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An interview with Csaba Csaki, Rector,  
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Budapest, Hungary.

# EASTERN EUROPE IN THE 1990s

➤ It is well known that the dramatic changes in Eastern Europe will have far-reaching effects in Eastern European countries and around the world. However, the characteristics and dimensions of these effects are obscure. Consequently, *CHOICES* is pleased to include this interview with Csaba Csaki, Rector of the Budapest (formerly Karl Marx) University of Economics. His training as an agricultural economist, his continual contacts with policymakers throughout Europe, and his study of events in Europe, and how they might unfold in the future, provide him with a unique foundation for discussing Eastern Europe in the coming decade.

The interview was conducted on December, 14, 1990 by Ed Rossmiller, Director of the National Center for Food and Agriculture Policy in Washington, DC, and by Lyle Schertz, Editor of *CHOICES*.

**CHOICES:** How far have Eastern European countries moved toward free markets?

**CSAKI:** They have taken only the first steps. The last few months have proved that it's easier to hold free elections than to change from command economy to free markets.

**CHOICES:** Have some countries moved quicker than others?

**CSAKI:** Yes. You can already see certain division among these countries. I would place in one group—Poland, Hungary and Czechoslovakia. They have taken very significant steps toward a market economy. However, even in these countries what exists today is not more than quasi markets. In contrast, Bulgaria and Romania have just started to make changes. But there the situation is much more complicated.



**CHOICES:** Will the transformation toward market economies succeed in all of those countries?

**CSAKI:** I'm optimistic that it will. We in the region have an historic opportunity and I believe that finally the transition will bring the results. But, of course, the speed and the degree of the success depends upon many, many factors—the countries themselves, and also conditions and opportunities in other countries.

**CHOICES:** As you see it now, how does the time span for adjustments to free markets differ among countries?

**CSAKI:** I would say that definitely Czechoslovakia and Hungary have the best chances. There, I think that it's possible to develop working markets in two or three years. Poland also has a lot of potentials and has made important steps.

Poland's economic and social problems, however, are more serious and greater than the problems of Czechoslovakia and Hungary. There I would say five-six years is a minimal time period for full transformation to a market economy. In the other two countries, everything can happen. The future is very uncertain.

**CHOICES:** Is it possible for these countries to change course and move back to command economies?

**CSAKI:** Such a course is not a realistic possibility especially in Hungary, Czechoslovakia and Poland. Of course, it's possible to go back as a result of outside forces. But I don't believe that this is going to happen.

**CHOICES:** What does the term "market economy" mean to an Eastern European?

**CSAKI:** It means that the main commanding ground of the

economy is the market and not the decisions of the planners or the discussions of a few people somewhere behind closed doors.

**CHOICES:** Does government still have a role?

**CSAKI:** Of course. But it should be a different role than in a command economy. In a command economy, the Government is both a player and a judge. Yes, and even the caretaker of the "playground." In contrast, it is hoped that in a real market economy, the government remains as a judge and a caretaker who sets the rules but, not a player. If the government also plays, who sets the rules? That's ridiculous!

**CHOICES:** Do the governments have the capacity to set the rules of a market system—grades and standards, market information?

**CSAKI:** I hope, yes. There are many examples of successful market economies. So we can draw a lot of information from those sources. I do not believe that the capability of the governments is a serious problem. The major problem is the willingness and the strengths of the governments to do things that need doing and to not do other things. It's quite clear what should be done to create free markets. The question is whether a government is ready to take the required steps to create market economies even though these actions could create problems—social and political. Some West European economists, relatively left-wing politicians, say "You know that the market economy is terrible, the market economy is not human, there are losers. Why do you want to have a market economy?" My answer is, "We know how terrible is the market. But we know also the terror of command economies. We know the system where there are no markets at all!" Eastern Europe needs a real market—an instrument which measures performance and which creates losers and gainers on the basis of some sort of rules and measurable performance. Command economies create gainers and losers based on subjective and autocratic decisions, instead.

**CHOICES:** How do countries make this transition in ways that avoid having so many losers that in turn cause so much political turmoil that the transitions are aborted or reversed? Obviously, there is a very delicate balance.

**CSAKI:** This is actually the crucial dilemma of the transition. It is impossible to make the transition without losers. That is quite clear. Some suggest that in the past everybody in Central and Eastern Europe was a loser except a very narrow layer of the society. With the present transition there will be definitely more gainers who, in turn, will be supporters of change. The role of markets in creating a new approach to work and performance should not be overlooked. The demonstration effect of "losers" in the markets can have important effects on work habits and product quality. However, it's a very difficult task and it's not possible to anticipate how we will be able to manage.

**CHOICES:** And these changes are going to be in the context of democracies?

**CSAKI:** Of course, the transition must be done in the context of democracies. I hope that the countries stay strictly with the rules of democracy and not resort to the use of other political approaches. This is what makes the Eastern European's transition a very unique task. We



***“It’s quite clear what should be done to create free markets.”***

cannot use dictatorship. We are fed up with autocracy. Therefore, the challenge is to accomplish a very difficult economic transition while at the same time achieving a very difficult political transition.

**CHOICES:** What about safety nets? Is there any significant move to provide assistance to those who become unemployed?

**CSAKI:** In most of the countries there is a government unemployment payment scheme which is not big money. And decisions are already made to give some compensation to low income people. No question, some people will have a lower standard of living for some time. We will be able to create a more effective safety net when we have money for it.

**CHOICES:** Yet with a democracy, you will be able to sustain the movement to market economy even though those people have a lower standard of living?

**CSAKI:** I hope, soon we will have groups who are able to improve. But they are not going to be the majority. We hope that the change also will be strong enough to prove for those who are losing if you do something differently you can join the other group. And, of course, as a part of that, we have to guarantee a minimum income level under any circumstances just because of the social and political importance.

**CHOICES:** Will that guarantee be in the form of money, food stamps, or something else?

**CSAKI:** There may be retraining allowances, unemployment allowance for a certain time plus more money to start a private business.

**CHOICES:** Can anyone import anything they desire?

**CSAKI:** Not everything. But imports were liberalized. And I would say that the import liberalization a year ago was one of the most successful moves of the Hungarian Government a year ago. We are complain-



***“It is impossible to make the transition without losers.”***

ing. But we should not forget that Hungary has \$900 million hard currency trade surplus at this moment. After 30 years, this is the first time we have a zero current account balance.

**CHOICES:** What are you selling?

**CSAKI:** Practically, most of the Hungarian industry was able to transform a large part of their activities from East to West. Many of the companies never exported to the West. They made the change in a very interesting way. Instead of producing finished goods for the Soviet Union they started producing parts mainly for Germany and Italy and became partners of big companies. No one believed that this could be done. Fortunately, the government was busy with politics of other issues and they didn’t get in the way. The actual macroeconomic indicators of Hungary are not yet reflecting these changes. The statistical system has not moved and there are lags. There are lots of problems. But these are facts that make me optimistic especially if we could get some debt relief.

**CHOICES:** What can the United States do to enhance the probability that the transitions to market economies will succeed?

**CSAKI:** Above all else, Americans should understand the problem quite clearly. It’s quite clear that there are tremendous difficulties. The countries of the region are the victims of a certain historical period. Actually Central-East Europe was given almost as a gift to a certain world power and, of course, at that time existing market economies were destroyed. The cost of destroying market economies is now more evident. We understand now, that it is more difficult to rebuild market economies than it was to eliminate them. Therefore, these countries deserve attention and help. Their problems cannot be treated like the problems of Latin America. I believe the accumulated international debt of Eastern Europe mainly relates to historical



***“We are fed up with autocracy.”***

***“We cannot stand alone in the center of Europe again without political protection from forces of the east.”***

events and not to the misbehavior of the peoples of the region.

**CHOICES:** What should that understanding lead to in terms of steps taken by the United States?

**CSAKI:** The debt problem of Eastern Europe should get special treatment. I don't believe that a desirable pace of transition can be reached without treating debt problems in a *specific* way. I underline the word specific. Classical debt rescheduling or defaults are not appropriate.

**CHOICES:** Do you mean wipe the books?

**CSAKI:** I suggest a moratorium for a few years at least for the interest.

**CHOICES:** Restructuring?

**CSAKI:** Restructuring or other measures because the present debt-service is not bearable.

**CHOICES:** Would you let interest accumulate?

**CSAKI:** It is very difficult to give a short answer. The debt issue has to be investigated on a case by case basis. The debt structure of these countries differ. What I believe is that the debt problems should be confronted by the United States as well as other countries. The magnitude is not tremendously large.

**CHOICES:** Let's turn more specifically to agriculture. How do current farm input and farm product prices, say in Hungary, compare to international prices?

**CSAKI:** Hungary liberalized agricultural prices and at present producer prices are more or less comparable to international prices. Consumer prices relate closely to these farm prices. They are lower than in Western Europe. Agricultural subsidies have been almost fully eliminated. This is a big problem for Hungarian agriculture. The loss of subsidies gave Hungarian agriculture an extra shock. I don't know how our

agriculture can survive these conditions.

**CHOICES:** Will production decline as a result?

**CSAKI:** It is very probable.

**CHOICES:** Will other Eastern European countries such as Poland and Czechoslovakia experience negative production effects as a result of the liberalization of prices?

**CSAKI:** I believe so. Already in Poland you can notice this. And in Czechoslovakia the situation is somewhat different.

**CHOICES:** Are the negative production effects short or long term?

**CSAKI:** I would say short term. We will see what emerges in the longer run.

**CHOICES:** Will Eastern European countries join the European Community? Will they align their agricultural policies to European Community policies which include strong subsidization and protection?

**CSAKI:** There are two aspects of your question. One aspect is a general one. There is a narrower agricultural side, too. The issue of joining to Europe cannot be constrained by any agricultural considerations. The membership of EC for Hungary and Czechoslovakia has historical importance. It is the issue of surviving or not surviving. We cannot stand alone in the center of Europe again without political protection from forces of the east. Historically we have been waiting to be European for thousand years. I want to underline quite clearly, being an agriculturalist, that I share the view of our government and our parliament that we have to try to be part of Western Europe. It is not an agricultural issue.

**CHOICES:** Suppose that you do become part of the European Community and suppose they continue to have their high domestic farm prices. Will production in your country, Hungary, and in other Eastern European countries increase in response to those prices?

**CSAKI:** Of course. If we can get the price advantages of the Common Agricultural Policy (CAP), we will get a new boost. And, we will produce more.

**CHOICES:** Do you anticipate that the current European Community members will be favorable toward memberships of the Eastern European countries?

**CSAKI:** To take the total of Eastern Europe? That doesn't seem to be feasible. One has to address this problem from cultural and political points of view. There is, a main cultural and religious division line that runs along the Eastern boundary of Poland, Czechoslovakia, and Hungary and through the middle of Yugoslavia. This is practically the boundary of the Western European cultural heritage, thus it is the dividing line between catholic-protestant and orthodox traditions. For the areas west of this line adjustments would not be very difficult.

The Hungarian or Czechoslovakian EC membership is not only an issue of our side but it's related to the future of the whole European scenery. One important question is, "What is emerging to the east?" I believe that whatever it's going to be called, it's going to be a big and maybe again an aggressive empire. Maybe with a political system quite different from today's. But with its own ambitions and its own objectives. This prospect raises questions which have to be answered mainly by Western Europeans. Do they want to leave again an empty ground in the middle of Europe which is filled with turmoil, fires, and problems? Do they want it to be a backyard of Germany or a front yard of a newly emerging empire? And I hope that in answering those questions they take into account the interests of the overall Europe—not just the interest of the present European Community.

**CHOICES:** But doesn't this suggest encompassing Poland into the European community?

**CSAKI:** Yes, of course.

**CHOICES:** You're director of an important university. What role has the university played in government in the last 10 years; what is its present role; and what role do you see in the coming 10 years?

**CSAKI:** Our school has been a very important element of the Hungarian transition. Because we were able to create a certain standard of knowledge and teaching already several years ago. I don't want to exaggerate but we were almost the only place in Eastern Europe apart from the Polish schools where western economics was taught in more than just a theoretical sense.

**CHOICES:** You taught about markets?

**CSAKI:** Certainly. We have a marketing department which was established in the early 1970s. We started to teach management at the end of the 1960s. We had the first sociology department in the whole of Eastern Europe.

**CHOICES:** Your role was mostly with students? Or directly with the Government?

**CSAKI:** We were able to create an institution which became famous for relatively free exchange of ideas. Our efforts are reflected in our papers and published documents and in sending people directly to the government. We have four of our faculty members in the present Hungarian Government. The last Prime Minister of the pre-transition Hungary was from our faculty, Prime Minister Nemeth, and we have had

several of our members in other governments in previous years. Some of them have come back and have become very useful members of our faculty. Also, we provided some "shelter" for those people who were critical of the system—a refuge to develop their views.

In the future, too, we will continue this approach—be initiators of ideas, and a known, neutral ground where all parties can express their thoughts.

**CHOICES:** What are the prospects for investments?

**CSAKI:** In agriculture we need direct foreign involvement, first of all in processing including the machinery aspects of processing. In Hungary, already, one U.S. company has opened a packing machinery factory and it is working very nicely. Pepsi Cola and Coca Cola, revolutionized the beverage industry. Already McDonald's has made a tremendous impact on the Hungarian fast food business. They set a standard and you get service. These characteristics are important for the whole food industry.

**CHOICES:** What about investments related to insecticides and herbicides?

**CSAKI:** Our industry already cooperates with several U.S. firms. There also would be opportunities. Other areas for the U.S. to have a presence are farm machinery, seed and breeding animal supply. Don't leave things just to the Europeans.

**CHOICES:** How adequate is the farm production research capacity of Eastern Europe?

**CSAKI:** The crop side is relatively well developed. The livestock side is less competitive especially the feeding technology. In Hungary there are very good crop varieties. Central Soya is already in Hungary. Eastern Europe as a whole is a big market for feed and feeding technologies.

**CHOICES:** Do you expect the demand for food to change in terms of mix or quantity?

**CSAKI:** Both will take place. Probably the total quantity demanded will decline. A more differentiated demand will develop. Higher income will create a demand for foods from abroad. We have liberalized imports. Already you see products like avocados, mangoes, and citrus, while the lower income people will buy cheaper things.

**CHOICES:** Do you expect the production systems will be responsive to the qualities of meat demanded by the people?

**CSAKI:** Of course. At this moment, however, they are responsive to the demand of lower income people. The top quality meat products are mainly marketed abroad while the lower quality at home.

**CHOICES:** You have been very responsive and we appreciate it.

**CSAKI:** I have been very pleased to talk with you. These are serious issues I think it is important the U.S. understand realities in Eastern Europe.

**CHOICES:** Absolutely—some of the greatest events of the century.

**CSAKI:** One thing should be underlined, finally.

**CHOICES:** What is that?

**CSAKI:** *Central Europe mainly needs business, not aid. The best aid is doing business there.*