43rd Economic Convention

Sustainable Growth in the Hungarian Economy

Almost every article of this journal spotlights the interrelated factors and background connections of (sustainable) growth, competitiveness, and public finance reform.
So does the "WORKSHOP" section that focuses on significant events of professional public life, and contains articles related to these topics.
During the 43rd Economic Convention, speakers analyzed the factors of sustainable economic growth, and the most important findings of the two doctoral dissertations on the topic are enlightening as well.

The rate of economic growth in Hungary did not change significantly during its first year of membership in the European Union; it remained about two percentage points higher than the average of euro-zone countries. This pace could be considered as a significant achievement, if our balance of trade and payments as well as the central budget did not show a considerable deficit. Both, the persistent imbalances of present and recent past, and dragging reform of large distribution systems, require asking the question: What should we do to maintain our economic development in the long term, so that it would not encounter balance constraints?

The Economic Convention of the Hungarian Association of Economists discussed these questions in 2005. In addition to the usual econo-political lectures, tasks originating from the Lisbon Strategy of the European Union – competitiveness, social and economic cohesion, increase of employment – also came into the spotlight at the meeting. There was a common consent that the key to restore the balance of the central budget is to reform the state oranization structure and public services. This, however, cannot take place without a reduction in the number of public employees. Promotion of development and rollout of the information society has been on the agenda in the European Union for a long time. The session on information technology covered relevant national achievements, positive examples, and future tasks.

Separate sessions dealt with the experiences of Hungary as a member of the European Union, the utilization of communal grants, and preparation for absorbing the resources expected in the period between 2007 and 2013. In association with the latter topic, several lectures summarized the lessons learned from the development policy in recent past.

The Convention did not introduce Hungary only as a member of the European Union, but also as a participant of the world economy. Another sessions discussed Hungary's "other" foreign economic relations.

The most acknowledged and most competent experts spoke at the plenary sessions as well as in the sessions of the Convention. Moreover, this year, participants had the occasion to meet an inspiringly large number of promising young experts who introduced themselves at the first time on this convention.

At a professional meeting where seventy speakers introduced their opinions and several dozens of the nearly four hundred participants commented on the lectures, it was expected that a complete consensus could not be reached in respect to either judging the situation or deciding on duties to be fulfilled. However, this is exactly why economic conventions are attractive. Representatives of various opinions and schools (*horribile dictu:* opposing political forces) can show up with an intention and requirement of understanding each other, and debates can remain strictly within professional channels. This is how it happened this time as well. (The work of the various sessions is summarized below, based on written reports of the session chairmen).

Academic, and President of the Hungarian Association of Economists, *Béla Kádár*, provided an extensive summary of potential growth in the World economy, the European Union, and Hungary. His opening speech was titled, "Sustainable Growth – How Are We Doing?" In his opinion, the European Union needs a long-term, comprehensive strategy to find a solution for the basic questions of development and adequately react to external challenges. A society that is tired of daily political survival exercises and lives without the European vision is turning away from new initiatives. In fact, it does not even exploit integration opportunities. However, sustainability of development depends rather on social than economic and environmental factors.

Hungary did not experience any great shocks during its first year in the Union. In most cases, negative developments were independent of the integration. At the same time, the tripling of foreign capital inflow is the direct result of Hungary's membership. Unfortunately, the gap between the income-generating capacity and distributed income has not yet diminished. Under the current political cycle, the promise of reducing public finance deficit has not been met at any year. This has undermined the trust in economic policy, and by now, regaining this trust has become the number one duty of the state. Tax reduction is not the right way of eliminating the deficit. It has been proven many times abroad as well as in Hungary that tax reduction does not result in increase of revenues. At first, state expenses need to be decreased, and only subsequently could centralization of the national income be diminished.

An important requirement for maintaining a long-term economic growth in Hungary is not restricting economic policy to fiscal and monetary policies, but incorporating an efficient development policy as well. In countries with mediocre development the infrastructure is not sufficiently developed. Therefore, comprehensive tasks of development, institution modernization, and gap-reduction have to be carried out through increased state involvement. Without this, it is not possible to realize a comprehensive action plan and to revitalize human behavior and economic performance.

President of the Hungarian Chamber of Commerce and Industry (MKIK), *László Parragh,* outlined the competitiveness of the Hungarian economy. His lecture was based on several international performance rankings under the title, "Competitiveness: Day-dream or Reality?" According to some of the referenced rankings, our situation has been deteriorating; according to others, it has been improving when considering the average of recent years. (Unfortunately, the more recent analysis shows the worse tendency. It appears that our progress is not following the best direction). Despite all, every institution warned of the threats originating from imbalance.

With respect to most macro-indicators, our situation is not particularly worse than that of other Central Eastern European countries. In 2004, only the economic growth rate of the Czech Republic was lower than that of ours. Most problems appear in respect to the balance of the budget. Gross public debt is high compared to national income, and the base interest-rate is very high. Although real wages and salaries increased at the highest rate in Hungary during 2002 and 2003, they declined in 2004. Imbalances have typically appeared in areas where intervention by the state was too extensive.

According to László Parragh, many events indicate that the state operates in a dysfunctional manner. He qualified the element of the "100 steps" government program outrageous that allows authorities to keep and use 40 percent of the collected penalties. Outsourcing of activities is a common way of reducing headcount, but it ends up costing even more for the state. Higher education, adult training, and language teaching all fall short of market requirements.

MKIK has taken over public tasks successfully in several instants. For example, the training of skilled workers was taken over in 2000, which resulted in the doubling of such contracts in the past five years. He recounted the outstanding success of the "Széchenyi" card; half of the public resources have been granted to entrepreneurs in this form.

According to the President of the Chamber, economic policy would primarily need a clear future image, a character. There is no need for new programs constantly; rather, the existing ones need to be realized. He would require a new regime change in 2005-2006. In 1990, the change of the Hungarian social, political party and economic system took place. However, many areas have remained intact, such as state administration, distribution systems, education, and research and development. These exist as anachronistic structures and nobody has the strength to change them.

Only one area of the Hungarian economy is competitive, the multinational companies. On the other hand, small and medium enterprises (SMEs) struggle and stumble, and they barely survive one day to another. Public administration (primarily at the local government level) is definitely uncompetitive; it does not serve enterprises, it rather restrains their operation.

Ex-Minister of Finance and Chairman of the Budget and Finances Committee, *Mihály Varga*, urged a change in direction of economic policy for several reasons. According to him, the most serious problem is the deficit of current payments that exceeded eight percent of the GDP every year since 2002. Budget deficit has become a permanent escort of the deficit of the balance of payments. The most important cause of the latter is overspending by the state for its own operation; worst of all, these resources are not even utilized efficiently.

Household savings are less than desired, and this – together with the state's high demand for financing – resulted in a high interest-rate. During the period between 2001 and 2005, external resources turned out to be more expensive than previously expected, which significantly increased public debts and the debt-servicing burden. This is such a high burden on the central budget that some international credit rating institutions deteriorated Hungary's debt rating.

In consequence of these factors, according to Mihály Varga, foreign investors' interest in Hungary has decreased. The situation is further deteriorated by the government's confidence-decreasing measures, such as withholding of tax refunds claimed by exporters and delaying payments of land-based subsidies.

Since 2002, Hungary's growth rate has not reached the average of other countries in the region. In respect to economic growth, we have become the last in line, and unemployment has started to increase once again. Our situation is not better regarding the performance of Maastricht convergence indicators. From the countries joining the EU in 2004, Hungary is the only one that could not meet at least one of these conditions.

It would be useful if after the election some kind of consent could be reached among party representatives as well as economic experts in respect to the macro path, fiscal discipline, how to restore competitiveness and establish the conditions for introducing the euro.

Minister of Finance, *János Veres*, started his lecture titled, "Sustainable Growth and Competitiveness" by introducing the strength of the Hungarian economy. Economic growth rate always exceeded the average of the euro-zone in the last ten years – although it followed almost perfectly the fluctuations of the area. The growth rate of Hungary was the highest in average among the Visegrád countries between 1997 and 2004. In other words, Hungary could approach the average level of European Union member states most rapidly. Although Hungary departed from the path of sustainable growth in 2003 (investments barely grew and residential savings decreased), since then, it found the right path again. The best indicator of Hungary's competitiveness is that Hungarian exporters gradually gained market-share in the rest of the member states. Every year exports increased at a higher rate than the total imports of our main markets. Since joining the EU, public debts have been reduced to the greatest extent in Hungary among the Visegrád countries. Changes in the extent of debts and the inflation rate are also going in the right direction. However, it is true that the interest rate of long-term government bonds somewhat increased this year. While introducing tax measures in the framework of the "100 steps" government program, János Veres indicated the objectives of the amendments:

- Create a more transparent, simple, fair and efficient tax system;
- Accelerate economic growth and increase competitiveness;
- Make the economic environment better suited for business planning and more predictable for enterprises.

Changes entering into effect at the beginning of 2006 stipulate tax regulation for five years, which is an exceptionally long period. It appears that the proportion of revenue collection by the state will continue to decrease year to year in the future. While about HUF 700-750 billion less will have to be paid in taxes for five years, the state undertakes an additional HUF 100 billion in expenses by increasing allowances for families and the minimum wage. According to the government, these measures with an overall effect of about HUF 800 billion will not (further) deteriorate the balance of the budget, but rather it will have a positive effect on economic growth. In addition, the government will attempt to counterbalance the lost income by reducing the headcount in public administration and streamlining their work.

Non-portfolio Minister with responsibility for European Affairs, *Etele Baráth*, examined the concept of sustainable growth from the perspective of development policy. According to the division of labor within the Hungarian government, the Minister of European Affairs is responsible for the strategy of sustainable growth as well as the adequate implementation of the so-called "Lisbon goals" of the European Union (competitiveness, more rapid economic growth, more and better jobs). The National Development Policy Concept is in the course of preparation with due regard to these tasks. In the Concept, strengthening the competitiveness of the country (and not just of the economy!), increasing employment, supporting innovation, and developing social cohesion and solidarity have equal importance. Objectives reflecting our special circumstances are the improvement of the population's health conditions and the development of the means of transportation. These objectives derive from the fact that health indicators are so negative in Hungary that they are the worst even among the Visegrád countries, and it is public knowledge that the density and quality of the road and railway networks are well below the European average. Other objectives in the Concept are the rollout of the information society as well as the protection and sustainable utilization of natural resources and environmental assets. These are timely duties in every member state of the European Union.

The 2nd National Development Plan under preparation (the basis for which would be the National Development Policy Concept) does not only serve the most complete and efficient use of grants provided by the European Union between 2007 and 2013, but it also aspires to portray a long-term image of the future of Hungary. This plan is elaborated with the broadest social cooperation to date. Every region has prepared its own development plan based on the contribution of local governments and civil conciliation forums acting in their territory. The principle of partnership is asserted on a national level as well; numerous chambers, pressure groups, civil organizations and their "supreme organization," and the Council for Economic and Social Affairs can also express their opinion. The experts of state administration will individually process these opinions and proposals. Of course, it cannot be expected that suggestions from every proposal will be incorporated in the final document, but the planners will evaluate each proposal individually. Every respondent will receive a written reply to its submission in which it will be informed of what happened to its proposal, and how it was used during the planning process.

Due to the fact, that from 2007, three and a half times more subsidies will be granted to Hungary every year than what is received today, preparations should begin for many projects right away. Appropriations of HUF 7.5 billion for expenses and an additional HUF 20 billion for guarantees are included in the 2005 budget to finance project proposals for this purpose.

At the 2005 Economic Convention, the lecture with the greatest effect was the one delivered by *Zsigmond Járai*. The President of the National Bank of Hungary delivered his opinion as a private person on questions of monetary and budget policy of public interest. In his opinion, a duality had appeared in the economy a few years ago that turned economists' attention to the problems of public finance. This duality shows that the private economy operates relatively well and develops rapidly, while the public sector has recently become an impediment to this development.

Public finances struggle with permanent and structural imbalance that has growingly intensive effects on the economy as a whole. The overly extended public finance, its debt, and structure have become an anchor of economic growth. Imbalance results in balance of payments issues, high interest rate, and trigger uncertainty. Therefore, many economists agree that extensive reforms, in fact, a fundamental change is required.

This change should target the following outcome:

- The balance of public finances be restored and state debts be totally eliminated;
- Budget rules be even more stringent than those stipulated by the Maastricht Treaty, such as:
  - Deficit of the central budget should be allowed only during economic recession, which should be immediately balanced in the years of growth,
  - The proportion of public debt to the GDP should be decreased until it disappears,
  - Revenues must not be over-planned and expenses must not be under-estimated,
  - If the planned budget deficit is exceeded, the Minister of Finance should resign;
- Taxes and charges payable to the state must not exceed 30 percent of the GDP;
- The tax system should be simple, transparent, and stable. Tax rates must be low, but the basis of taxation must be as wide as possible;
- The state should undertake less tasks and the number of public officials and employees should be proportionately reduced;
- Public institutions should operate rigorously (tax collection should be carried out by a tax police, if necessary);
- People should be incited to take jobs or start enterprises.

In connection to monetary policy, Zsigmond Járai defined the following requirements:

- Price stability should be realized, and its realization should be the single duty of the National Bank of Hungary. For this purpose, the bank of issue should actually be independent without a need to coordinate with other institutes;
- The euro should be introduced as soon as possible;
- The system of exchange rates should be clear and transparent;
- Communications related to monetary policy should be authentic;
- Social consent is required about the high importance of price stability and financial discipline;
- Education of finances should be strengthened, in order to provide a basis for the above requirements.

Realization of the above listed changes is hindered not only by non-action, but also by counter-interests. However, we will not be able to catch up with the front-ranking nations of the world without this extensive transformation.

President of the State Audit Office and Vice-President of the Hungarian Association of Economists, *Árpád Kovács,* led the session on state organization and public finances. Lecturers in this session agreed that a reform of the state could be realized only in a comprehensive manner, and state revenues could (and might) be only reduced if state commitments are also decreased. Execution of decentralization has been on the agenda for a long time, but has never been realized, and just as important. State actions are not yet firm enough in this respect; they are better characterized as "going with the flow." The whole system is falling apart and there has not even been an agreement on the principles of the reform yet. Current measures in place will not stop the functional and moral erosion of the operation of public institutions. Long-term principles should be agreed upon and regulations, system of institutions, and method of government should be transformed in line with these principles. However, before doing this, distribution of tasks between the government sector and other economic players must be determined; clarifying what would remain public task in the future. Determining the method of financing and clarifying the reporting structure with its framework can follow this step.

Lack of long-term setting of public tasks restricts economical and efficient asset management. This is the underlying factor why there is no approved concept for managing state-owned and treasury assets. Audits of various treasury assets are ineffective, carried out inconsistently and independently from each other.

Lecturers also agreed on the necessity to strengthen profit-oriented (market-oriented) management on the local level of the state. However, this requires more funds to be granted to municipalities. Under the current system and the present situation of the municipalities, nearly all of their funds are spent on maintenance. Consequently, development is granted less importance.

Economic management should remedy numerous problems simultaneously, but good results cannot be expected if the tasks are not prioritized. For example, increasing competitiveness can hardly go hand in hand with enforcing social justice.

It is paradoxical that a smaller state is required for strengthening competitiveness, and yet, the responsibility of the state is rather increasing than decreasing. The primary goal of the state is the achievement of a more favorable position in the world economy and the promotion of the integration of the economy and society.

Academic, University Professor, and Vice-President of the Hungarian Association of Economists, *Ádám Török,* chaired the session that discussed the issues associated with Hungary's catching-up. In this session, the thematic framework of the lectures was the Lisbon Strategy introduced by the European Union in 2000. This strategy focuses on economic growth and increase of employment, and due to the poor results of the first four years, it was reformed in March 2005.

Despite of the not particularly positive overall picture, performance of the northern member states deserves recognition. In the fields of research and development (hereinafter referred to as R&D) as well as education, many of their indicators are better than those indicators of the United States. Moreover, due to strong social cohesion, their labor markets are also more balanced than in other member states. In these countries, the extensive welfare and rebalancing role of the state gets along with a competition-friendly economic policy and efforts made for economic modernization. Hungary should follow the example of these member states that perform well, by utilizing potential synergies. The general recipe for this is that endeavors for catching-up by member states should not only be harmonized on the levels of the integration, and by involving the often cumbersome bureaucracy of Brussels.

The conditions of successful catching-up are not only lacking at the EU level, but also in most member states. There is no one in charge of elaborating and realizing strategies. This role should be positioned between government leaders and ministers. Its role in the hierarchy of decision-making could be similar to what Central Planning Bureaus used to have in member states of the Council for Mutual Economic Assistance (Comecon) before 1990. Today, however, prime ministers attempt to resolve conflicts of interests between the various ministries, but these decisions do not always rely on adequate professional and strategic basis or competence.

New member states consider community grants as one of the most important factors of their catching up. However, in several new member states the grant-absorption capacity is limited. It is likely that they will not be able to use all of the already available resources, not even mentioning the efficiency of their use. Not even the most successful cohesion negotiation can replace an efficient strategy for catching up.

Content requirements often become inferior in *research and development*. In several member states, the three-percent goal set by the Lisbon Strategy is attempted to be achieved by increasing state expenditure for R&D. However, these resources can only be efficiently utilized if companies provide two-thirds of the funds. R&D is only a tool anyway; it must serve innovation because that is the basis for economic catching-up.

The state and composition of *human resources* is on the agenda of Hungarian as well as EU econo-politicians as the ageing of the European and Hungarian population, the decrease of their rate of activity, and the gradually deteriorating structure of vocational training place serious limits on increasing competitiveness. It is well known that, in general, the import of operating capital and entrepreneurship are already restrained in Hungary by the insufficient supply of trained workers. In 2005, the Hungarian economy would already require a boost of trained workforce by about 100,000 and this number could increase to 300,000 by 2010. In addition to material incentives, moral ones would also be needed to re-erect social interest in the training of workers.

The *advantages of location* are factors of catching-up that have been neglected for a long time. With the most recent expansion of the European Union, the geographic and economic gravitation center of the Union moved to Central-Europe, and Hungary could use this to a significant extent to increase its competitiveness and economic performance. Hungary could become one of the main logistical centers of Europe, and a major one in Central-Europe. Numerous multi-national companies are already present in our country, even though the infrastructure is relatively underdeveloped. Moreover, we expect the settlement of several more logistical service providers. This activity should receive extra support from the Hungarian government. A necessary, but in it itself insufficient condition of this is the infrastructure; primarily the accelerated development of the transportation network, including railways.

The agricultural policy of the European Union is not considered as being part of the strategy for closing the gap. In the contrary, many experts believe that the over-financing of the farming sector hinders the more rapid fulfillment of the Lisbon objectives. However, the content of the common agricultural policy changed a lot during the years following 2000. A diminishing part of agricultural subsidies serve the production of unmarketable excess produces, while maintaining a rural population and preserving the landscape have come more into the spotlight. These subsidies do have little, directly perceptible economic use. However, we should not forget that the balance of the labor market would further deteriorate without the common financing of agriculture and rural population. Without this, this sector would lose the ground from under their feet and start flooding the cities once again.

The updated Lisbon Strategy does not deal with issues related to energy either, although international economic developments in 2005 indicate an increasing likelihood of an energy crisis that could essentially change the prospects of Europe and Hungary for catching up. The 2005 increase in oil prices is fundamentally different from the price explosions of the seventies as it was triggered by changes in the demand side instead of the supply side. In addition to the burst of oil consumption in China and India, demand has also increased due to low price elasticity on traditional major markets such as the United States and the European Union. Because of state pricing policy in China, price increase is lower there in the main sector of oil consumption and in transportation that do not reflect the market price increase of oil. On the other hand, in the United States extremely low taxes imposed on energy consumption lead to insensibility by enterprises and households to the changes in fuel prices as the cost of fuel consumption is still a nearly marginal item in their budgets. Due to the rigidity of the demand side, introduction and rollout of new energy resources is still slow, and the advanced countries do not yet have a strategic answer to the permanent and potentially irreversible increase in energy prices.

Professor of the Central-European University and the Budapest Corvinus University, and Vice-President of the Hungarian Association of Economists, *Péter Balázs,* chaired the session dealing with the issues of EU subsidies and planning. This session examined, in the broad context of development policy from multiple perspectives, how the grants received for development from the European Union could be used most efficiently.

Development policy must serve catching up by internal peripheries and increase of common competitiveness in the European Union. EU grants that can be used for such purposes are still less than the sum of agricultural subsidies. (It is possible that exactly the brave reform of the common agricultural policy (CAP) will open the road for more rapid elimination of our temporary competitive disadvantage). According to the last compromise-seeking budget proposal of the Luxembourg-presidency in the first half of 2005 (the sum total of which was 871 billion euros, i.e. 1.06 percent of the Union's total GDP), CAP is still at the first place totaling 377 billion euros, followed by catching-up (305 billion) and increase of competitiveness (74 billion). However, the total amount of the latter two objectives already somewhat exceeds the sum of CAP expenses. The finalized 2007-2013 budget will not show significant variations from these figures.

Several lecturers emphasized that a basic element, in fact, a precondition of development policy is foresight, the conscious foundation of the future.

Strategic planning does not mean daydreaming, jabbering or state voluntarism. Rather, it is a series of rational decisions affecting the future. The political mission is to set objectives and priorities, establish social support for these, and to provide the apparatus and conditions for their realization. However, it should keep its distance from execution. Separation of these functions is not crystal-clear yet in Hungary.

Regional development policy is not a novelty in Hungary. It has a legislative basis, precedents and experiences, and a new regional development concept is under preparation that will set the goals until 2020. After joining the EU, regional harmonization – defining the poles of innovation, developing the network of cities with the competitive Budapest in its center, managing internal and external peripheries, focusing on environment protection and border-region cooperation – have to be carried out in a new geopolitical arena. There are significant differences between the eastern and western frontiers, but these regional differences are not only well known, but are also manageable from the aspects of regional development.

Joining the EU has tested development policy in general. Regional differences within the country have become prominent. Furthermore, it became known that EU grants received for the purposes of the National Development Plan do not ideally fit with Hungarian development resources. Eight ministries manage the utilization of EU resources, but the functions and responsibilities associated with this development are not clearly separated.

There is a debate over whether an improved or a new regional development concept should be included in the National Development Plan. The appearance of "growth centers" indicates a change of paradigm in this respect. Such centers are primarily characterized by a diverse economic structure and the existence of a multifunctional university. It was also mentioned – and not just incidentally – that the decentralized and disciplinary structure of the Hungarian higher education is not ideal either. In order to counter-balance the predominance of the capital city, every region would need an independent and integrated operational program. It would also be worth to make diplomatic and economic efforts to establish a transnational macro-region within the Carpathian Basin.

With respect to *public expenditures for development*, Hungary – together with Estonia – belongs at the front in the ranking of the new member states. Their indicators significantly exceed, for example, Czech and Polish indicators. The state must carefully select what to develop and why, or to what extent it should intervene in market processes. State intervention in the competitive sector can be generally allowed when profitability or competitiveness needs improvement. Then, a capital injection is required or measures must be taken to safeguard supply. Therefore, the state can undertake the correction of certain market failures if needed, but otherwise, its primary duty is the development of public services.

Information was provided on the pillars of the *National Development Policy Concept*, that includes competitiveness, cohesion, and security. Another important objective is to profit from the logistic opportunities, in other words, the location of the country. The regional structure is based on the development of the nation's capital, and five large cities. In association with the well-known internal disputes of the European Union (i.e. whether the foundation of a knowledge-driven society or infrastructure development is more important), Hungary is also inclined to opt for development projects financing "less concrete and more knowledge." Proposals for the operative programs of regional development show preferences for developing attractions for tourism, metropolitan rehabilitation, and strengthening of public administration and civil organizations. However, the bidding process is still too slow and complicated.

Chief Executive Officer of MAHART and Chairman of the Foreign Economic Department of the Hungarian Association of Economists, *Iván Nyíri,* organized and led the work of the session called, "New Directions – Opportunities in the World." This session focused on our economic relations outside the European Union, or more precisely, on the opportunities for re-establishing these relationships. In part, owing to comments by the audience, participants of the session formed an opinion about *exchange rate policy,* concluding that it was not particularly useful in the last two to three years. This is because the Hungarian economy is not developing in the structure and along the path described in textbooks. That is why exports could be increasing every year, despite of an unfavorable exchange rate policy. In 2004, performance was good in an absolute sense as well as compared to imports. Moreover, it appears that export results will be excellent in 2005 as well. However, the monetary and exchange rate policy of the National Bank of Hungary has not assisted in the increase of exports, economic expansion, and entry to new markets.

At the same time, the *export-financing system* (including the Eximbank, the Export Credit Insurance Company and Corvinus Ltd.) helped the export sector. This assistance could have been even more significant, if it had been more extensively backed-up by the state. It was the success of these specialized institutions, which led to the conclusion that it would not be appropriate to consolidate them and place them under the authority of one development bank. (After all, international credit is available for the Eximbank on more favorable terms than for the National Bank of Hungary).

Several lectures examined *development trends in Latin America, South- and Southeast Asia, and in Africa*, and the possibilities of Hungarian companies getting involved in this development. It will be very difficult to reestablish positions eroded because of the changes in the 1990's. The most prominent and painful example of this erosion is how we were ousted from the Russian market to which insufficient government and inadequate central bank policy also contributed a great extent.

Finally, an interesting comparison was presented on the connections between *the import content of exports*, export-related import requirement and related added value, and the deficit of the balance of trade and payments. It is a threatening tendency that while the export surplus realized by the Hungarian agriculture and food industry could regularly balance imports of energy in earlier decades, this situation has changed by now. The surplus of agricultural and food exports was only 900 million dollars in 2004, while the value of imported energy amounted to 2.6 billion dollars. The balance of payments cannot be restored unless we systematically re-think how we want to manage and direct the foreign economy sector.

Chief Executive Officer of Siemens and Vice-President of the Hungarian Association of Economists, *Gábor Beke-Martos,* led the debates of the information technology session. The first lecture of the session stated that the reason for the failure of the Lisbon Strategy is that *the majority of EU expenditure still serves the common agricultural policy, instead of developing a knowledge-driven society*. Of course, knowledge in itself is not sufficient for catching up; the results of scientific research must be converted into practice. The member states of the European Union (including Hungary) are in a very poor position in this respect. In Europe, utilization of information and communication technologies contribute half as much to the increase of productivity than it does in the United States. One of the most important elements of the Hungarian catching-up can be the transformation of the obsolete way of thinking in public administration and organization without concept. In this area, the dynamic leadership of the Ministry of Economy and Transport leads the way.

An exciting lecture examined how the economy and the society can be boosted by *the national info-communications sector* that produces significant added-value, but in which the market share of small and medium enterprises in Hungary is still low.

During debates on the second National Development Plan that is under preparation, representatives of the sector proposed that

- The state should change direction and attempt to realize the concept of the "service provider state" as soon as possible;
- The economy should concentrate on knowledge-intensive sectors;
- The already started change in culture should be carried out to develop a "digitally prepared" open society in solidarity.

The innovative commercial solutions of the *Praktiker* and *Metro Group* were also presented. It is typical that even though the group services 1,000 million customers on 12 million square meters of its 2,440 stores, and employs 250,000 personnel, it still develops jointly with Wal-Mart and Tesco! Their operation in Hungary is most restricted by the lack of simple and unambiguous legislation and the underdevelopment of the business environment. For example, the costs of payment in cash are one-tenth of the costs of payment by a banking card, and despite of the availability of a full-scale digital archival, the group has to keep and store documents on paper as well.

The representative head of *Graphisoft* used his own company as an example to introduce the impact of information technology on the economy. Contrary to the industrial revolution, the digital revolution does not automate manufacturing processes, relieve workforce, save costs, but provides complex information. The new version of their product concentrates on processing time, cost planning, and controls solutions instead of technical ones. Although, this presentation is very successful in the European Union, the company's sales are staggering. While in the United States, where its greatest competitor dominates the market, sales are rocketing.

A revolutionary new topic, genomic, has emerged among the lectures of the section. *Genomic* is the technological language of biology. International research opens great perspectives for "personalized" medicine by combining information technology and genetics.

Accordingly, this is a prominent issue in the European Union and the stock exchange is very sensitive of related new discoveries. Technology is assisting the development of this branch of science by providing software that analyzes genetic samples and international databases. An adequate indicator of results in this field is that it took only two weeks to produce the vaccine against SARS vaccine!

■ Professor of Corvinus University and Chairman of the Environment-Economy Department of the Hungarian Association of Economists, *Sándor Kerekes,* chaired the environment-economy session. Three macroeconomic lectures and two on the problems associated with carbon dioxide emission were presented on this session.

Economic and political regime change has been advantageous from an environment protection perspective as well. The Hungarian economy has approached an economic structure fitting its natural endowments. The proportion of economic activities utilizing high material and energy resources has decreased, and therefore, the per-unit (in fact, during the decade after 1990, even the absolute value of) *burden on the natural environment has been reduced as well.* Of course, troubles have not ceased immediately in this field either. For example, Hungarians are less ready to accept higher prices in the interest of using cleaner (healthier, more "ethical" etc.) products than some other nations. This is reflected in the pricing of energy resources and the postponement of introducing residential eco-taxes.

Unfortunately, *subsidies, which are* – either directly or indirectly – *damaging to the environment continue to exist* in the Hungarian economy. (The proportion of indirect subsidies is much higher). Consumption of natural resources under their real worth, non-internalized environmental damages, and infrastructure development heading in a harmful direction are all forms of these damaging subsidies. Clear examples for the first type are the under-valuation of land in case of investments, low mining dues, and low water supply usage fees.

Subsidiying methods that are harmful to the environment can be found in economic and development policies, income, taxation and pricing policies or in the deficiencies of the regulatory system. Economic policy over-estimates the role of road infrastructure, while neglects environment-friendly alternatives and the maintenance and modernization of the existing road network.

In 2004, the main recipient of environment damaging subsidies was transportation, with an amount of HUF 2,400 billion. The second largest amount, totaling HUF 108 billion, was granted to agriculture, followed by hydrocarbon production with HUF 100 billion granted in the form of non-collected mining dues.

Unfortunately, in recent years the never too high *social support* for environment policy has further decreased. Growth requirement in the economy is higher than ever. Ruling paradigms have not changed. For example, we have not succeeded in changing the ratio of cost factors. In advanced countries, the price of labor force is still relatively high in proportion to equipment and energy resources. Consequently, the economy is over-conscious of sparing the labor force that has become the major cause for unemployment. On the other hand, the economy is definitely wasteful with raw material and energy sources that result in their depletion.

Although environmental indicators improved during the last one and a half decade, this is mainly due to the change in economic structure. *The effect of environment protection measures* on the reduction of emission *is negligible.* Unfortunately, not only the effect of environment protection measures (catalyst program, support to withdraw Trabants from circulation etc.) is negligible on the environment, their economic efficiency is also unfavorable. While the change in economic structure has definitely resulted in the spreading of cleaner manufacturing processes (in these marginal costs of pollution prevention are negative), every environment protection measure has operated with "tube end" solutions in which the marginal costs of pollution prevention are high.

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