

**New potentials for green fiscal reform at European level:
The EU Semester, the Fiscal Compact and latest reform proposals**

The Curse of the 33 billion

EU funds – the Hungarian experience

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Clean Air Action Group, Hungary

**Green taxation as key for sustainable fiscal reform
The French context and European perspectives
GBE–IDDRI Conference, Paris, October 2012**

33 billion EUR =
= EU funding for Hungary in 2007-2013 =
= about 3 % of the GDP

EU funding has an even much greater influence on the Hungarian economy.

For example,

EU funds for motorway construction



more traffic



more import of vehicles and fuel etc.



**much less money for other tasks,
e.g. education, R&D, public transport**

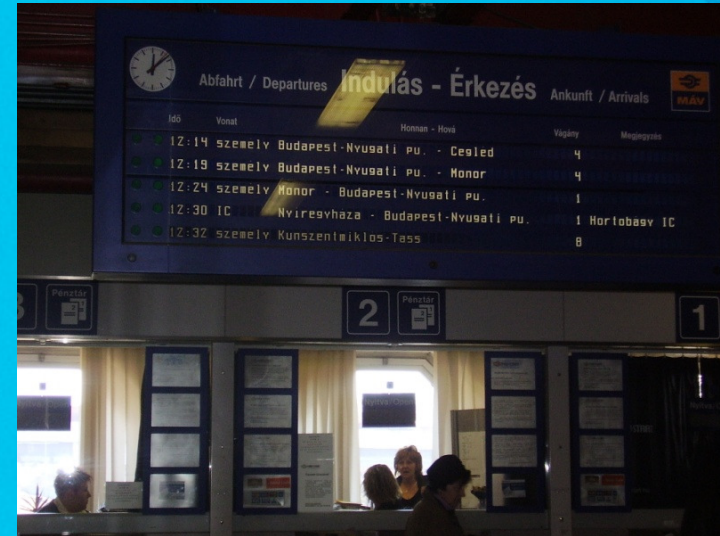
**Therefore MFF has a substantial effect
on the Fiscal Compact and
the European Semester.**

Some very good projects were financed with EU money



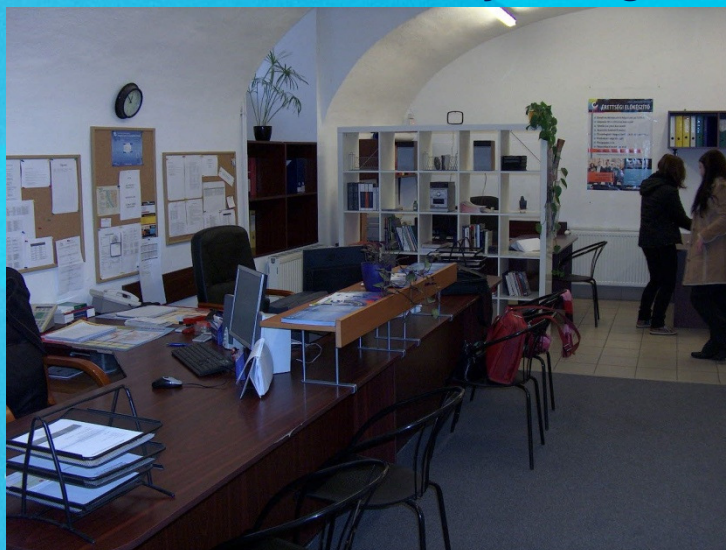
New bus lane

University enlargement



Railway station reconstruction

Synagogue renewal



The Problems

(EU) subsidies to enterprises

– do they help the economy?

“... the funds offered generate a demand that the company concerned does not necessarily need. [...] 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.”

***Background study for the Reform Alliance
(a very influential business group)
about the possibilities of improving the situation of SME's***



“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. [...] A large part of the grants arriving to Hungary [...] 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.”

Miklós Hegedűs, managing director of the influential economic consultancy GKI Energy Research and Consulting Ltd.



„In the worst scenario, state 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 state 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. The present practice of state aid entails enormous losses of time and financial resources, and deteriorates competitiveness to an extremely large degree.”

***Ábor Bojár,
Chairman of the Board of Directors of the famous, extremely
innovative and internationally very successful company Graphisoft***



“A foreign company received subsidies of billions of Forints for a green-field investment project implemented in Dunaújváros. In contrast, an enterprise which manufactures similar products, and which had settled earlier in our city, had not received such state aid. This creates a very unfair competition and makes the market totally unpredictable.”

János Bencsik, Mayor of Tatabánya



EU funds

– do they create new jobs?

„Although between 2004 and 2010 HUF 1850 billion [nearly EUR 7 billion] of EU funds were spent for creating jobs, the employment rate drastically deteriorated.”

Report of the State Audit Office, 2012



Subsidies might even eliminate jobs



This picture is only an illustration.

E.g.:
When subsidy is provided to a shopping mall investment for creating jobs, nobody calculates how many jobs this eliminates in small shops.

EU funds

– do they help combat fraud and corruption?

“Subsidies for economic development projects are characterized by the fact that they always prioritize groups which are close to the current political power.”



*József Papp,
Professor of the Budapest Corvinus University
(university of economics)
author of several studies on EU funding*

An enormous amount of EU funds are going to Közgép, a company owned by the Prime Minister's university room-mate and former treasurer of the ruling party Fidesz

Green Party members
protesting against
misuse of EU funds



EU funds – do they help to protect the environment?

Not always...



Environmentally harmful projects financed by the EU (according to CEE Bankwatch Network)

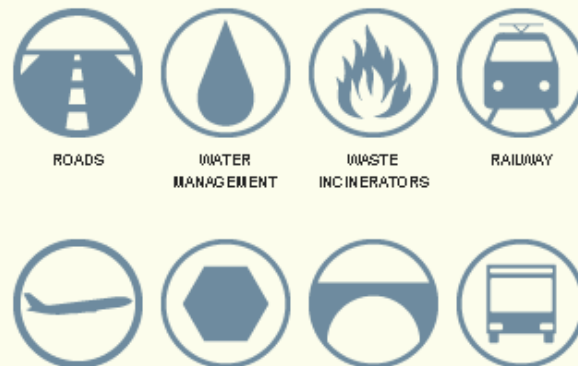
This visualization presents environmentally and socially harmful projects which are financed or in line for financing by the European Union during the period 2007-2013.

Total cost of harmful projects already financed
€ 6,469,100,100

Total cost of harmful projects to be financed
€ 4,961,500,000

Estimated cost of harmful projects considered for financing
€ 5,190,500,000

TYPES OF PROJECTS



BULGARIA



CZECH REPUBLIC



ESTONIA



HUNGARY



MACEDONIA



POLAND



SLOVAKIA



Many cases of financially and/or environmentally dubious subsidies have been reported in the Hungarian press.

A typical example:

The company Hell Energy Magyarország Kft. received investment grants totalling 1.6 billion HUF (EUR 6 million) for creating workplace for 15 persons!

The product has been criticised by health experts as having negative effects on humans, especially children.

Its packaging (aluminium can) is wasteful and unsustainable.



Environmentally harmful and financially unsustainable investment at Lake Velence Hungary

Cited by also by Open Europe as a big waste of EU money



A large part of the EU money is financing road construction.

In Hungary road transport is already receiving a subsidy equalling to more than 10 % of GDP (including externalities).

If these road constructions are really necessary, the users should pay for them!



Infrastructure for urban sprawl is often built with EU money



Wasteful subsidies for „environmental protection”

Subsidies for landfills:

- We pay the polluter
- Practically no measures for
 - prevention,
 - reuse,
 - recycling



Wasteful subsidies for „environmental protection”

Subsidies for waste water treatment:

- We pay the polluter**
- Oversized projects**
- Waste water is often transferred on long distance instead of local treatment**
- No application of more nature-friendly methods even where it is possible**
- No reduction of hazardous substances entering the waste water system**

At the same time...

... in its National Reform Program the Hungarian Government made very good and concrete commitments on social cohesion, environment, education, R&D, etc.

But in practice, it is doing just the opposite...

So the EU is funding a country which is not fulfilling its obligations.

Should the EU reduce funding to Hungary and the other less developed Member States? No!

The developed MS benefit much more from the enlargement than less developed ones.

Each year 5-7 % of the GDP leaves Hungary – mainly to the most developed EU MS.

Year	2004	2005	2006	2007	2008	2009	2010	2011
GNI/GDP (%)	94,1	94,1	92,8	92,3	93,5	95,0	95,3	95,0

GDP – value of the goods and services produced in Hungary

GNI – value of the goods and services used in Hungary

The Solution?

Proposals of the Clean Air Action Group

**Proposals
of the Clean Air Action Group**

- EU funding to less developed Member States should be increased, but under new conditions!**
- Stop wasting the money of French and other EU taxpayers! (Money which could be used for raising environmental awareness, improving energy efficiency, public transport...)**

Proposals of the Clean Air Action Group

- 1.The European Commission should have the right to decide only about funding which has international dimensions (international research programs, Erasmus, etc.).**
- 2.The EU should give all EU funds directly to the national governments without any concrete requirements for the use of these funds (i.e. each national government should decide this for itself).**
- 3.There must be very strict criteria (including environmental criteria) for the recipient country. The commitments under the National Reform Program must be implemented, the EU acquis must be implemented... (The Fiscal Compact and the European Semester are the right steps in this direction.)**
- 4.The European Semester must have teeth! Enforcement is strictly necessary!**

Köszönöm a megtisztelő figyelmüket!
Merci beaucoup pour votre attention!
Multan dankon pro via atento!
Thank you for your attention!
¡Gracias por la atención!
Vielen Dank für Ihre/Eure Aufmerksamkeit!
Спасибо за Ваше внимание!
Asante kwa kunisikiliza!
ありがとうございます

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 **Levegő Munkacsoport**

EU funds

**–do they lead
to better governance?**

„The granting mechanism 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 (this is often reflected in the poor standard of Hungarian law codification work).”

***Balázs Váradi, economist,
chief researcher of the Budapest Institute***