

POLICY PROPOSAL - 2022 No.13

HOW SHOULD WE MAKE OUR STATE MORE EFFECTIVE?

The policy proposals of the Equilibrium
Institute about developing Hungary's
state capacities



Equilibrium
Institute

Future for Hungary ▶▶

— Equilibrium Institute

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EXECUTIVE SUMMARY

01

With the climate crisis, environmental degradation, digitalisation, robotisation and many new types of challenges, we must ask: what is the role of the state in the 21st century? How can it fulfil its purpose most effectively? To do this, we should not be concerned with the dilemma of „small state or big state”, but with what the state is capable of.

02

The capabilities and instruments that can be mobilised to achieve the state’s objectives are called state capacities. These are made up of three main components: 1. material resources (revenues, fiscal resources, public assets), 2. human resources (the knowledge and commitment of the people running the public administration), 3. information resources (the ‚readability’ of society, i.e. the ability to understand it through the most detailed data).

03

The Hungarian state, despite its relatively large size, is inefficient: it tries to compensate for a poor domestic

business environment by „cheapness”, i.e. by cutting its own revenues. The low level of taxation is intended to compensate for moderately weak competitiveness: for example, according to the World Bank’s business environment ranking Hungary ranks 52nd in the world, the eighth worst in the EU and last in its own region. This also means that public revenues could be increased while maintaining and even strengthening our competitiveness.

04

Around 20 percent of Hungarian employees are employed in the public sector, which is roughly in line with the European average. However, we stand out in two respects. 1. Public administration offers a financially unattractive career. 2. The wage advantage of the private sector over the public sector has been steadily increasing over the last decade and a half – today it is close to 10 percent. Meanwhile, the efficiency of public administration is extremely low by international standards: we lag behind both the EU core countries and the other countries of the Visegrad group, in terms of overall administrative efficiency, transparency and consistent enforcement of legislation.



05

Let's run a strong but limited state! The state should be active where it is really needed: for example, in the development of human resources, or running good public services and institutions. At the same time, it should be limited where it can do more harm than good: for example, in micro-managing economic processes and the market logic in general!

06

Let's establish a neutral tax system! Let's tax labour income and capital income according to the same principles! Reduce the tax rate on average wages to the OECD average (from 43 to 35 percent)! Bring the current corporate tax rate of 9% closer to that of the other countries in the region. Let's abolish transaction tax!

07

Let's make our economy cashless! By 2030, no more than one third of transactions should be made in cash! Help people and businesses to make the transition by radically reducing the fees on accounts and transfers, and by discouraging cash withdrawals. By 2030, the state should make all social transfers to people digitally! Let's encourage the spread of electronic payments for private individuals and businesses through tax incentives!

08

Let's extend the cash limit to private individuals! The limit should be gradually reduced from 1.5 million HUF to 300,000 HUF by 2030! From 2024, let's phase out cash from the real estate market, and by 2030 from the rental market as well! Meanwhile make sure that the transition does not afflict the poor and the elderly!

09

The Hungarian state needs to break away from a growth model based on cheap, unskilled labour and tax competition, and should instead invest more intensively in the development of human capital, especially education and health care.

10

Let's make a clear distinction between the jurisdictions of bureaucracy and politics. Let's establish a Tax Council and other independent institutions in areas where the effectiveness of decisions can be assessed by objective indicators, and where political considerations would clearly work against the policy goals set. Let's open up the Hungarian state to the best experts in the world! Where possible, automate bureaucracy! Reduce the gap between average public and competitive wages to zero by 2030!

1. WHAT IS THE PROBLEM?

In recent years, all our lives have undergone drastic changes. Climate change, environmental degradation, digitalisation, robotisation and artificial intelligence, the slowdown in social mobility, the critical rate of population decline have raised a number of new questions and shed new light on others.

We need to find an equilibrium when the state has sufficient capacity to carry out its duties effectively, but at the same time is neither too unrestricted to be dangerous for freedom.

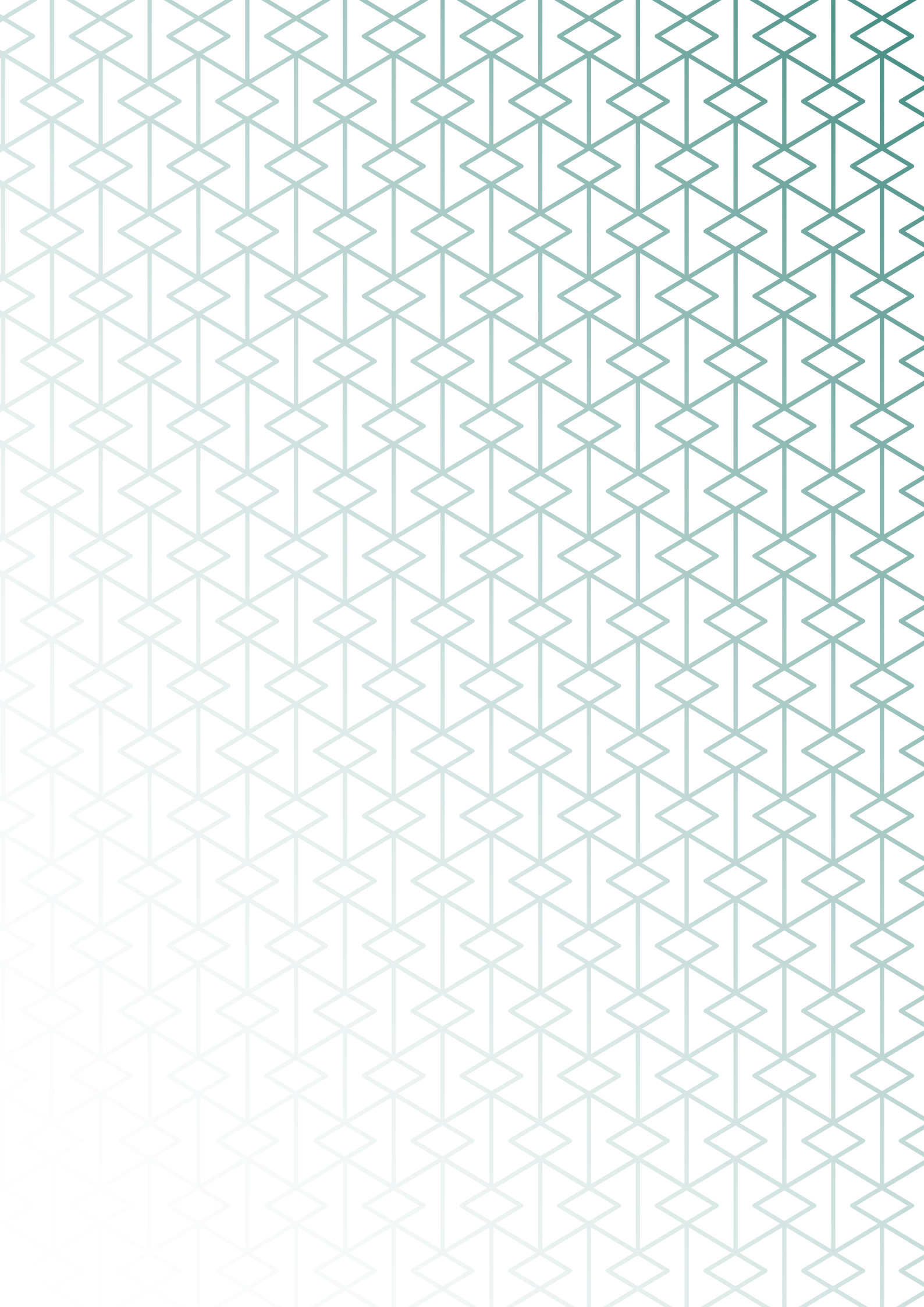
One of the main questions is: **what exactly do we expect from the Hungarian state? What do we think about its tasks and its limits?** After all, the state is the organisation that we have created so that it can find reliable solutions to our common, big problems and mobilise our common resources to solve our common problems and promote the public good. But what makes a state good, and what is it capable of? **And how can we create a state that does only what it is supposed to do, and does its assigned duties efficiently and to a high standard?**

There is a close link between a well-functioning state with extensive capacities, i.e. an efficient state and the different indicators of a country's level of development. But it is equally important that the increased capacity of

the state is accompanied by a commensurate limitation of public power. We need to find an equilibrium when the state has sufficient capacity to carry out its duties effectively, but at the same time is neither too unrestricted to be dangerous for freedom.

In what follows, we will focus specifically on the role, responsibilities, and capabilities of the state. However, it will not be possible to discuss a number of important issues that touch on these. **The Equilibrium Institute will address the role of local governments, the regulation of the influence of global tech companies, the strengthening of cybersecurity, or even our embeddedness in supranational institutions such as the European Union or NATO, in separate policy proposals in the near future.** Similarly, the information capacity of the state will be outlined in a separate policy paper.

It is vital to emphasise that **the validity of these proposals on improving state capabilities are subject to certain preconditions.** We take as a starting point first of all, capacity building can only be a positive goal in a state, in which there is a consensus on the proper functioning of constitutional checks and balances, and on effective safeguards for the limitation of power. In other words, **a well-founded and more or less a general degree of social trust is necessary that the state will indeed use its increased powers to promote community objectives and will not abuse them.**






2. THE TASKS OF THE STATE AND STATE CAPACITY

The state **solves so-called collective action problems**: situations that the market is unable to solve because market logic (cost reduction, profit maximisation) usually strengthens harmful social effects, and limits positive social effects. The more resources the state has at its disposal, the more problems it can solve – these resources are part of the state’s capacity, i.e. the ‘muscle’ of the state. **The capacity of the state is the set of capabilities that are needed to solve our problems.**

States throughout history have acquired new capabilities through crises (wars, epidemics, economic collapses). But **the same tools that enable a state to effectively carry out the duties entrusted to it, can also become instruments of tyranny. tools of tyranny.** This is why, in successful countries, the expansion of state capabilities is simultaneously accompanied by a limitation of power.

The three most basic components of state capacity are:

-  **material resources**, such as financial revenues or state assets
-  **human resources**, also known as human capital, i.e. the sum of all the people and the quality of their skills, who can be mobilised to achieve policy objectives
-  **the information** that helps to decide how material and human resources can be mobilised most effectively to achieve the objectives.

Despite its relatively large size, the Hungarian state can not be considered efficient: for example, **according to the World Bank’s latest (2020) business environment ranking, Hungary is ranked 52nd out of the 190 countries surveyed**, putting it in eighth and worst place in the EU and last in its region. This is due to the unpredictability of the regulatory environment, the above OECD average burden on labour, the high unemployment rate and the high bureaucratic costs or low legal certainty.

Our country tries to compensate for a poor domestic business environment by “cheapness”, i.e. by cutting its own revenues (and thus its room for manoeuvre in policy making) in order to attract foreign investments. Consequently, the tax revenues of the government budget in proportion to the GDP fell from 38.8% in 2009 to 35.7% in 2020. Meanwhile, in the core EU countries and in other countries of the Visegrad region revenues as a share of GDP have risen steadily while redistribution has also increased (Figure 1.).

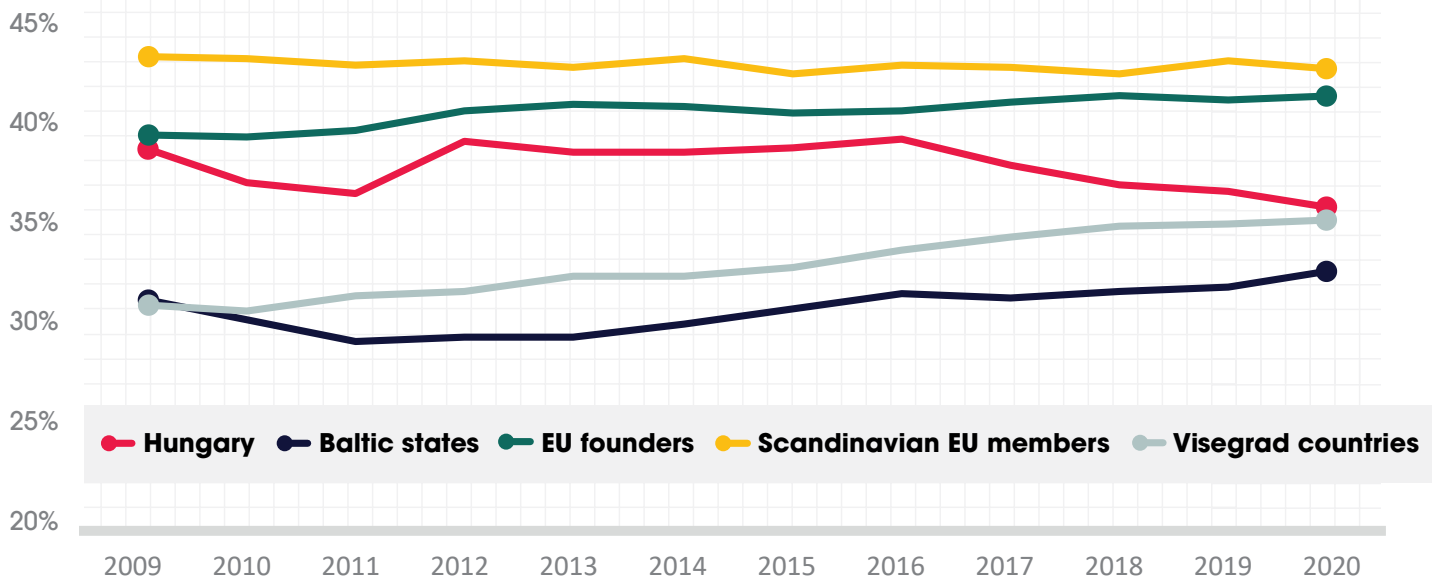


Figure 1: Tax revenues in proportion to GDP (source: OECD)

Despite the low tax burden, the Hungarian tax system’s competitiveness is mediocre, and the business environment is among the worst: in the Tax Foundation’s competitiveness ranking we rank 13th out of 37 OECD countries, we were only able to precede Poland in our wider region – the other two Visegrad countries and the Baltic States were way ahead of us (Figure 2.).

The main reason for the poor situation is that **despite the low corporate tax rate our tax system is too complex, not neutral, is burdened by distorted incentives,** and in difficult economic situations it is too easy for the Hungarian state to resort to changing various sectoral special taxes to stabilise the budget.

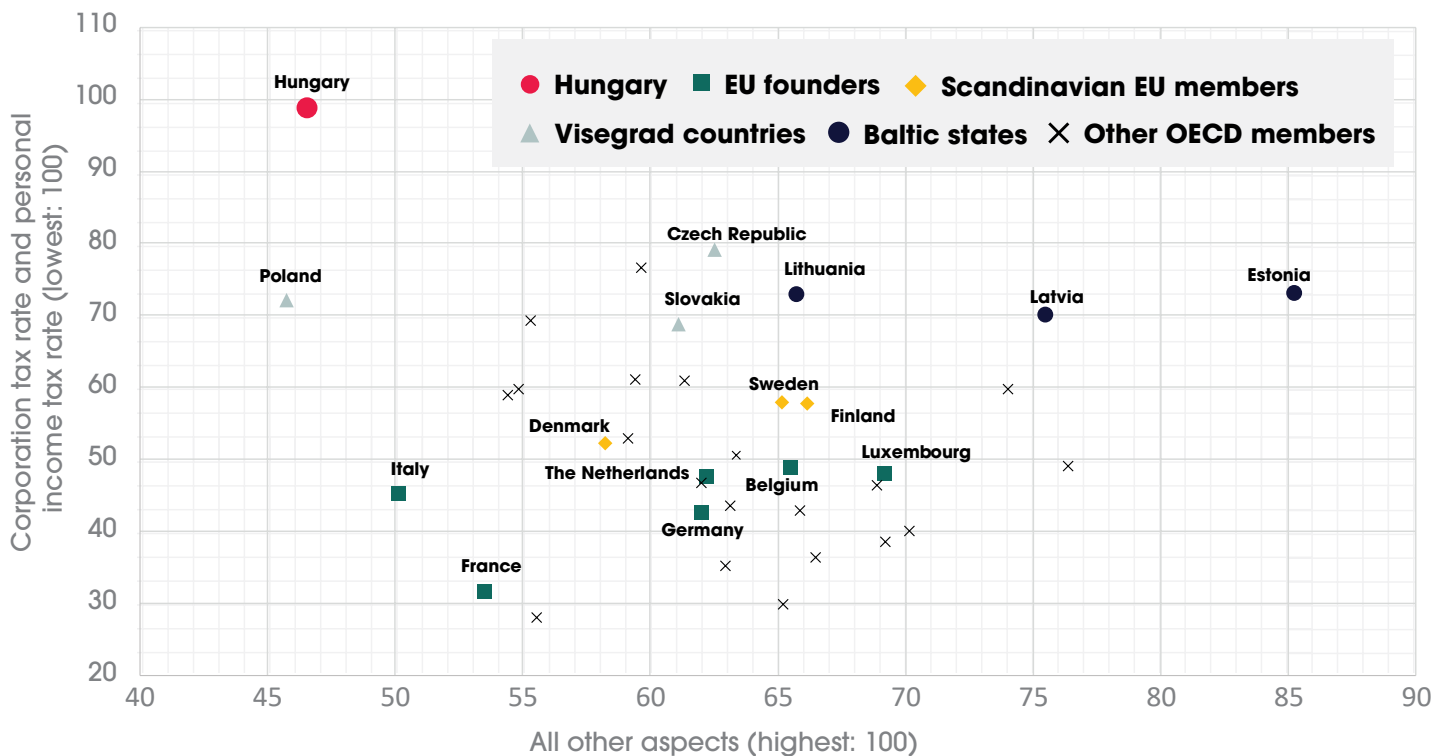


Figure 2: Hungary’s position compared to the benchmark countries on a scale measuring the tax system and other factors of competitiveness* (source: Tax Foundation)

*The vertical axis of the graph is the average of the two scores given by the Tax Foundation for the corporate tax rate and personal income tax rate for each country. The score can fall between 0 and 100, where a higher score means a lower tax rate. The remaining seven scores for all the other dimensions of the tax system (also between 0 and 100, where a higher number indicates greater competitiveness) are averaged on the horizontal axis.

The structure of our budget is not in line with our long-term competitiveness either: **compared to the European average or the Visegrad region, the Hungarian state spends much more in proportion to its GDP on general government expenditure, economic affairs and leisure or religion than it does on sectors, which have a long-term impact on our competitiveness such as health care or education** (Figure 3).

Consequently, the Hungarian state is not overtaxing, but rather, it taxes badly and spends badly. The good news is that there is room for change: we can remain competitive even when increasing state revenues, while at the same time also investing more money in areas of national strategic importance such as education or health care.

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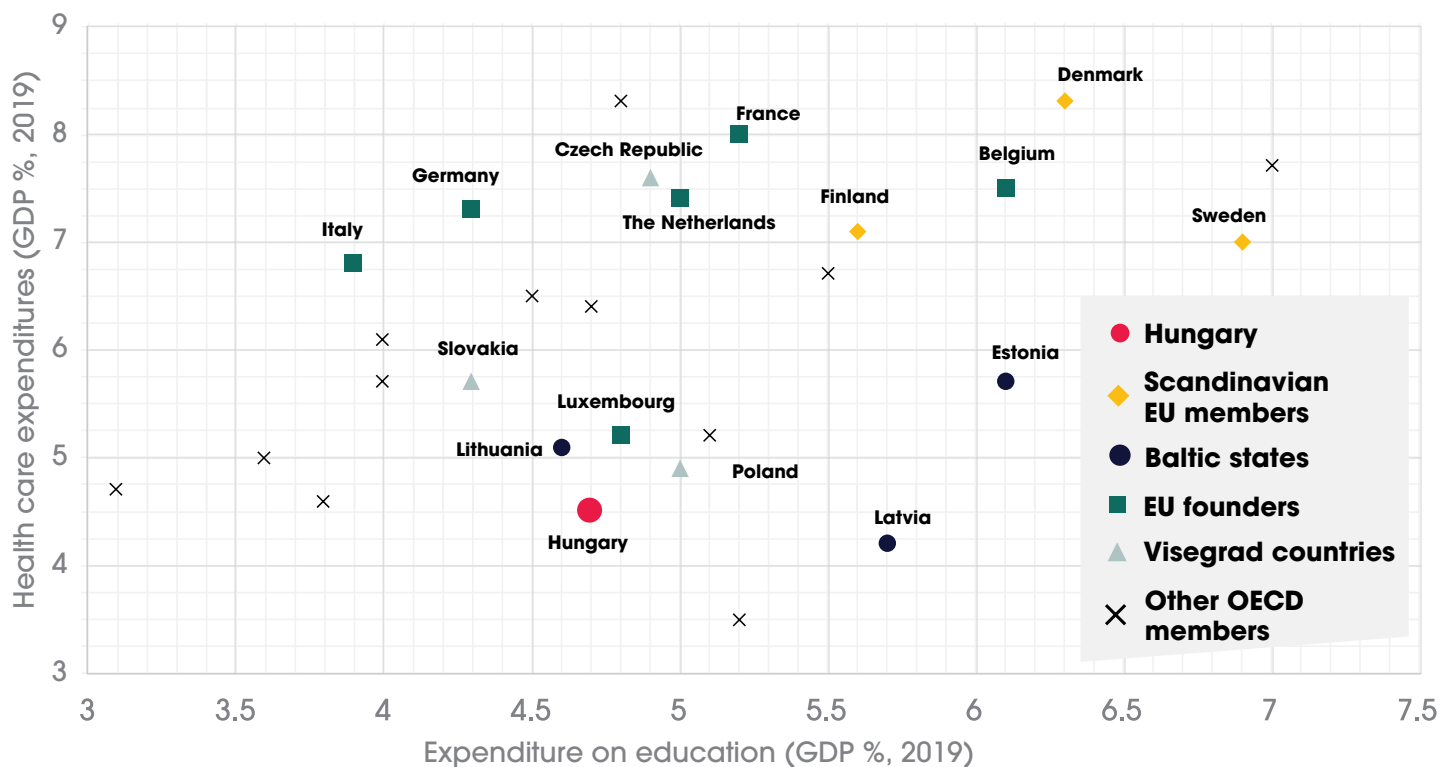


Figure 3: Budget expenditure on education and healthcare as a share of GDP (source: Eurostat)

The Hungarian public administration sector is average in size by European standards: less than 20 per cent of employees work in the public administration and defence sector. However, we stand out in two respects:

01 The Hungarian public administration provides **financially unattractive careers compared to the competitive sector**: Hungarian civil servants are paid only about 32 percent of the EU average, only Bulgaria is behind (27 percent). At the same time, wage inequalities in the public sector are extremely large in our country compared to Europe.

02 The wage advantage of the private sector over the public sector **has continuously increased** over the last decade and a half and is now approaching 10 percent.

Overall, the Hungarian public administration operates with rather low efficiency: based on the World Bank’s and the V-Dem’s relevant bureaucracy indices, Hungarian bureaucracy is less efficient, less performance-oriented, less adherent to its own rules and less predictable, than our regional competitors’. This is not only due to poor financial incentives and shortcomings in recruitment, but also the **lack of performance-based incentives and the blurring of the line between bureaucracy and politics**.

The digital revolution does not only offer new opportunities to fight corruption and the black economy, but **it can also dramatically improve the quality of public services**. Of course, historical experience suggests that this can only be a positive process if the growing information capacity of the state is matched by a proportional increase in control – that is, if we can find **the middle ground between the blindly stumbling state and the omnipotent state**.

3. THE EQUILIBRIUM INSTITUTE'S PROPOSALS ON THE IMPROVEMENT OF STATE CAPACITY

I 3.1. PROPOSALS ABOUT THE DUTIES OF THE STATE

▶ A STRONG BUT SELF-LIMITING STATE!

The state should only be active where it is needed! In practice, this means that it should primarily have an active role in the management of subsystems, where it must remedy actual market failures through direct intervention, or where it is necessary to create a framework for the interactions of the members of economy and society. In the latter areas, however, the state must be self-limiting and **should appear only as a creator, and guarantor of the general regulatory framework**. For example, it should guarantee quality public services and institutions to allow economic actors to develop their potential, and furthermore it should ensure that Hungarian employees are healthy and equipped with the right skills and competences in order to succeed in the world of work – but it should not try to replace or substitute the market by micromanaging the economy, or by favouring or penalising arbitrarily selected economic actors.

To decide where the state has the role of an active service provider, we need to examine **how many answers for the following three questions are “a lot” or “very”**: **1. How much positive or negative social externalities would result from the application of market principles?; 2. How interested is the policy in ensuring the quality of the given service?; 3. How difficult is it to quantify the processes and outcomes of a given service in a contractual framework? The more and more explicit these answers are, the more likely it is that the main processes of the service in question should be implemented within a state framework or under state dominance.** The figure below shows a non-exhaustive list of the tasks that should be carried out within the framework of the state, and tasks which can certainly be carried out more efficiently within the market framework: the closer each item is to the centre of the graph, the more likely it is to be a state or primarily state duty.

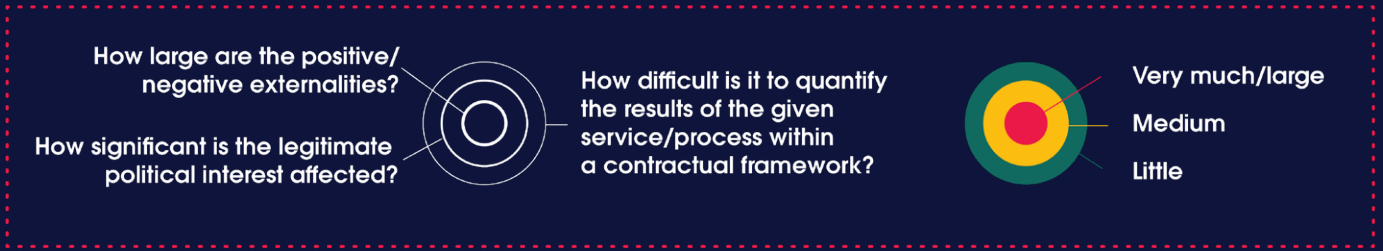


Figure 4: The tasks of the state (colours indicate the answers to the questions: red=High/Very, yellow=Medium/Moderately, green=Low/Little)

I 3.2. PROPOSALS ABOUT THE STATE'S MATERIAL RESOURCES

▶ NEUTRAL TAX SYSTEM! – TAX LABOUR AND CAPITAL INCOME EQUALLY!

Research shows that the tax system is good, when it is neutral, i.e. if similar activities are taxed in the same way and to the same extent. Exceptions to this rule are cases where social costs are not reflected in the true costs, i.e. taxation reflects can dampen market failures: tobacco and alcohol consumption, or the social costs of environmental pollution can for example be combated with higher taxes, and the social benefits of research and development or pension savings can be encouraged through lower taxes.

The tax system is good, when it is neutral, i.e. if similar activities are taxed in the same way and to the same extent.

We should tax different types of income using the same tax rates: if the income of employees, entrepreneurial income, income from financial savings and income from real estate are subject to the same principles and are taxed according to the same tax rates, we are not providing a hidden advantage to any activity or social group (these usually tend to be the wealthier), and are not creating distorted incentives for those who can choose one form of income or another (this is again usually done by the wealthier).

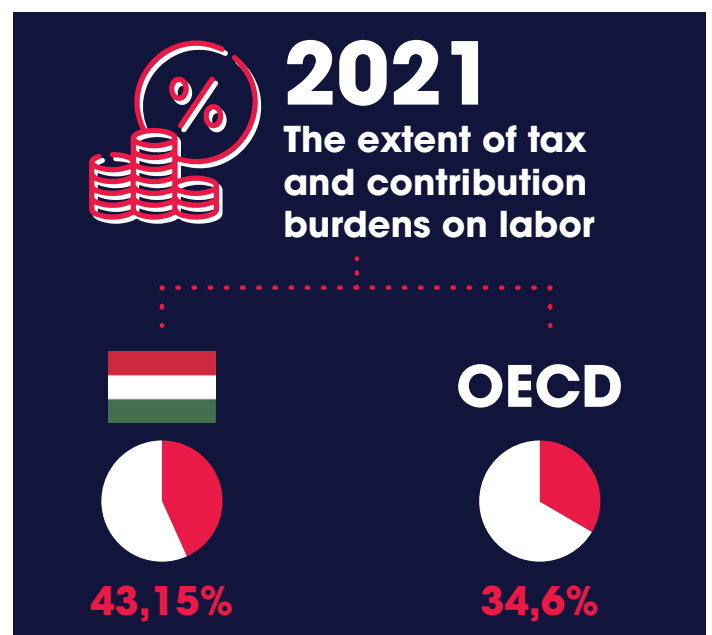
▶ TAX THE “BAD” THINGS INSTEAD OF THE “GOOD” THINGS!

Today in Hungary, in many cases, taxes are high on “good things”, and low on “bad”, or harmful activities. Even when taking into account fiscal balance a growth-friendly tax system can be created in which taxation would be shifted towards areas that we want to reduce or eliminate (carbon emissions, tobacco and alcohol consumption, etc.) and taxes

could be reduced where value is created (wages, investment / reinvested corporate profits).

▶ REDUCE THE TAX BURDEN ON AVERAGE WAGES TO THE AVERAGE OF OECD COUNTRIES!

Although over the last decade the burden on labour has fallen considerably in Hungary, the average wage tax rate is still the seventh highest within the OECD. **The tax on average wages should roughly be reduced to the OECD average.** should be reduced. Business expenditure on wages at the level of the average wage (or even below it due to the lack of progressivity) tax deduction in 2021 was 43.15 percent, while the OECD average (for single earners) was 34.6 percent. In the case of Hungary, there are few justifications that could be put forward, that the average wage (and especially below the average wage) should be taxed at a higher rate than in other developed countries - especially given that **the high tax burden on wages curbs the growth of legal employment even in a labour market that is as strong as the Hungarian one.**





▶ **INCREASE THE HUNGARIAN STATE'S ROOM FOR MANOEUVRE – CONVERGE THE LEVEL OF CORPORATE TAX TO THAT OF THE STATES IN THE REGION!**

Hungary could have the potential for greater redistribution, i.e. to perform the state's specific duties to a higher standard. Rather than being proud of the fact that we can operate badly more cheaply than everyone else, let us try to be more efficient at a reasonable price. **Instead of the different special taxes, punitive taxes, hidden taxes, and the "shadow tax system" created by individual subsidies and individual agreements, we need a simple and transparent tax system, where everyone knows exactly how much they are contributing to common expenditure.**

First, let's converge the level of corporate tax to that of the other states in the region - no one will be put off by the visible increase in the tax burden if the hidden tax burden is reduced. We will be no less of a corporate tax haven if instead of the lowest tax rate in the OECD, we would charge as much as Cyprus and Ireland (12.5%) or even Lithuania (15%).

▶ **CASHLESS ECONOMY! – CUT BACK ON CASH USE BY REDUCING ACCOUNT MANAGEMENT AND TRANSFER FEES AND DISCOURAGING CASH WITHDRAWALS!**

To accelerate the transition to a cashless economy, set a target that **by 2030 only one third of all payment transactions in Hungary should be made in cash** – half as much as today! The reduction and the long-term phasing out of cash use **would drastically reduce tax evasion and tax avoidance, the risk of corruption, and thus would significantly whiten the economy and increase fiscal revenues.**

To achieve this, Hungarians must first be encouraged to bank - preferably increasingly online. Reducing the fees on the management of personal accounts could be an important symbolic step in this process: the abolition of the financial transaction tax that brings in an annual 200 billion HUF of public revenue would, for example, free up enough resources for service providers to **reduce the monthly**

account management fees (which are usually a couple hundred HUF) and to reduce card fees significantly – while at the same time due to the reduction of cash financial service providers would of course also be among the winners.

“**By 2030 only one third of all payment transactions in Hungary should be made in cash – half as much as today!**”

The fee on transactions between bank accounts should be abolished! The fee has a ceiling, so it **disproportionately penalises small transactions (i.e. typically the poorer)**, while the transaction itself generates no income for anyone - while at the same time, the fee also makes it more difficult to operate the economy in general and to discourage the use of cash.

Cash withdrawals and payments – for both businesses and the general public – should be subject to a higher fee than at present. The threshold is necessary to **avoid people with the lowest incomes, lower skills and the elderly being the losers of this change.** However, after a preparatory period up to 2030, there is also the possibility of **completely abolishing free cash withdrawals without any social damage, in order to discourage cash use.**

▶ **BY 2030, THE STATE SHOULD SEND ALL SOCIAL TRANSFERS TO PEOPLE DIGITALLY!**

To avoid increasing the burden on the poor and the elderly, making digital banking a service easily accessible to the most disadvantaged citizens should be a priority for the next decade. **By 2030, the conditions must be in place for the state (including local authorities) to transfer pensions and all social transfers to people digitally.** More than 50 percent of pensioners already receive their pensions in a bank account, so the state does not even have to start from the starting line.

▶ LET'S EXTEND THE USE OF CASH LIMIT TO PRIVATE INDIVIDUALS!

An important step in the Hungarian state's fight against tax evasion and the grey economy was **the introduction of a cash limit for business-to-business transactions in 2013 – but this still does not apply to transactions between private individuals, and private individuals and businesses.** As businesses are far from being the only ones involved in the most infected sectors by the black and grey economy (such as the sale of second-hand cars and servicing of used cars or even real estate), the promotion of online banking should go hand in hand with the elimination of this distinction.

With today's relatively high threshold it is possible to **apply the one-and-a-half million cash limit to natural persons as well.** Considering people's cash usage patterns, in the initial phase a higher rate than that of companies could be set for natural persons – though the long-term objective is to discourage cash withdrawal for all groups.

▶ GRADUALLY REDUCE THE CASH LIMIT FROM 1.5 MILLION TO 300 THOUSAND HUF BY 2030!

There are several countries with a similar cash limit to Hungary, where levels of regulation vary from state to state. **While today in Hungary it is valid from 1.5 million HUF (roughly €3750), in France it is €1000 while in Greece it is €500 (approximately 400 thousand and 200 thousand HUF respectively).** The exceptionally high cash flow, and the intention to whiten the economy means that Hungary should belong to the less cash-flow tolerant states.

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Therefore, by 2030, both in the case of businesses and natural persons, we should reduce the cash limit in several steps to one fifth of the current limit, to 300,000 HUF. Besides continuous communication of targets and

precise deadlines this can also be achieved through the implementation of the long-term programme to encourage online banking. It is also important here that the change should not affect the poorest and the technologically ill-equipped – this justifies the retention of a lower limit in addition to the gradual approach.

▶ NO REAL ESTATE FOR CASH FROM 2024!

The real estate market, and within that sales and rentals are the sectors most exposed to the grey and black economy. It is no coincidence that in many countries (e.g. Belgium and Italy) the use of cash in the real estate market has been restricted or in some cases completely for years. **From 2024 onwards, only payments by bank transfer should be possible in Hungary when buying a property!**

▶ PHASE OUT THE USE OF CASH IN THE RENTAL MARKET BY 2030!

In our country – considering the persistent tension in the housing market, and the ever-increasing housing costs, which hugely affect young people – when whitening the rental market particular care should be taken, bearing in mind a gradual approach. In other words, again, **the fight against the grey economy should not let the less well-off to lose out**, or the further increase in housing costs to become a barrier to social mobility. That is why by 2030, after a targeted preparatory phase to alleviate the housing crisis, the state should create the opportunity to fully phase out the use of cash from the rental market. *(The Equilibrium Institute will address the reforms of the housing market and the solutions of housing problems in a separate set of policy proposals in the near future).*

▶ PROVIDE A TAX INCENTIVE FOR THE SPREAD OF ELECTRONIC PAYMENTS!

Although it has become mandatory everywhere from 1 January 2021 to provide electronic payment facilities wherever an online cash register is available, **in practice many providers are still trying to “herd” customers towards cash transactions.** In reality, **neither the consumer nor the service provider is interested in card payments.**

In 1999, this problem was successfully solved in South Korea through a simple tax reform. For businesses, after every successful credit card transaction, a 2 percent VAT refund is paid, while for private individuals an income tax refund up to a certain value is provided.

In parallel with the monitoring of service providers and the tightening of sanctions against non-compliant, Hungary should also provide tax incentives for the spread of electronic payments!

▶ **INVEST MORE IN PEOPLE! – DON'T SAVE MONEY ON EDUCATION AND HEALTH CARE!**

Compared to the European average or the Visegrad region the Hungarian state spends much more in proportion to its GDP on general government expenditure or economic affairs and leisure or religion, than it does on sectors, which have a long-term impact on our competitiveness such as health care or education. **A reallocation of expenditure away from the first group (i.e. from general government spending, economic affairs, leisure, culture and religion) to the second (i.e. health care and education) has a good chance of resulting in a better operation.**

It is particularly important **not to fill the holes that appear in the budget from time to time using withdrawals from the strategically important subsystems**. A long-term, shared national strategic goal is for expenditure in real terms to grow sustainably and predictably or at least stagnate. In other words, it is not just whether we spend enough money, but also that the level of expenditure does not fluctuate year to year depending on the current budget situation. Therefore, we should **make it a cardinal law that expenditure spent on education and health care systems as a proportion of GDP should not be reduced, it can at most be reallocated within the system!**

The Hungarian state must also stop compensating for the effects of a poor business environment with huge budgetary resources. Therefore, first and foremost, any unique investment subsidies provided by government decisions should be abolished - i.e. investment subsidies provided by the government to individual market operators which are generally known publicly as “investment incentives” or “job creation”. Such subsidies drain huge resources from the Hungarian corporate sector, often for the benefit of capital-intensive multinationals, while their job creation effect is not proven at all. For our growth it would be much better if instead of the incidental, specific and expensive symptomatic treatment, the state would try to address the real causes, so that the risk would be lower for all investors.

I 3.3. HUMAN RESOURCES OF THE STATE

▶ **MAKE A CLEAR DISTINCTION BETWEEN BUREAUCRACY AND POLITICS! – LET'S ESTABLISH A TAXATION COUNCIL!**

The correct distinction between professionalism and political considerations is key, not only for certain posts but also for **the optimal implementation of tasks defined by policy**. Whether the tax system or aid policy are tied to ideological values and therefore it is right that they are decided by elected politicians, does not mean that they are necessarily the best at enforcing the principles that they actually apply. **How the details of the tax system serve**

policy objectives in the best and simplest way possible, economists have the best knowledge of.

Create an independent tax council! Politicians set the general parameters of taxation: for example, what percentage of GDP tax revenues should be, how much of that percentage should go to the top ten percent, or which major social groups should be supported. The tax system adapted to these parameters, however, should belong to the duties of the meritocratic, and independent tax council operating on a similar principle to the central bank!

Such committees independent of political aspects could serve as a counterweight in a number of other areas to ensure that legitimate political considerations prevail, and the balance between professional efficiency and impartiality remains. Above all, **in areas where the effectiveness of decisions is based on objective indicators and the political aspects are a clear obstacle to the achievement of the declared objectives. Besides taxation, such areas of decision making are public procurement**, where inefficiency and corruption cause serious financial damage to the Hungarian economy year after year, and also directly affect the legitimacy of the political system. An empirical study has derived the conclusions of extremely high level of corruption in public procurement in Hungary from the fact that **politics has too much say in too many areas in the allocation of public procurement funds and, above all, in the selection of the bureaucrats who run them.**

▶ **LET'S OPEN THE HUNGARIAN STATE TO THE BEST EXPERTS IN THE WORLD!**

For roles requiring clearly defined **professional competences, Hungary should choose from the world's full range of professionals, like other countries around the world** – of course only in areas in which the native level use of the Hungarian language is not a prerequisite for effective work. **Select the best professionals in the world to lead the Hungarian National Bank, the State Audit Office of Hungary, the Hungarian Competition Authority, the National Public Health Service, or even the Centre for Budapest Transport!** Of course, the competition should be subject to knowledge of the domestic legal environment so that Hungarian (or Hungarian-born non-citizens of Hungary) would have an advantage even under this system.

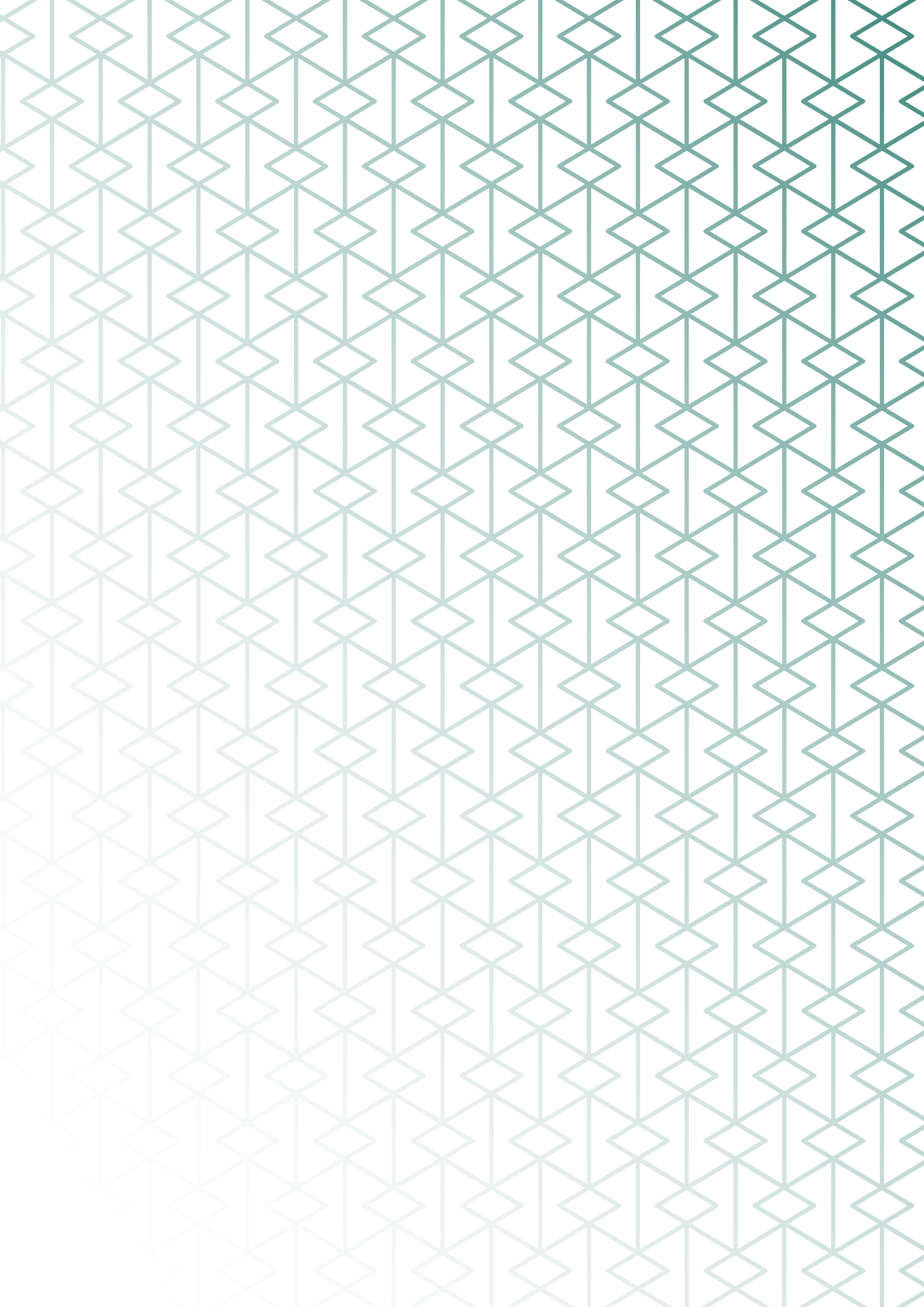
▶ **WHERE POSSIBLE, AUTOMATE BUREAUCRACY!**

The functioning of the state – first and foremost its relations with its citizens – must be faster and more cost-effective. **Automate the transfer of data between public bodies and make it illegal for public bodies to request documents from citizens which they could request from another public body.** This would save a lot of unnecessary 'rounds', speed up processes, and, above all, reduce the burden on citizens and economic operators.

“Automate the transfer of data between public bodies”

▶ **MAKE WORKING FOR THE COUNTRY WORTHWHILE! – CONVERGE THE WAGES OF PUBLIC EMPLOYEES TO THOSE IN THE PRIVATE SECTOR!**

Move beyond the public or private sector dilemma of the 19th-20th century, a situation where the well-educated and the most dedicated are kept away from the public sector due to low wages! Today, the average salary of public sector employees is about 10 percent below the average wage in the private sector. **Let's reduce this gap by 2030 to zero, so that it is worth working for the country, and the state can choose from the best employees!** Besides, data-based performance monitoring should also be applied in the private sector wherever possible.



THE POLICY PROPOSALS OF THE EQUILIBRIUM INSTITUTE

REVENUE OF THE STATE

Neutral tax system: tax labour and capital income according to the same principles!

Tax the „bad“ things instead of the „good“ things!

Reduce the tax burden on average wages to the OECD average!

Bring corporate tax levels closer to those of other states in the region!

CASHLESS ECONOMY

By 2030, no more than a third of transactions should be in cash!

By 2030, the state should transfer all social transfers digitally!

Radically reduce account management and transfer fees!

Charge a higher fee on cash withdrawals above a certain threshold!

ON THE **STRENGTHENING OF STATE CAPACITY**

TERÜLET

PROPOSAL

CASHLESS ECONOMY

The cash limit should be extended to private individuals and by 2030 gradually reduced from 1.5 million to 300,000 HUF.

No cash payments for property purchases from 2024!

Prepare for the phasing out of cash from the rental market by 2030!

Encourage the spread of electronic payments with a tax credit!

GOVERNMENT EXPENDITURE

Invest more in people! Spending on the education system and healthcare as a share of GDP should not be reduced, it can at most be reallocated within the system!

THE MODERNISATION OF ADMINISTRATION

Separate bureaucracy from areas of policy – let's establish an independent Tax Council!

Open up the Hungarian state to the world's best experts!

Automate bureaucracy where possible!

By 2030, reduce the average wage gap between the public and private sectors to zero!

ABOUT US

The Equilibrium Institute is Hungary's largest independent, future-oriented policy think tank.

In line with the vision of Hungary's future presented in our publication entitled Hungary 2030, the Equilibrium Institute works on creating a smart and environmentally cleaner nation rooted in a strong community. To this end, we write widely appealing and practical policy proposals that serve the development of our country, and we discuss these jointly with the best domestic and international experts.

Our goal is to ensure that the current and future political, economic, and cultural decision-makers learn about our recommendations, come to agree with them and implement them.

The staff members of the Equilibrium Institute and the members of its Advisory Board are renowned experts in Hungary who are considered to be among the best researchers and analysts in their respective fields. The work of the Institute is helped by more than 30 experts, including economists, sociologists, political scientists, lawyers, urbanists, and climate researchers.

OUR EXPERTS



TAMÁS BOROS

Executive director and co-founder of the Equilibrium Institute

He serves as a member of the Scientific Council of a leading European think tank, the Brussels-based Foundation for European Progressive Studies (FEPS). He is the co-founder and co-owner of Policy Solutions, a consultancy and research institute. He is a recurring guest on a variety of political talk shows and often comments about public affairs for leading international media. He previously worked for the European Commission and the Hungarian Ministry of Foreign Affairs as an expert on communication and EU affairs. His research focuses on Hungarian and EU political communication and populism.



GÁBOR FILIPPOV

Director of Research

Previously he worked as an expert advisor in the Hungarian National Assembly and then as a political analyst and senior analyst at the Hungarian Progressive Institute. His analyses and op-eds have been published by numerous domestic and international media outlets, and he is frequently invited to talk about politics on television and radio shows. His research focuses on the European and the Hungarian far-right, on the histories of anti-Semitism and Islamophobia and their present-day manifestations, as well as the workings of contemporary authoritarian regimes.



DÓRA CSERNUS

Senior Climate and Environmental Policy Expert

As an expert in environmental issues, she has worked for the Ministry of Environment and Water, the Office of the Parliamentary Commissioner for Future Generations and the Ministry of Public Administration and Justice, representing the Hungarian position in different EU, UN, and OECD fora. She later worked as Director for International Policy Development at Klímapolitika Research and Consultancy Ltd, and as an independent expert in climate and environmental issues. Her main focus is on climate policy, air-quality control and water policy.



ZSOLT BECSEY

Senior Economist

Zsolt Becsey started his career as an economic planner at the Ministry for National Economy, then worked as an economic analyst and later as a modeller at the Central Bank of Hungary. His areas of interest are industrial policy, input-output analysis, macroeconomics, SME policy, and competitiveness.



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