

Car tolls must be implemented urgently – with appropriate compensation

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There is a very serious social injustice in the use of private cars, but a solution that benefits society as a whole is possible.

According to an [official government document](#), external costs of transport in Hungary are equivalent to 6 percent of GDP (around 3,000 billion forints per year). According to [other calculations](#), these costs can amount to 13 percent of GDP. But even the lower figure is a huge sum.

External costs are those costs that are not paid by the person who causes them, but by the community as a whole. In the case of transport, for example, these costs are calculated by adding together the taxes and charges paid by transport users, government expenditure on transport (e.g., road construction and maintenance) and the costs of environmental and health damage caused by transport. If transport users' contributions do not cover these costs, external costs arise. External costs are paid by all of us, for example through increased health expenditure or lost working time due to illness, or through higher food prices due to droughts caused by climate change.

In line with the principles of the market economy and “the polluter pays” principle enshrined in [the EU Treaty](#) and in [national law](#), external costs must be internalised, i.e. included in the prices. Otherwise, there will be serious economic and environmental damage and grave social tensions.

In the following, we describe in simplistic terms how socially unfair the current situation is in Hungary with regard to cars, and propose a solution.

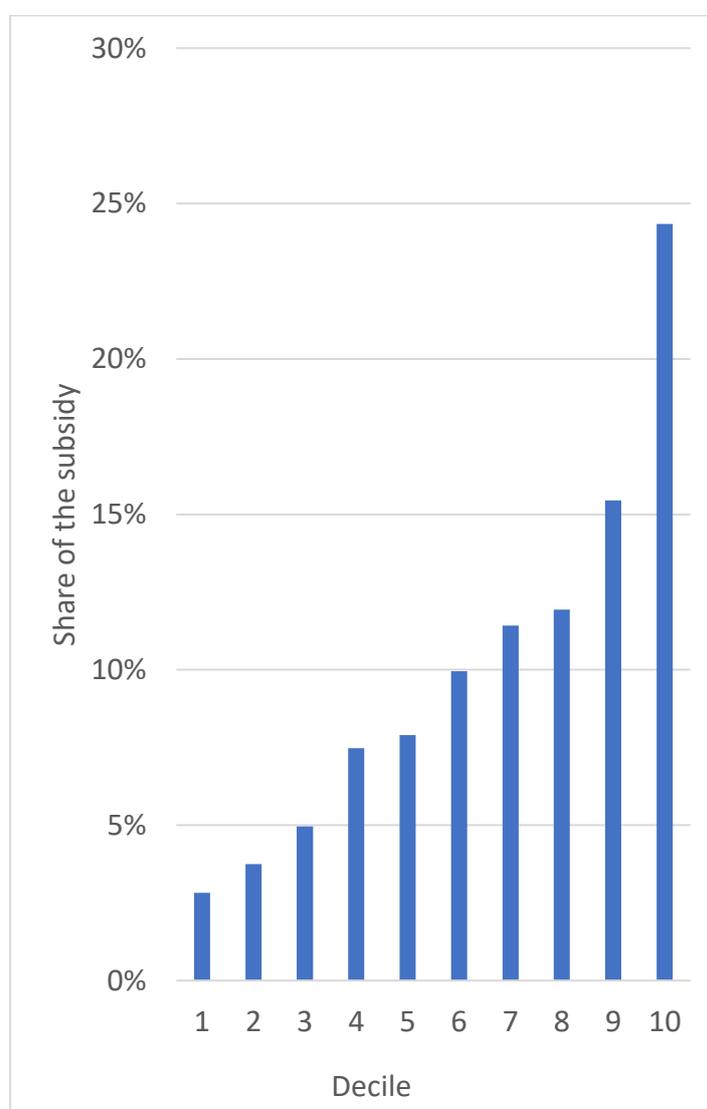
According to KSH (Hungarian Central Statistical Office) data, in 2018, the Hungarian population spent a total of HUF 1,281 billion on buying and operating cars, but of this amount, the richest 20 percent spent HUF 510 billion, or 40 percent, while the poorest 20 percent spent only HUF 84 billion, or only 7 percent.

Household expenditure on car ownership and operation by income decile in 2018

Decile	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	Total
Billion HUF	36	48	63	96	101	128	146	153	198	312	1281
Percentage	3	4	5	7	8	10	11	12	15	24	100

According to a 2019 study commissioned by the European Commission, [Sustainable Transport Infrastructure Charging and Internalisation of Transport Externalities](#), annual external costs of car use in Hungary total around HUF 2,500 billion. Supposably, these external costs are distributed across the population deciles in a broadly similar way as the expenditure on cars. Accordingly, the richest 20 percent of the population receive around HUF 1,000 billion a year in subsidies from society to buy and run their cars, while the poorest 20 percent receive only HUF 165 billion.

Subsidy rates for the purchase and operation of passenger cars per income decile



The abolition of this extremely unfair subsidy system cannot be postponed: the HUF 2,500 billion subsidy must be abolished by the state by including it in the prices with an appropriate external cost charge. At the same time, the entire revenue should be returned to the

population in equal monthly amounts as compensation, except for the richest 20 per cent. In this way, 80 per cent of the population (i.e., around 7.7 million inhabitants) would receive compensation of HUF 325,000 per person per year (i.e., a family of four would receive HUF 1.3 million per year). As the table below shows, for 80% of the population, such a reform would be financially worthwhile. The poorest would be best off and the number of people in financial need would be greatly reduced. And the richest two deciles of the population would not bear an unbearable burden, as their average annual net per capita income is HUF 2,330,000 and HUF 3,745,000 respectively, [according to the KSH](#).

Average per capita external-cost payments, compensation, and the difference between them per decile

Decile	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
Payment of external costs (thousand HUF/person)	73	98	129	195	206	260	297	312	403	635
Compensation (thousand HUF/person)	325	325	325	325	325	325	325	325	0	0
Difference (thousand HUF/person)	252	227	196	130	119	65	28	13	-403	-635

The reform would significantly reduce pollution from motor vehicle traffic, which would mostly benefit poorer people (in addition to children and the elderly). It is the poorer people who live in the most polluted areas and are generally the least able to protect their health in other ways (such as eating well and exercising in clean air). In cities, their homes are mostly located in areas with the lowest proportion of public green space, one of the main reasons being that almost every foot of public space has been paved over to make room for moving and parking vehicles. And there are studies showing that people are much healthier where there is green space near their homes. The importance of this latter factor is increasing with climate change, as heat islands are formed in areas covered by asphalt and vehicles during – the increasingly frequent – heat waves. (The natural ground surface of a tree-covered area can reach a maximum temperature of 25 degrees Celsius on a hot summer day, while bare asphalt can reach 60 degrees Celsius and the surface of a black car can reach 70 degrees Celsius.) All these disadvantages place a disproportionate financial burden on the poor, through additional health costs and lost working time.

Finally, the question of how to collect the external cost charge on cars remains. Although at first sight raising fuel taxes may seem the simplest solution, it is practically impossible. The main reason is that it would lead to an enormous increase in fuel tourism and fuel smuggling, which would result in significant extra traffic and the accompanying pollution and would deprive the Hungarian public finances of substantial revenues. Furthermore, the external costs incurred are only partly proportional to fuel consumption: they depend to a large extent on the environmental classification of the vehicle, its weight (for example, urban SUVs would be subject to a much higher charge than an average car), and when and where the vehicle is travelling (for example, the external costs are not the same off-peak as on-peak, and not the same on a third-rate road between two villages in the countryside as in the centre of Budapest). For all these reasons, the introduction of an electronic toll for all routes (as already paid by lorry drivers in many countries of the world, including Hungary) seems the most appropriate.