*. In their opinion, the steps defined in the Convergence Program will probably push the development of the Hungarian economy into the right direction. However, doubts were expressed as to whether these measures will prove to be sufficient to put the Hungarian economy onto the course which leads to reaching a sustainable balance.

2 It can be considered majority opinion that increasing the tax burdens of employment and savings goes contrary to the announced economic policy objectives and the integration strategy. *The higher tax rates should have been imposed on consumption*, and the widening of the tax basis should have been started consistently. However, the increased tax rates in the given structure – even with their projected positive effects on the equilibrium both in the

short- and mid-term – will push the Hungarian economy off the course which leads to European integration.

3 The *coherence between the three strategic documents*, i.e. the government program, the 2nd National Development Plan, and the Convergence Program, prepared by the government in the summer of 2006, *is weak*, and difficult to recognize.

4 The professionalism of the last two plans is also questionable: not even the profession is aware of those *impact analyses* without which no such documents can be prepared, or at least such cannot be approved.

5 The *professional element has been pushed into the background* even more than before in public administration, which is the area responsible for developing and executing these programs – however, the political factors have received priority. This again questions the professionalism of the programs, and reduces their credibility in public opinion.

6 One of the most important tasks of the government is related to this very *credibility*: its credibility has eroded both in Hungary and abroad. Certain members of the government (others than the ones taking part in the itinerary congress) give statements on the need to regain credibility in such a way as if they had not played the main role in losing it.

7 The chances for the social acceptance of professional *action built on economic rationality* are not good, since the political decision-makers made large groups of the population and small entrepreneurs believe that all benefits, absorptions, taxes only depend on the goodwill, or will of the government. Consequently, politics and state leadership have lost their credibility.

8 In the Hungarian economy's current phase of development, the weakening of the state is not the right solution: the tasks of domestic and external economy, as well as social policy require that the state's standards and the *apparatus* that operates the state *be strengthened*, and their standards be improved. It is unjustifiable, even unacceptable to make the position of the public administration apparatus uncertain, especially in the midst of deep-going reform efforts – execution is the responsibility of the members of this very body.

9 The experience accumulated by the Anglo-Saxon countries offer only one possible way to develop the institutional system. The public administration of Scandinavian (and other European) countries, which are similarly successful both in competitiveness and the quality of life, relies on pretty much fewer *solutions adapted from business*. This means that the latter cannot be presented in such a light as if they had been the only possible method of modernizing the functioning of public administration. This approach raises concerns regarding the democratic nature of its operation as well.

10 The assessment of *the efficiency of the budgetary sector*, as well as the evaluation of performances in this area require a different approach than the one applied in the competitive sector, since the former always has to take into account the set of values required for preserving and strengthening social cohesion.

11 International comparisons have shown, on the basis of numerous series of data, that, by taking into account the new EU member

states, and even the two further states to join the EU in 2007, Hungary has in fact been relatively falling behind since the early 2000's: *the process of integration is the slowest in Hungary from among the countries of the region*. What is even worse, various calculations also suggest that Hungary has the region's flattest potential GDP growth cycle, and the development expected by the government for the period following 2009 will not speed up growth spectacularly in the anticipated economic policy environment.

12 The uncertainty about the date of introducing the *euro* preserves country risk factors. It questions the full-fledged utilization of the opportunities arising for Hungary from the EU's enlargement into the Balkans.

13 *Increasing the rate of employment* – rightly – is one of the principal objectives of the 2nd National Development Plan. However, the major tool of implementation is not employment policy as such, but *education*, as well as *the child support system*. Contrary to public beliefs, at the current level of wages, there is no deficiency in skilled workers in the Hungarian economy today. The market appreciates general rather than specialized knowledge.

14 The Convergence Program has an adverse effect on employment, since – wrongly – it increases *the burdens imposed on active work*.

15 The external orientation of economic development has to be strengthened but the regions outside the EU member states should not be disregarded either. Since some of these regions mean markets with higher risks, *institutions aimed at supporting exports* are badly needed. It is not the right practice that these (EXIMBANK and the Hungarian Export Credit Insurance Ltd.) are subordinated to the Hungarian Development Bank, as the latter endeavors to make maximum profits, while the former aim to increase exports. If there is a more favorable exchange rate, our exports could grow by as much as USD 10–20 bn.

16 *The willingness* of the Hungarian population to start businesses is by far behind that experienced in the leading states, where university students, for example, make up an important group of entrepreneurs. It is imperative to teach business studies on a wider scale.

17 The problems of funding the public finance system are only a consequence of that *the state has been incapable of proactive action until recently*, their behavior is reactive at most, and it drifts with the requirements of the EU or the various social interest groups (such as entrepreneurs, pensioners, university lecturers, physicians, etc.).

18 There was agreement on that a fairer distribution of public dues is necessary. This, however, does not only require the introduction of new/modified tax rates (new tax types) in practice but the rendering of the *complex, over-administrated taxation system transparent*, and the clearance of the overall absorption structure of “privileges”, and the review of the cost settlement rules that allow the “outflow” of the tax amounts. The technical and IT areas of the executive bodies should also be updated and strengthened.

19 The economic role of the state – whether it is a regulatory, ownership or even organizational function – is represented by organizational structures and institutions, which cannot be managed by the *“bargaining” techniques* applied for small and medium enterprises.

20 The pension system cannot be sustained in its current form, it is necessary to *increase the retirement age*. In order to achieve this goal, jobs should be created; and the duality according to which people are forced to retire, while it is obvious that they should continue to be employed, cannot be maintained. The problems of the health care system are in very close connection with the contradictions of the pension system.

21 It is by far not certain that the model of several insurance entities will bring about ge-

nuine competition *in the health care system*, while competition in these markets is a tool rather than a goal in itself.

22 In late August 2006, the Hungarian daily press started to discuss the reasons for the strange fluctuations in the costs of highway constructions, and in the discussions on this topic at the congress, it also came up that a genuinely consistent restoration of the budget requires *a thorough transformation of the system of party funding*, and it should be made truly transparent as well. A wide-ranging social campaign should be launched for *the elimination of corruption* as well, as a result of which hundreds of billions could be saved.

23 One of the basic requirements for integration is to create an *information* economy and society. However, this makes it necessary to implement infrastructural developments of such high volume which not even the Western-European giant companies are able to carry out- this means that state involvement is indispensable here.

24 The number and roles of the regions should be reconsidered in development policy. According to regional studies, Hungary has *five natural regions*. The idea of regionalism continues to be underrepresented in both the economic policy and the development plans.

25 The Hungarian companies' willingness to innovate is weak, which is public knowledge. In an international comparison, there is an especially *low rate of innovation in the sector of small and medium businesses*, where this makes the losing of the domestic markets a real threat. Besides, the funds aimed at supporting corporate innovation (such as the *Ányos Jedlik* tender) are used for financing musical and theater historical research, or in 2006, one related to Joyce's literary activity.

26 Increased tax rates, reduced expenditure, or structural transformation remaining in the scope of business administration are not sufficient for the implementation of the Convergence

Program and for stepping on the course of modernization. Social spending and social transfers should be transformed to such an extent which are inconceivable without the reconsideration of the basic constitutional rights (pension, health care, education and other tasks undertaken by the state), and the agreement on new social-political compromises

(regional administration, the issue of municipalities, the redefinition of the state's role, the rebuilding of the state). It is the lack of public agreement that prevents the creation of stable and long-term programs today. *Wide professional and social partnership is needed for the reaching of public agreement, i.e. the reforms should not be implemented by stealthy legislation.*

NOTE

¹ Nyíregyháza, August 31 – September 2, 2006 – Appr. 350 economists took part in the itinerary congress. A large number of the government's experts (such as the Finance Minister or the Government's State Reform Commissioner) made presentations –this summary of course does not reflect what they presented at the congress.