

THE FUTURE OF HUNGARY AND THE GYURCSÁNY GOVERNMENT

Dear Friends,

Many many thanks for all your thoughts and expressions of support these last couple of weeks and for reprinting our story about events in Hungary in your newspapers and on your websites. I think it's extremely important that the world understand the true nature of the events here. As we wrote before, this crisis is not merely about hooligans throwing Molotov cocktails through the windows of the national television, but in fact it is a nationwide moral, economic, and political crisis, and one which is not going away. For the moment, the violence has subsided, but demonstrations around the country continue, and many people expect further demonstrations or even violence as the 50th anniversary of the 1956 Revolution nears, which will be commemorated on October 23rd.

In spite of all the events of the past two weeks, Ferenc Gyurcsány, now known worldwide as "the lying prime minister," remains in power. But two days ago, voters expressed their condemnation by handing the governing socialist-liberal coalition a major defeat in local elections. And at the moment that polls closed at 7:00 on Sunday evening, Hungary's president László Sólyom made a landmark speech in which he condemned Gyurcsány's persistent lies:

"The leaking of the Prime Minister's speech addressed to his parliamentary group members deeply shocked Hungary. The indignation was justified. The peaceful protests across the country showed the healthy moral sense of the people to me. However, the catharsis and purge have not taken place. Due to the imminence of the local elections the logic of the fight for power governed the course of events. The basic moral issue increasingly vanished from sight behind the explanations and the events...The Prime Minister keeps on evading the clarification of the basic question. He does not acknowledge using impermissible means to preserve his power in order to start consolidating public finances. This undermines confidence in democracy."

We were there at Kossuth Lajos tér in front of the Parliament on Sunday night when this speech was broadcast on the radio, and the thousands of demonstrators present cheered wildly, because here, finally, was affirmation from a political leader that something truly was wrong. Deep down, the tens of thousands of protestors around the country knew just how grave a violation Gyurcsány's behavior was of both democratic principles and decent human conduct, yet after standing vigil for 14 days with no tangible outcome, I imagine that many were starting to question themselves. I know we were! Sólyom's speech reaffirmed our purpose.

So what now? One of the most telling newspaper headlines during the first week of protests read, *"Is Anyone in Charge Here?"* The answer, sadly, is no. Gyurcsány's leaked comments deeply shook this nation to its core, but just as disturbing was the recognition in the days that followed that Hungary has a very dim future. The Hungarians have no leader in whom to place their hopes, there are no policies that promise a better future. The questions that have repeatedly come up at Kossuth Lajos Sq. are: What do we want? What should we be asking for? They know they want Gyurcsány out, but then who could take his place? They know the austerity package will be bad for Hungary, but then what set of policies can save Hungary from the current economic crisis?

The problem, over and above everything else, is that Hungarians have not entirely given up their belief in socialism. Too many Hungarians still accept its moral compromises. Too many still accept that violations of law or ethics or personal integrity are acceptable if it serves the greater good. And even more importantly far, far too many still accept the false promises of socialism. The Hungarian government has been overspending for decades. In the 1980s, its overspending was covered by foreign direct investment and foreign borrowing. In the 1990s, its overspending was covered by income from privatization of state property, more foreign borrowing, and high taxation. But now the resources are exhausted, as are the Hungarian people. Hungarians are taxed as much as they possibly can be. So an austerity package that mostly promises to tax them further is not the solution. Indeed, many analysts have said that higher taxes will only push even more people to find ways of not declaring their income as well as further dampen competitiveness and suppress incentive for individuals and businesses to be productive and profitable. Therefore, higher taxes will not lead to growth, which is what Hungary needs above all else. The only way Hungary can again become an economically vibrant nation, rather than one mired in its own debt, is if the government stops consuming so much of the country's assets and resources, and removes such fetters on productivity as excessive reporting requirements, bureaucratization, and excessive taxation.

The first necessary step is that the government must tighten its own belt. Yet that is the least of what they are doing. According to Sándor Richter, from the VIENNA INSTITUTE FOR INTERNATIONAL ECONOMIC STUDIES, the proposed cost saving measures of Gyurcsány's "austerity package" will only reduce public

consumption by 1% in its first twelve months (MTI – Hungarian News Agency, Sept 21, 2006). Richter goes on to say:

"The bulk of the burden...will fall on the broader public, the third group targeted. The 15% VAT was already raised to 20%, leading to price rises primarily of food, public transport, utilities and energy. Subsidies on gas and electricity prices will be radically cut, with partial compensation for the neediest households. Due to changes in the regulation of the sale of pharmaceutical products, prices of the latter will go up as well. Individual and employees' social security contributions will be raised. The excise tax on alcoholic beverages, except for wine, will be raised."

Hungary needs austerity, that is without a doubt, but austerity on the government, not on the people. It is excessive government spending, coupled with corruption and waste that have driven Hungary into this economic hole. Yet most ironically, it is Hungarians themselves, not the government, who seem most reluctant to see that change. In repeated conversations over the past days, people have insisted that the government cannot cut back its spending or the social cost will be too high. The problem is that Hungarians love their big state. They love all the "free" things: the free education, free health care, free social security, free family benefits, the free 13th month pension. But the bottom line is: they are not free. Hungarians *are* paying for them. And not only are they paying for them, but because they are provided by the government, they are paying for them much more than they should. The government is the most inefficient and expensive of all possible providers. Because when you take individual citizens out of the equation, which is what has happened in Hungary, a whole layer of employees (i.e. civil servants and bureaucrats) has to be added in order to decide where and when and how services should be provided. That adds a thick layer of additional expense to the cost of those services. Moreover, when the government provides the services, they do so least efficiently and effectively. Rather than individual citizens deciding what services or products work best for him or her, and exercising that choice through the market, a group of government employees sitting in Budapest decides what is best for 10 million different individuals around the nation. It is a task at which they cannot possibly succeed.

Hungarians need education; they need healthcare, they need help for the elderly, the poor, the unemployed. That is without question. What is in question is who can best provide these services. When the state becomes the primary provider, services are inefficient, unresponsive, unequally distributed, and provided in a way that robs individuals of all motivation and responsibility. An all controlling-state makes for a nation of victims.

Whatever the schools want to teach their children, and by whatever method, they have to accept that. However doctors want to take care of them (or not) they have to accept that. However long a doctor wants to leave someone waiting for an appointment, they have to accept that. The trains are late, and dirty, and run down. They have to accept that. The buses are overcrowded. They accept that. Their local governments have vast, inefficient bureaucracies. They accept that. They have to wait weeks and

even months for permits to build or to renovate or to start a business. Either they pay a bribe to avoid the wait, or they accept that. Their government spends billions on new cars, new communication systems, new furniture, fighter planes, national theaters, parks, ministry buildings, while their own houses and cars remain run down. They work two or even three jobs just to pay for groceries and utilities. And the hospitals and clinics they have to go to when they get sick look like they're out of third-world countries. But they accept that. Hungarians say they have free health care, they have free education. They wouldn't want that to change. I say, they are not free, they cost a fortune, their quality is terrible, and it must change.

If Hungarians still think they have free health care and education, they should think of it this way: for every 8 hour day that they work, their labor is allotted as follows: from the minute they arrive at work, say 8:00 in the morning, until nearly 12:00, they are working for the government. More than 40% of what they earn gets paid directly to the government through a combination of income tax and VAT. Think of it—nearly half of their day they work to fund the government! Then for the next 2 ½ hours they are working to pay for doctors, education and social security (one day, hopefully, assuming the system does not go bankrupt, that may include their own social security, but at the moment it is for the current pensioners). Finally, what they earn between about 1:45 and 4:00 in the afternoon they get to keep. It is little wonder that Hungarians are struggling to make ends meet. And on the basis of this, how can Hungarians possibly say that the services they receive are free? They are far from free, and all they have done, by allowing the state to be the sole administrator of these services, is that they have given up every right to have any say in how they are carried out.

Under socialism (which, in effect, Hungary still has), doctors, teachers, public administrators, all public employees get paid no matter how well or how poorly they perform. Therefore, there is no incentive for them to perform well, or even to perform at all, as many a local official has proven. Patients often have little choice in which doctor they can go to, so there is no incentive for a particular doctor to provide better service. They can leave patients waiting in line for hours, as it seems they invariably do, and they can be curt, rude, short-tempered, impolite, even inaccurate, i.e. misdiagnosing, because in fact, what recourse does the patient have? None. None at all. However, if Hungarians were to take back the right to have a say in their healthcare, if they paid the doctors instead of the state paying the doctors (with their money), you can be sure the quality of healthcare would very quickly rise.

And if Hungarians think the poor quality of their healthcare is only measured by time spent waiting, or ill-tempered doctors, they should think again. Hungarians pay for poor health care with years of their lives. Even now, more than a decade after the fall of communism, the average life expectancy for a Hungarian is 73 years. For an American, it is 77 years, for an Austrian or German it is 79 years, and for an Italian or Australian, it is 81 years. That

is on average a difference of 4 to 8 years (based on WHO statistics for 2003). Do Hungarians have free healthcare? Far from it. They pay for it every day through taxes, and in the end they pay for it with their lives by dying 4 to 8 years earlier than their European and American counterparts. They even pay for it with the lives of their children. Every year, out of every 1,000 children born, 4 more Hungarian children will die before the age of 5 than if they lived in France or Germany. Is that the healthcare they should aspire to? Under communism, it was somehow accepted that life expectancies would be lower and infant mortality rates would be higher than in the West, largely due to poor nutrition, but what is the excuse now? What is the use of any healthcare system if it does not keep a person alive and healthy? Hungarians are lying to themselves if they think their healthcare is free, or that it is a healthcare system they would even want.

The same can be said of education in Hungary. Hungarians have long been proud of the achievements of their scientists, of their artists and their intellectuals. They love to point out that they have one of the highest per capita ratios of Nobel prize winners. So those living in Hungary certainly cannot be said to have genetic or ethnic deficiencies of intelligence. How, then, do you explain that in Hungary the average rate of foreign language fluency is only 26%, compared with the European average of 50%, and that not one Hungarian university appears in the top 300 universities worldwide, or even in the top 100 universities of Europe? (Eötvös Loránd University and University of Szeged both appear in the 301-400 grouping of universities worldwide and in the 123-171 grouping of universities in Europe). Is this a lack of intelligence among Hungarians? Or is it the fact that the state is in charge of education?

Hungarians have allowed the government to be in charge of their lives for too long. The government has proven to be inefficient, ineffective, wasteful and corrupt. And judging from Gyurcsány's comments and those of some of his fellow socialists, they don't even like their fellow citizens very much! The current crisis in Hungary, which is an economic crisis as well as a moral crisis, will only turn around when Hungarians tell the government they are ready to be in control of their lives again, that they do not want the government running their lives for them. Only individual Hungarians can drive growth. Not the government. The Hungarian people must set the standard for responsible, morally upright citizenship, not the government. But until Hungarians understand the economics of a state welfare system, and understand the incredible inefficiencies as well as immorality it generates, nothing will change, and the crisis of leadership will remain.

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