

Saving a Nation

The economic program of the Váralja Alliance



- Finance • Infrastructure • White-collar crime
- Mortgage crisis • Taxation • Agriculture
- Sovereign Wealth Funds • Ownership structure
- Foreign Trade

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Preface

The salvation of the Hungarian Nation depends on several preconditions. For any analyst of economic affairs, and human behavior in general, Christian ethics are needed in order to find the right balance between material and spiritual factors. There will be no sustained development in Hungary without the necessary psychological and cultural conditions. But the population's spiritual condition will not improve either without an increase in the material strength of the nation. Our program of national salvation must be based on a radical transformation of the Hungarian economy.

A coordinated, all-encompassing economic development plan that strives to make the economic structure of Hungary as similar to the developed economies as possible would be an adequate response to the challenges of the twenty-first century. But such central planning has not, as yet, been attempted in a very long time. In light of this aim, it is important that among others, the IT, biotech, health-services, pharmaceutical, nanotechnological, geothermal and education industries increase their share of Hungarian GDP. The economic development of our nation must be based on those sectors that are capable of creating well-paying jobs for well-qualified employees, and those sectors that increase our competitiveness. As well as this, future economic policy must be based on the pre-existing advantages of our country (such as the well-developed road network, education infrastructure, etc). It is important that the State take an active role in the economy, because only with good planning can we achieve sustained growth. The mentioned industries should receive government support in the form of direct funding and, in accordance with EU regulations, indirect forms of subsidization (tax-exemptions).



But all this will not be enough in itself. Every experiment in economic modernization changed the very base of the economy, often with revolutionary methods. The 1848-49 revolution and war of liberation, the 1956 revolution and even the economic system that was created after the 1873 world economic crisis, all of them put economic development at the center of their programs. We, having benefited from hindsight, assert that the aims of the 1956 revolution are the most timely. This is because our forefathers believed that development is equivalent to the ever-broader fulfillment of human freedom and dignity. Their visions about the future were not restricted to ever-faster GDP-growth. The twentieth-century produced some of the fastest economic growth...in the form of the inhuman Stalinist regime of the late 1940s and 1950s. It must be recognized by all that economic development cannot simply be restricted to measuring the changes in Gross Domestic Product. Many economists have ascertained that a new economic paradigm is needed for the entire world economy. A new way of thinking about economic affairs that does not view things from the perspective of capital but from the human perspective. The development of Hungary's Human Resources should be a priority of the highest importance for the government, as investing in people is a very profitable investment.

A return to the goals of the 1956 revolution should be made on the economic policy level. Why shouldn't Hungary become a free, independent country from a financial perspective as well? Why shouldn't those people who create the most new value be the winners of economic policy? Why shouldn't those entrepreneurs who contribute the most to technological innovation be the beneficiaries of government tax policy? Why shouldn't those employees be part-owners of their workplaces who do the most for their companies? These are questions of the utmost importance, and to all we answer in the affirmative. These are the final goals of our economic program, but in order to be successful in achieving these goals, we must rebalance our Nation's foreign trade policy by diversifying our export markets. For this structural transformation of the economy we will have to raise the necessary funds. And that can only be achieved by restoring investor confidence in Hungary as soon as possible. Many formerly peripheral countries exist in the world that have quietly succeeded in creating for themselves an advantageous position in the world economy, even in the last forty years since globalization has speeded up. South Korea, pre-2008 Ireland, the Russian Federation and Taiwan, among others, belong to the category of countries that have found constructive answers to the threats and opportunities of the latest phase of globalization. By learning from the experiences of such nations, we can benefit. But no nation has benefited from simply blindly copying foreign models. The Hungarians should, first and foremost, follow their own path.

Finance

Hungary must become financially independent. This is one of our goals. In the midst of globalization, this will be difficult. Therefore we do not support severing our ties with the world economy, as some extremists suggest. Hungarian financial policy should strive, rather, to reconcile interests that seem to conflict with each other. The Hungarian financial system may be described as relatively stable, with lower debt levels than many developed economies. But, especially because of the high ratio of foreign ownership in

Hungarian banks, it is very sensitive to external shocks. Many economies that were thought to be based on solid foundations suddenly collapsed in 2008-09 because of poorly-regulated financial sectors (e.g., Ireland). The Irish example shows more clearly than any other that regulatory authorities cannot let the financial sector become oversized and indebted. The time for the transformation of the financial sector is now. We recommend several measures in order to bring a healthy equilibrium to the Hungarian economy, which will mostly take the form of more active regulation. But we also seek to transform the very structure of the banking industry. We shall assign a greater role to Government and credit unions (credit co-operatives). Credit co-operatives are ideally suited to servicing the lending needs of small businesses, as they mostly work with local communities and small companies. These already existing co-operatives are, in addition to strengthened regulation, one of the core elements of our financial reform package

- Foreign banks cannot be allowed to receive State financing. In a new law, we **shall ban all State aid, including emergency credit facilities, to banks that are not at least 40% Hungarian-owned.** In addition these sources of financing will not be attainable from any source other than the Hungarian Development Bank (MFB) or bond-sales. **The use of credit from an external creditor to assist any financial company of any kind shall also come under a ban.** The Government of Hungary cannot become even more indebted for the sake of even local bankers!
- The only exceptions to the proposed law mentioned above shall be the 100% member-owned credit unions. **The credit co-operatives will be able to receive State funding,** but only those which already have a network of small business customers.
- **Every bank with Hungarian operations will be required to increase the capital adequacy ratio of its local subsidiary from the current 8% level to 16%.** This would be a very high level, but it would also virtually guarantee the future stability of our financial system. The local financial climate would become a good deal more secure.
- A The Hungarian National Bank (MNB) must work together with the developmental state. It is important that Hungarian Treasury bond yields be kept at a low level, in order to help in the creation of a stable macroeconomic climate in Hungary. The MNB must support the future Government through a bond-purchase program. **We also recommend increasing the scale of the already existing mortgage buy-back program. The MNB must become a mortgage lender of first choice, if and when the current weakness in the real estate sector proves to be longer than anticipated.**
- Because the credit unions are closest to small and medium-size businesses, we support increasing lending through these institutions. In order to achieve this, **we shall proceed with a limited and entirely accountable capitalization of credit unions with low-interest government loans.** The capitalization will serve one primary goal: small and medium-businesses will be able to access cheaper funding. The current double-digit interest rates on forint-denominated loans are inappropriate for small business. Our plan is basically a re-tooled version of the Széchenyi Plan 2 already in existence.

- The creation of local, municipal currencies is a constructive idea. Several local credit cooperatives, in agreement with local government, have already created local currencies. These bills of exchange are created by agreements reached between local small businesses and local councils, and may be utilized to stimulate those areas where a lack of forint-denominated currency is hindering economic development. **We support the creation of local currencies, because of the positive role they can play in the local economy.**



- The Hungarian capital market is not as advanced as we would like to see it. The Budapest Stock Market (BÉT) is a much less important destination for investment capital than the Vienna Stock Exchange. The under-developed situation of the BÉT is no accident, because the Wiener Börse is the majority owner of the Hungarian Stock Exchange! It is not in the interests of a rival stock market to expand trading facilities and increase volume on the BÉT. We would like to see more intensely-traded, high-volume stocks on the Hungarian exchange. The BÉT must be majority-owned by Hungarian investors or Hungarian-based insitutional investors. **We shall intervene in the ownership-structure of the Budapest Stock Exchange in order to guarantee Hungarian majority-ownership.**
- **We shall also seek to bring trading of carbon-dioxide emissions futures to Budapest**, in order to increase trading volume in general on the Budapest Stock Exchange.
- The room-for-maneuver of the Hungarian Government is restricted by CDS-prices on Hungarian debt. A CDS (Credit Default Sawp) is a financial instrument that gives protection to its buyer in the event of a debt default. It

is basically a sort of insurance against default. But many investors, mainly London and New York-based banks use Credit Default Swaps as speculative instruments, as the pricing of spreads can be quite volatile. **Because it is a form of insurance, we demand that the trading of uncollateralized CDS come under a worldwide ban.** From a certain date, the only legal purchasers of CDS should be bondholders.

- Credit-rating agencies can do a lot of harm in a nation's life. The operation of the market demands an adequate flow of information to investors. It is only fair that bond traders know what they are trading. But an entire country is different from a private company. The credit ratings of all governments should reflect the developmental needs of those governments as much as the capacity of those governments to repay debt. **We demand that all three main credit rating agencies (McGraw Hill Inc, owner of Standard and Poor's; Moody's Inc.; and Fimalac S.A., owner of Fitch Ratings) come under the stewardship of an international consortium, composed of the EU and the US Government. Failing that, Fitch Ratings could be transformed into an in-house rating agency of the European Union.**



- The rates of interest charged on credit cards are far too much. No expenses can excuse rates far above yearly 20% in the Hungary of today. Because of this **we shall ban any interest charged on credit cards that exceeds the previous inflation rate by a factor of six, or the MNB base rate by a factor of five at the time of the signing of the contract between the customer and the credit card company.** The financial reform law we propose shall only apply to new contracts.
- The financial situation of Hungarian municipal government is unacceptable. Many local councils are on the edge of bankruptcy. This means that the State will have to bail them out at some point. This should not be happening. And we won't let it: **in a new law, we shall stipulate an upper limit, beyond which no municipality will be able to sell new bonds or increase their debt.** This upper limit will be different for every council, depending on the size of the local economy, the tax receipts of local businesses and the size of the proposed loan.

- A decline in the State's role in the pension system is unavoidable. It simply cannot be financed exclusively from public sources. The right balance between the State and private sector should be sought. **The optimum solution would be if the state pension fund were to become purely need-based, and if the vast majority of pensioners would invest in private-sector pension funds.** In this way no-one would suffer any shortfall, while all pensioners would be able to realize the benefits of long-term investing in the form of higher-than-average returns.
- In addition to the above-mentioned restructuring of the pension system, **we shall also strengthen regulation of private pension funds**, so that only strong, well-capitalized companies may run pension plans.
- **We oppose any privatization of the already-existing State Pension Fund.** According to our view the State Pension Fund would continue to exist, but in a different form. Only those retirees would be eligible for a state pension who cannot make a living from their savings. **The state-guaranteed minimum pension would therefore become a reserve, a social safety net of last resort. The State Pension Fund shall be renamed Pension Reserve Fund.**



Infrastructure

The situation of Hungary's infrastructure is contradictory. From several viewpoints our position is favourable. For example, Hungary's education and transport infrastructure, as measured by density stands up well in comparison with developed economies. But quality is quite another matter. If we really want to break into the group of most competitive economies, we cannot satisfy ourselves with sending our kids to collapsing, unsafe schools, driving on crumbling roads or going to disgracefully dilapidated hospitals in search of a cure.

- The situation of the eastern half of Hungary is a scandal. Several west and south-west Hungarian regions are also extremely underdeveloped. As one of several ideas, **we recommend an infrastructural development program in Eastern Hungary to build several new water reservoirs and dams to contain future floods, such as the recent rainfloods of 2010.** From other aspects as well (the state of the road network, unemployment, poverty) Eastern Hungary is a bleeding sore that must be healed. An infrastructure-development project is the answer. **We shall create a new, coordinating body called the East Hungarian Infrastructure Fund to direct the project.**
- As mentioned above, the road network is dense but poorly maintained. Especially country roads are in a state of disrepair. In order to speed up developments, **in addition to the East Hungary Infrastructure Fund (EHIF) we shall also merge all road-maintenance companies in Hungary's western provinces into one state-owned holding company.** This is necessary to ease supervision and control of works. In Eastern Hungary road maintenance will of course be the job of the EHIF.



- **Road-building and road-maintenance companies are a wasp's-nest of corruption. In as much as we shall have the opportunity, we shall end this. A new law is needed to make the contractor-subcontractor relationship as simple as possible. Only two companies should be able to sign a contract. Sub-contracting to third parties should be banned entirely. The law would also ban all contracts that do not name a person or company fiscally responsible for the project. No company shall be able to engage in sub-contracting roadwork that does not have a certain amount of collateral, as many companies simply declare bankruptcy to avoid paying their employees and contractors.**
- **We shall prepare a long-term Infrastructural Plan that sets out the longer-term direction Hungarian infrastructural development must go in. We shall give priority to rail transport as opposed to trucking, but we do not oppose the building of new logistical centers, as the trucking industry is an important part of the Hungarian economy. As part of the Infrastructural Plan the railway network will be renovated entirely and the aged vehicles of mass transit companies replaced with new ones.**
- **As part of the Infrastructural Plan we shall renovate all primary and secondary schools over the next 20 years. This will be achieved partly through utilization of EU funds and the Road to Work unemployment-alleviation program.**
- **Part of the Infrastructural Plan shall deal with the exterior and interior renovation of hospital buildings. It is simply outrageous that patients of State hospitals be forced to spend their time in old, poorly maintained buildings.**
- **The jail-system is over-crowded. Prisoners must be forced to work without payment, in order to make the penitentiaries profitable. We shall reinstitute forced labor, and employ prisoners in the Infrastructural Plan as a low-cost workforce.**



- **Penitentiaries must operate at least on a zero-loss basis. To achieve this, we shall rebuild the jail-buildings so that manufacturing zones can be accommodated on their premises. The money received from hiring out**

prisoners should be used to maintain the penitentiaries, so that not a single forint be sacrificed from the State budget to house criminals.

- From an economic standpoint the „privatization” of the profitable MÁV-Cargo was unacceptable and irrational. The capacity of rail cargo transportation must be increased. But the profits of this increase in freight volumes will only benefit state-owned Austrian Railways, which purchased MÁV Cargo in 2008. **We demand that MÁV Cargo be renationalized, without compensation if need be, as its privatization to a foreign state-owned enterprise does not serve the national interest.**

White-collar crime

A large part of Hungarian GDP disappears because of corruption and the shadow economy. In this manner the Government’s tax revenue falls short of what it could be, and the entirety of Hungarian society is forced to pay more taxes than it should. The fight against corruption should be one of the prime concerns of any Hungarian Government. The unaccountable bureaucracy, shrouded in secrecy, does not serve the aims of those who wish to reduce corruption. We shall seek to limit bureaucracy as much as possible, and with a change in laws governing business structure.

- **All offshore companies, including those connected with offshore firms, must be banned from all European Union and state grants and subsidies.** Those who fatten their profits with „tax-optimization” obviously don’t need public sources of financing.



- Company law is too complicated and does not serve the goal of corruption prevention. In an open society, the people have a right to know about what is going on at large companies, especially publicly-owned ones. Many experts have claimed that existing company law is too lenient. **In light of our pledge to reduce corruption, we support the abolishment of the so-called „Closed Stock Company.”(Zrt).** Such companies have been the hotbeds of corruption in recent years, because of their closed nature and the lack of reporting requirements.

- The Hungarian economy barely sees any profit from the fact that many film scenes and music videos are shot in Hungary tax-free. **The tax-break for the film industry should be abolished, as mostly foreign entertainment conglomerates profit from it, and few jobs are created by the industry.**
- Many Hungarian businesspeople complain about the complications arising from current mandatory company documentation requirements. We have listened to the private-sector's concerns, and **shall erase all paperwork in favour of Internet-based documentation. All required information relating to every Hungarian company shall be available online in a free database, not only for businesspeople but the general public.**

Mortgage crisis

The stagnation of the Hungarian real estate market pre-dates the 2008 financial crisis. This stagnation can only be ended with a concomitant transformation of the family welfare system. In order to stimulate the market new lending is necessary. But the private sector is unwilling to lend. The banking industry, because of the large risks involved, is not lending as much credit as there is demand for. Aside from that, we do not think that further indebting Hungarian households to foreign-owned banks is a good idea. Without state intervention, mortgage lending is unlikely to pick up the slack created by crisis and years of economic stagnation.

- **We recommend that the Hungarian Development Bank create a new subsidiary, along with private institutional investors, which will concentrate all mortgage lending in one institution. Its name will be the Hungarian Mortgage System (HuMoS)**
- Hungarian families are not buying as many new properties as we would like. In order to solve this problem, **the Hungarian Mortgage System will engage in mortgage lending, handling bad debts, and channeling family welfare payments as well as housing subsidies.** This organization will also be able to purchase mortgage bonds, in order to keep interest rates at a suitably low level. The latter activity would be conducted in cooperation with the MNB. All real-estate related lending, housing subsidies, first home grants, etc will be conducted through the HuMoS, which will have the right to decide which families receive grants/subsidies or subsidized loans. HuMoS will be a partially or wholly state-owned enterprise, but it will work according to the interests of profitability first and foremost, with an eye to helping families in purchasing their first home.



- **New subsidies are necessary. Every family with at least two children will receive one Euro-denominated convertible bond after every child that will be convertible to forint-denominated Hungarian Treasury bonds after three years. The bond will be a government contribution to existing first home-buyer's savings schemes.**
- **In addition, when buying a new (less than 5-year old) home, every family will be able to apply for a partial (1/3 of the total income tax) tax-break for three years, if the family signs a contract that stipulates they give birth to more than two children in that time. This will be applied in addition to other forms of welfare, but above a certain income level the family will not be eligible for either.**
- **The construction industry will only recover after Hungarian families are given the opportunity to prosper and grow. It is our belief that consumption should not be punished. Rather, it should be encouraged if the economy is to grow again. All Value-Added Tax should be scrapped on all construction materials used by families building their first home.**
- **Only those families should benefit from family welfare payments who really do need Government support. A family where the main breadwinner brings home more than four times the minimal wage should not be eligible for family welfare payments, tax-exemptions or any other home-buying subsidization.**

Taxation

The Hungarian taxation system as it currently exists does not meet those criteria by which we can become a successful, competitive part of the world economy. The current tax system gives too many benefits to multinational companies. According to our conception only Hungarian-based companies should be able to receive tax breaks. In the dispensation of tax benefits we would like to see a 60/40 ratio of majority Hungarian-owned and foreign-owned beneficiaries. It is also important that tax-breaks go to those businesses that are at the forefront of innovation.



- Taxation, in the form it exists since the reforms of 2010 is unfair and uncompetitive. It would yield far more positive results if, instead of a general tax cut, we would have targeted, selective tax incentives. Cutting the taxes of lazy and hard-working people simultaneously yields little from the perspective of economic development. **We recommend the restoration of the pre-existing, progressive two-tier tax system, with a 32% rate for those with incomes more than six times the minimal wage and a 16% tax rate for those making less than five-times the minimal wage.** Anyone who makes more money should pay more! **Anyone who declares the minimal wage as their income to the tax authority will be obliged to provide proof-of-poverty (with documentary proof of their living conditions, etc.). The corporate tax should be increased to 20%.**
- This two-tier system will not inhibit those whose work is really valuable and innovative. The „key sectors” mentioned in the five-year plan Economic Development White Paper, in other words, **those businesses which belong to the cutting edge of technological development and competitiveness, will pay an extremely generous 2,5% income and/or corporate tax rate.** Ez a kétkulcsos adórendszer nem fog járni hátrányokkal azok számára, akik igazán értékes és innovatív tevékenységet folytatnak. **These companies will also enjoy pension and health contribution exemptions. All foreign-owned or joint-stock companies that qualify for tax-exempt status will be obliged to give all patents and licenses to Hungarian companies after a period of ten years.**
- It is important to encourage growth-industries. The first such growth industry we must mention is the market for chronic disease treatment drugs and palliatives. In a Europe that is ageing rapidly, Hungary could become a center of cheap, but reliable R&D and pharmaceutical production. We can gain much if this becomes a reality, as Hungary has a relatively inexpensive but well-trained medical workforce. **All manufacturing plants built to produce chronic disease treatment drugs will be eligible for the tax-break. But this is not all: even the suppliers of such companies will be eligible. In addition, such businesses will be completely exempt from paying Value-Added-Tax on products necessary for production.**

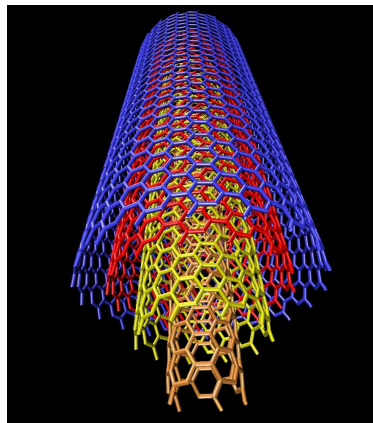
- It is especially important from the Hungarian perspective that geothermal energy be utilized in an efficient and cost-effective manner. Geothermal energy is one of our national treasures. **In order to aid the exploitation of this gift of fortune all companies engaged in geothermal energy services and geothermal drilling and exploration will pay the extra-low tax rate.** This new, dynamically growing industry must be kept in Hungarian ownership. Therefore we shall specify a minimum of 70% Hungarian ownership in all local geothermal companies.
- Spas and health spa sector is another key industry of the Hungarian economy. **Companies engaged in such services will also be able to apply for the tax exemption,** insofar as they meet certain profitability criteria.



- Solar energy is one of the most profitable and fastest-growing industries of the new eco-economy. In the coming years analysts predict that the production, distribution and operation of solar panels will constitute a fast-growing sector. Why shouldn't we jump on this trend early? **Those businesses which build solar power plants on Hungarian soil, or manufacture solar panels in Hungary, should be able to pay the reduced tax rate.** This will lead to many new jobs and a further reduction in carbon emissions, as well as a reduction of our energy dependency.
- All companies engaged in manufacturing and/or developing semiconductors and superconductors constitute a vibrant and dynamic part of any economy. These companies can also create on a quantitative level the most knowledge-intensive, well-paying jobs. **We would prefer it if these tech companies would also be included in the list of industries eligible for the 2.5% tax rate we seek to introduce.**
- The smartphone market is also a fast-growing industry and will constitute one of the primary motors of economic growth in developed economies, according to most analysts. **Those businesses that develop smartphone**

softwares and applications, or smartphone accessories and components or assemble the smartphones themselves, will be eligible for the tax exemption.

- The twenty-first century economy, and the medical science of the next century will be dominated by the further evolution of ultra-small technologies. The explosive growth of nanotechnology is guaranteed. We simply must become involved in this industry. **Every business involved in nanotechnological research will automatically pay the 2.5% tax rate**, if it can show real results and invests in real research infrastructure. **We will also create a new PPP project, the Borsod Silicon Valley Project, to replace the current failed initiative in Miskolc.**



- Depending on the probability of turning a profit, **certain biotechnological firms will be allowed to pay the lowest tax rate.** The overly-risky „start-ups” will not be eligible for the tax exemption. We will be looking instead to attract the investments of larger, well-established biotechnological companies.



- Hungary, when it was still an industrialized economy, was one of the world's largest bus manufacturers. In the international market we were a bus superpower. After the end of Communism local bus manufacturing collapsed. To this very day there are certain Hungarian mass transit companies that refuse, for reasons we cannot discuss here, to purchase locally-manufactured buses. **Those businesses that produce buses based on a Hungarian license, contribute to economic growth immensely. Therefore it is essential that these businesses be able to claim the above-mentioned tax-exemption.**



- Another important growth industry will be the design and manufacturing of environmentally-friendly 100% rechargeable electronic cars. This industry alone will have a chain-reaction like effect on the electronics and other industries. It is important that companies in this industry discover Hungary as an attractive investment destination. An incentive can be the 2.5% tax rate: society as a whole can prosper if the world's most dynamic car manufacturers build factories in Hungary. **Companies assembling such vehicles, or manufacturing components, or developing prototypes will all qualify for the tax exemption.**
- All other health services not mentioned above should be developed further, as Hungary has a dense health infrastructure and a large medical workforce. We will be able to enjoy an advantageous position in the world market for private health services, if we ourselves can organize it in an effective manner. Health tourism is beneficial for the entire Hungarian economy. **Those businesses engaged in innovative, new treatments such as stem cell transplants will qualify for the 2.5% tax rate.** It must be reiterated however, that we do not support the privatization and outsourcing of existing State capacities to private companies. Only those businesses will qualify for the tax exemption which build new clinics.

Agriculture

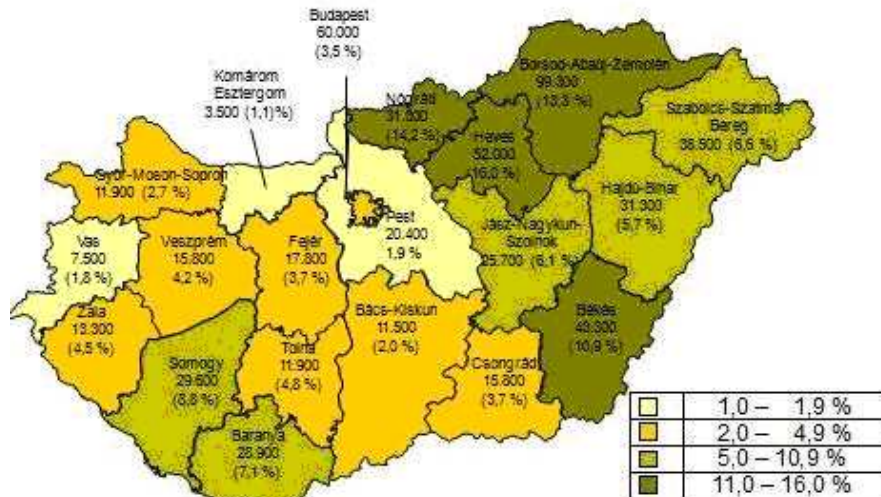
The current structure of Hungarian agriculture is unsustainable and uncompetitive. The free-trade policy of the European Union that was imposed on our country in the 1990s is of course one of the reasons our agriculture is in the state it is in. However, there is much we ourselves can do to change this. We shall strive to reorganize the agricultural sector in cooperation with farmers.

- We must increase the average size of holdings. The family smallhold has not place in the world economy of today. **Smallholders must unite and cultivate their fields in larger units. These units will be the Agri Circles.** Every Agri Circle will compose at least 30% of the land of every subregion and will be a unitary holding, which will be owned and managed by its members. That is, all the farmers in the area who join the Agri Circle. Every such production unit will be **100% free of any and all government interference, and will not constitute a revival of the notorious „cooperatives” of earlier times.** Rural folk in Hungary must understand that there can be no future for Hungarian agriculture without solidarity between small-scale producers.



- In order to aid the organization of Agri Circles, **the Ministry of Agriculture shall provide free training programmes and consultancy services for every smallholder who so desires.** If the farmers of a certain subregion vote to cultivate their lands communally, **the Ministry will direct a legal expert to the newly-founded Agri Circle to provide appropriate legal services,** insofar as the owners of the Agri Circle ask for such assistance.
- The Agri Circles will need a workforce, because there are and always will be landowners who cannot cultivate their lands for various reasons. The State will provide the employees needed through the „Road to Work” program and the East Hungary Infrastructural Fund. **Throughout the country we shall create Work Centers, which will be authorized to direct unemployed people to work opportunities, in conjunction with municipalities and local NGOs.** In the Western counties this process will be supervised by the „Road to Work” program. In Eastern Hungary the Work Centers will be under the authority of the East Hungary Infrastructural Fund.

- It follows from the above that all existing government employment agencies and consultancies will cease to exist. The Work Centers will take their place. **All unemployment benefits will be channeled through these offices. In return for benefits, the unemployed shall be obliged to work in either the infrastructure or agricultural sectors.** In this manner we can solve several social issues in one blow.



Roma lakosság aránya megyénként

- In the area of agricultural subsidies, all is not as it should be. Many wealthy agribusiness owners have received EU and/or government subsidies. EU subsidies should be handled as taxpayer's money, because Hungary only receives back a fraction of what it pays to be a member of the European Union. It is unacceptable that those receive such money who are not in need of subsidization. **We demand that the agricultural subsidy system be transformed, and that only those receive subsidies who seek to expand production, or who really do need material assistance.**
- Furthermore, it is also unacceptable that Hungarian farmers live in virtual slavery to greedy and unscrupulous businesspeople. Producer prices must be increased by squeezing the margins of third-party produce traders. This will be most easily attainable by transforming existing produce trading companies into producer's cooperatives. This is the norm in most of Western Europe. **We would like to see the transformation of currently privately-owned produce traders into cooperatives or non-profit enterprises as soon as possible, in order to increase producer prices and cut consumer prices.**



- It is scandalous that the European Union subsidies are used in part to reduce so-called „overproduction” in Hungarian agriculture. **We shall ban the use of subsidies to pay for the greed of a few irresponsible people who choose to sabotage agriculture by accepting money to cease cultivation.** Hungarian agriculture must instead find more markets for its produce, instead of giving up and committing economic suicide!
- In order to help in reversing the decline of agriculture, we must discover new markets. **We shall strengthen existing foreign trade organizations and create a new institution, the Consulate of Hungarian Farmers.** This government institution will **advertise and market Hungarian agricultural products overseas**, in concurrence with Hungarian civil and professional organizations. The Consulate of Hungarian Farmers will pay attention to all international trade fairs and conferences, with a view to participating in as many as possible. Internet advertising will also be a key area-of-operations.
- In many countries there have been very successful state monopolies on the export of certain agricultural products. Unfortunately, because of EU laws there is no opportunity for us to implement such an export monopoly here in Hungary. But still, we need a State institution to properly manage and supervise Hungarian agricultural exports. **We would like to create a government enterprise which could assist in organizing and coordinating Hungarian wheat exports.** The job of the **Hungarian Wheat Office** will be to draft annual production targets, prepare monthly market forecasts, negotiate wheat trade deals and communicate with export markets. **The Hungarian Wheat Office shall be authorized to represent all Hungarian wheat producers,** in addition to the Consulate of Hungarian Farmers. Számos országban nagy sikerrel működtek állami mezőgazdasági

Sovereign Wealth Funds

The Hungarian State must become more active in economic life and become more investment-oriented. Instead of the current, oversized and inefficient State, we would like a smaller but stronger and more economically-active State. The role of the State in the economy must be increased. In many countries there are state-owned Sovereign Wealth Funds, which find the best existing investment opportunities for the profit of the State and therefore society as a whole. The profits generated by such SWFs are a major source of funding for the budgets of such countries. In addition, they also serve as a source of finance for start-up companies. We need such a fund in Hungary as well. **With the right fiscal policy, we shall create two such funds: the National Investment Fund (NIF) and the National Innovation and Development Fund (NIDF).**

- Both funds shall operate in a manner similar to private equity funds. The difference of the two will be in their respective risk profiles. **The NIF will invest in more liquid and less risky instruments, while the NIDF will invest in start-ups.** The NIF shall be authorized to engage in equity-, bond-, forex- and derivative market investments, and in this way shall resemble hedge funds as well.
- **The main source-of-capital for the two funds shall be the bank tax, which should be extended for a protected period.** It must be mentioned that we shall only use the bank tax to provide capital for the two funds; it cannot be used to improve the government's budget position. This issue shall be regulated legislatively.



- **The National Innovation and Development Fund will play a role in all fast-growing but risky industries. It will invest in all industries named in the five-year plan, the Economic Development White Paper.** Those companies will be the target of investment that operate in the biotechnology, bus-manufacturing, health services, waste-management, e-commerce, renewable energy, nanotechnology, smartphone and software development industries, among others.

- **The National Innovation and Development Fund shall enjoy authorization to purchase shares of new IPOs on the Hungarian Stock Exchange below the initial trading price.**



- **We seek to increase R&D expenditures at or above 10% of GDP. This investment is necessary for our Nation's transformation into a First World economy. Only the necessary scientific infrastructure can make our country competitive. We would like to see the founding of at least two Innovation Parks, which shall be constructed in a PPP arrangement, with the participation of the National Infrastructure and Development Fund and international investors. The Innovation Parks can become centers of scientific research, and the development of new medicines, biotechnological and GMO products. These units will therefore be non-profit and profit-oriented simultaneously.**



- **Both Sovereign Wealth Funds shall enjoy complete autonomy in selecting investments. The only expectation the government will have in relation to their activities shall be that they select only those investments that fit into their respective risk profiles. The basic rule will be that the National Investment Fund only invest in instruments the risk profiles of which are below the**

market's risk, while the National Innovation and Development Fund shall invest in higher-risk start-ups.

Ownership structure

The current ownership structure of the Hungarian economy is not satisfactory for us. Today, in Central-Eastern Europe the ratio of local ownership is lowest in Hungary. At the same time the ratio of private ownership is highest in our country. These phenomena are connected! We seek to increase the role of the State in the economy, but also the role of cooperatives. We are of this opinion for several reasons. In a real democracy workplaces should operate in a democratic manner. Who can say that we live in a real democracy if employees have virtually no say in the management of the companies they work for? Our ancestors still knew that in a real democracy managers are also the subject of citizen control, not just politicians. For this very reason we would desire a substantial increase in the ratio of employee-owned cooperatives in those industries most suited for this form of ownership. The catering industry, retail, IT services, transportation, certain industrial services and financial services seem best suited for cooperative ownership. Renationalization is an option for those industries that serve society as a whole. Electricity and gas utilities, as well as food safety testing laboratories must be nationalized. Services that are important to keep at a low price for the good of all must not be in the ownership of profit-oriented businesses. These companies are not exceedingly profitable anyway. But the fees they charge for services could be a lot cheaper if they were run in a not-for-profit manner. We stand to lose if these industries remain under the domination of private interests.

- **All electric utilities must be at least 50 per cent+1 share owned by the State.** All profits that accrue from operations in the hands of the government should be spent on technological development, maintenance, price subsidies and increasing energy efficiency. We shall regulate the spending of such sources of income in new legislation.



- Food safety testing is an important strategic activity in the life of every nation. Unfortunately, many foods are simply not tested because of the high fees charged by the private companies that own the laboratories. The food testing units were privatized in the 1990s by the MDF government. The profit orientation of the owners is the only reason food testing costs so much today. Why should they not operate on a non-profit basis? Society loses much more by consuming untested foods that cause digestion diseases that are very expensive to treat. **We demand that these laboratories be nationalized as soon as is expedient or, failing that, that they be transferred to non-profit organizations.**
- We need a flexible and investor State. We cannot allow any further waste of resources at government enterprises. It is the interest of society that the State not play a role in unprofitable, loss-making companies. Non-profit does not mean loss-making! **We shall prepare a new draft bill that bans all state ownership and bail outs of loss-making, unsustainable companies.** Only start-up businesses and project companies shall be exempt from this law, as well as the healthcare and education sectors.
- The law shall ban State ownership of all companies that have a virtually zero prospect of returning to profitability. Therefore **the passenger transport section of Hungarian State Railways, Budapest Transport Corporation and Hungarian Airways should be divested, if these companies cannot be made profitable. Hungarian Airways shall be reprivatized as soon as possible.**



- The non-managerial employees of a company are just as much a part of the company's success as the directors. But employees are, to this very day, not equal stakeholders with equal ownership to private investors. **This is unjust, and we shall change this. We shall create the Cooperating Workplaces program.** All businesses that participate in the program will be able to claim exemption from certain pension expenses. All those businesses that allow trade unions to claim mandates in the board-of-directors, and give their employees a fair share of share ownership will be rewarded.

- All businesses will qualify as Cooperating Workplaces which operate in a truly democratic manner, and let their employees have a say in the direction of operations. There are numerous foreign examples of worker's councils delegating management members, such as many German firms. **With this step we shall take a giant leap in the direction the 1956 heroes wanted to head in: total economic and social self-government. In other words, a democratic economy and the economy of democracy.**
- **The Cooperating Workplaces program shall give extra support to all those companies that are 100% owned by employees, and are managed exclusively by worker's councils.**

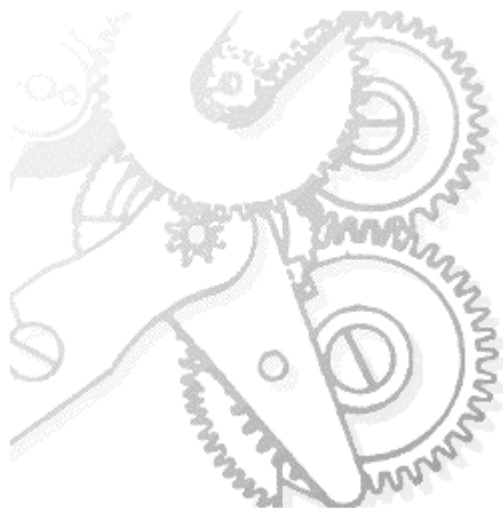
Foreign Trade

Hungarian foreign trade must be rebalanced. The world economic crisis showed that we cannot rely exclusively on Western markets. We must make the local, Eastern European market more solvent with the right, expansionary monetary policies. And we must find new markets in the rapidly expanding East. Hungary must make more steps to win the friendship of the BRICs in order to boost our exports in the direction of those countries, among others. But we must also deepen integration with our Eastern European neighbours. Our final goal is to unite those EU members that are on a similar developmental level and create a new united economic superpower between East and West, spanning from the Baltic to the Balkans, from the Vistula to Minsk, from the Adriatic to the Black Sea.

- In order to increase economic integration and boost our exports **we recommend that Hungary seek admission into the Shanghai Cooperation Organization (SCO).** The SCO is a regional political and economic cooperation organization created by China and the Russian Federation, which incorporates most of the area between Belarus and China. In order to expand the volume of Hungarian exports, we must participate in every forum, where we can constructively negotiate with new trade partners. The SCO is an ideal forum for such negotiations.
- All countries belonging to one region have a common interest. All the ex-communist countries of Eastern Europe must represent their interests as one entity in the European Union. The Hungarian political elite seems to have recognized the importance of this concept. But we need more than mere words. **What we need is an organization that can represent the interests of its member-states, if need be against the more developed states of the EU. What we need is a „union within the Union.“ This will be the Economic Forum of Emerging Member States.** All EU members that qualify as emerging economies shall represent themselves, in proportion to their population. **The Forum will create establish a common decision in relation to every EU regulation that effects the economy of any and all Forum Member States. The basic function of the Economic Forum of Emerging Member States will be to voice the opinion of Emerging Europe on the world stage.**



- **The Economic Forum of Emerging Member States will have the authority to coordinate and finance international infrastructure investments, supervise the budgets of Member States, regulate regional capital markets, manage financial crises and establish common standpoints in relation to economic developments.**
- **The EU-15 member states must understand that Emerging Europe does not want to develop under the unauthorized tutelage of foreign countries and institutions. Our region must defend its fiscal independence by creating a Common Stabilization Fund, which will be composed of payments of the Member States proportional to the size of each State's GNP. The Stabilization Fund will serve as a lender of last resort in case of a major financial crisis in a Member State.**



Afterword

With this program we would like to contribute to the development of Hungary, as we stated in the Preface. We are prepared to cooperate with all organizations that seek to implement at least some of our economic policy proposals. Our program is also aims to start a dialogue about our Nation's economic position and its true place in the world. There are many similarities between our program and other existing economic policy recommendations. But there are also many differences. This is deliberate, because we believe that the truth is not restricted to one source. The successful economic policy of the future must be composed of many different ideas and approaches, incorporating economic theories that seem to conflict with each other on the surface. In the age of globalisation we, as Hungarians must forget the ideological divides of the past. The real conflict in the world of today is not between the political Right and Left, but between those who seek a centralized globalisation and those who seek to further a decentralized localisation of power. Our economic program seeks to incorporate constructive ideas from both camps, and to further the cause of localisation in Hungary. Our recommendations are rational, pragmatic and, what is most important, achievable. We recognize that foreign capital has an important role to play in economic development, and we believe that the increasing integration of our country into the world economy is unavoidable. But this integration cannot be at the expense of the Hungarians. It cannot become an end-in-itself. For too long Hungarian politicians have strived for integration as the ultimate panacea, solution to our country's problems. It is not a solution. Economic integration should be a tool in the hands of policymakers to broaden our latitude. The political elite that took over after the fall of Communism failed to perform the necessary cost/benefit analysis before opening up the Hungarian economy to foreign penetration. Because of this immense failure many well-documented losses have been inflicted on our country. In conclusion our final aim is to democratize the way the economy is run by eliminating the imbalances created by the free market economy. We sincerely wish that as many of our recommendations may be put into practice, and that we may find decision makers ready to implement them.