

Some ethical and social roots and consequences of
public corruption in Hungary - experiences of the
State Audit Office



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- The characteristics of the situation in Hungary before the political system change in 1990

During the so called "socialist" phase of development the centralised and voluntaristic economic governance system /the centrally planned economy/ provided almost unlimited scope in the allocation and acquisition of the centralised financial resources, for the enforcement of the interests of individuals and groups of various sizes, in ways that were different from the declared norms. The primary venue of this was the bargaining mechanism operating at the various levels of the state and party governance, in institutional or informal ways.

The means of enforcement of interests adjusted to the bargaining mechanisms /personal acquaintance, hunting parties, the granting of mutual favours etc/ were regarded as inherent elements of the system and, with the exception of a few flagrant cases, they were tacitly accepted. The phenomena of corruption and the combating thereof came into the focus of the "official attention" only in other spheres of the social and economic life, primarily in the areas relating to the lifestyles of the citizens and to the satisfaction of their day-to-day needs.

The almost universal and very wide gap between the supply of and demand for goods and various types of services a 'sellers' market' naturally triggered and almost automatically generated the proliferation and spreading of the various forms of corruption. Among all causes of corruption this has been the dominant factor. The deficiencies of the operation of the state governing organisations /the lack of legal regulation, the bureaucratic proceedings, poor controls, low level financial and moral rewarding of staff/ further aggravated the problems arising from the economy of shortage.

The investigation and sanctioning of acts of corruption - well known for being restricted anyway - were also often hindered by party political considerations. No wonder then, that the saying - which reflects quite some self-irony, resignation owing to helplessness and cynicism - that "socialist relations will get you anything" became something of a proverb.

In the nineties a group of the legal and administrative measures taken in order to reform the economy created a number of - previously unknown - economic institutions /business associations within the socialist enterprise, contractual running of restaurants, shops, various types of small enterprises, co-operatives etc./. The new frameworks of the pursuance of economic activities, triggering wide ranging social movements, also boosted the growth of the black economy. /Use of assets of state enterprises free of charge, unregulated cost accounting and price setting, industrial contract work assignments granted to employees of agricultural enterprises, activities performed without a licence etc./.

The situation following the system change and today

Since 1990 the Hungarian society has been living in an age of rapid social and economic changes, implementing a transition from the single party system into a multi party one, from the party rule to the rule of law, from centrally planned economy to a market economy, and a radical transformation of the economic and ownership structure.

The partial "dismantling" and reorganisation of the previous state apparatus and the development of a democratic institution system fundamentally operate against corruption, despite the interim uncertainties. Decision making and the processes are becoming more transparent, public life is more open, social control has strengthened by the operation of the parties and civil organisations, the freedom of the press is observed etc.

The effects of the economic system change on corruption are, however, fraught with contradictions. Some sources of corruption have disappeared but on the other hand, new situations have emerged which provide even wider opportunities for economic abuse. The sources of corruption related to the former economy of shortage have almost completely disappeared in the area of the supply of goods and materials, just as they have in that of most of the services.

I would highlight two of the new factors contributing to the continued expansion of the black economy and corruption: the total re-creation of the legislation and other legal norms determining the conditions of the economy, and the divestiture, the privatisation of the formerly overgrown state property.

Owing to the urgency of the task, new laws and other types of statutes have been almost "mass produced" recently, coming out in a rapid flow, containing innumerable loopholes, internal contradictions. These practically unavoidable deficiencies and disharmonies and the uncertainties of the state organs - which have been partly related to the quality of legislation - have opened up a wide area for those "fishing in troubled waters", for the obtaining of illegal advantages and incomes.

And the privatisation of the state property was launched without a concept clarifying the fundamental questions and the necessary institutional and regulation conditions also evolved only slowly and through a number of amendments. Notwithstanding the assumed the good intentions of those involved in the preparations for decision making and of the decision makers; who - and how - could have prevented the occasional success of efforts contrary to the public good and the attempts to gain illegal advantages. By today the privatisation process has practically been completed and so in this area the possibilities of abuse have contracted substantially.

The lessons drawn from the audits performed by the State Audit Office

The State Audit Office - as do the corresponding organisations in other countries in general - controls the legality /regularity/ expediency and effectiveness of the expenditure of public moneys.

Over the past ten years we have found - smaller or larger - breaches of the laws and regulations, inexpedient management, less than appropriately considered decisions, in almost all areas of the management of public moneys. Despite irrefutable facts, in the predominant percentage of the explored cases it is not yet possible to decide whether the large number of breaches of the law and regulations result from a lack of expertise, the lack of clarity of the legislation, from carelessness, or perhaps pre-meditated motives, financial or other interests.

The most critical areas include the financial management of local governments, the operation and decision making mechanism of the privatisation organisation, the operation of the so called extra-budgetary funds as well as the supporting of various public foundations and the expenditure of their funds.

The fundamental source of the problems in this areas is still the fact that - owing to its faults and deficiencies - the legislation adopted to date, the regulation of the procedural and decision making regime does not impose appropriate restrictions on efforts aimed to enforce partial interests. There are no regular and efficient external professional controls operating either, and the efficiency of the built-in internal controls is also rather poor.

The legal regulation of the central budgetary subsidisation of local governments and of the whole of their financial management is a lot more complicated and a lot less mature even than other regulations in general - it is not adjusted to the highly differentiated material and intellectual /expertise, staffing/ resources of the various local governments.

In the area of the privatisation of state property - as I have already mentioned - the long standing and almost unrestricted autonomy of those involved in the preparation and the making of decisions - or, rather, the fact that they are often entirely "left to their own resources" - has provided room for the pursuance and enforcement of efforts out of various motives and interests.

In the tendering system /in the process of bidding, evaluation and granting/ of the aids available from the extra-budgetary funds the normative requirements have only slowly gained ground at the expense of the freedom of deliberation.

In the case of the public foundations, central regulation of the available subsidies has been missing for years and many of such foundations have still no internal regulations at all, their boards of trustees often do not prepare annual budgets and do not discuss the annual reports on their activities.

Each year the SAO has been reporting the explored violations and the deficiencies of the operation of the institutions to the Parliament and to other organisations authorised to take actions and it has even been submitting proposals concerning the nature and the contents of the necessary actions.

The legislative power, however - primarily owing to the very heavy work load associated with the system change - has been capable of taking in these proposals only slowly and always lagging behind a year or two. Disciplinary actions have been implemented with respect to only about 10 % of the organisations concerned. Besides the recognition of self-interest there is practically no mechanism that could enforce the elimination of faults and deficiencies associated with efficiency and performance. We are hoping, however, that in the wake of the stabilisation of the social and economic conditions, the legal regulation and the institution system faster progress may be made in this area as well.

The economies in transition, in the process of the construction of the legal, institutional and other constituents of democracies governed by the rule of law and of market economies, are in a lot more difficult position from the aspect of combating corruption than are already consolidated, democratic states. And here I do not primarily mean the lack of experience, mature and advanced methods and means of countering corruption. I refer much more to the large volume of these phenomena resulting from the aforementioned features of the transition phase, the large degree of uncertainty of the judgement of these phenomena and the problems of "manageability".

The first and most important task seems to be the consolidation of the legal and institutional framework of the economy. The improvement of the quality, the degree of harmonisation and the practical applicability of laws and other statutes, the clarification of the scopes of power and

responsibilities of institutions and the further improvement of the personal and technical conditions of the performance of the tasks. At the same time the complete implementation of a system for the monitoring of the enforcement of the legal norms and its feedback mechanisms will have to be continued and completed.

For the citizens, the actors of the economic and social life, therefore, the predictability and the consistency of the state should be proven. They need rational, practicable and persistent regulations imposed by the state, proper and disciplined operation of the institutions, consistency in the practice of calling entities to account for the performance of their obligations. The still observed uncertain treatment of legal norms, and what is even more harmful, their "flexible" treatment - as influenced by various factors - should be done away with, along with the contradictions between the legal framework and the detailed regulation of the implementation as well as the delays of procedures and decision making processes.

All of our actions should be governed by the recognition that actors of the economy and citizens may be expected to behave in compliance with the law and with ethical norms if the institution system, the manifestation of the state, also operates like that. This is the only way in which the public morale, undermined by the "socialist relations" may change and no longer tolerate the evasion of the law and corruption.

The consolidation process has commenced. Over recent years the number of amendments made to hastily adopted laws, their harmonisation and the incorporation of the requirements of the EU norms has declined. A number

of laws have been introduced to reduce the possibilities of economic abuse /including the laws on the establishment of the Hungarian State Treasury to manage the cash flows of the central budgetary organisations, on the regulation of public procurements, the prevention of "money laundering" closely associated with organised crime, etc./ . This process is far from complete as yet.

Furthermore, the creation of interest in "legalising" activities one of the priority endeavours in the repression of the black economy. It includes the reduction of the taxes and contributions payable by businesses on the employment of labour, the reduction of the bureaucratic burdens borne by entrepreneurs etc. Initial steps have been taken in these areas as well.

In its own area the State Audit Office also makes efforts to improve the efficiency of its controlling activities by regular training of its personnel, by the improvement of its audit techniques taking into account the EU standards, by more carefully focusing its activities and organising its work. Our strategic goal is to extend the auditing - by ourselves or by external audit firms - of the annual budget reports of local governments and the central budgetary organisations, to cover all of these institutions.