Interview: Andras Inotai

Hungary seeks Western aid to build up needed infrastructure

Mr. Inotai, deputy director of the Institute for World Economy, Hungarian Academy of Sciences, granted this interview to William Jones in Washington, D.C. in December of last year.

EIR: Mr. Inotai, how do you view the present economic reforms in Hungary, and what particular problems do you see with regard to the upgrading of the physical infrastructure, i.e., roads, railways, communications?

Inotai: Under the Austro-Hungarian Empire, the development of infrastructure preceded industrial development. During the inter-war years, there was also developed a good infrastructure leading to a rapid industrialization after the war. Since then, the industrialization has devoured the infrastructure. Now the process is reversed. Our very antiquated infrastructure hasn't kept pace with industrial development. In a service-oriented development, infrastructure has a primary role. I distinguish three types of infrastructure.

The first is industrial infrastructure. The second is the human infrastructure, including education, management skills, etc. And the third is the institutional infrastructure which includes the entire legal structure. For the physical infrastructure, you need a lot of capital. With regard to the human infrastructure, your rate of profit on investment is carried over a much longer period of time. The institutional infrastructure can only be created within the country.

EIR: What are the demands for the first of these, the industrial infrastructure?

Inotai: The basis for the physical infrastructure would be the development of a rapid rail-based transit system. From Vienna to Budapest, there is a system of electrically drawn trains. Also to the Soviet Union. There were plans during the 1970s for the development of a highway from the Baltic to the Mediterranean through Poland, Czechoslovakia, and Hungary to Yugoslavia. But these remained largely on the drawing board. A major highway is planned from Vienna to Budapest during the next five years, to be completed by the 1995 World's Fair which is likely to be held in both Vienna and Budapest. Previously, Eastern Europe was looking to the East. Now we are looking more toward the West in our development plans.

EIR: What relationship would the new Hungary have to the Council on Mutual Economic Assistance [CMEA]?

Inotai: Actually there are two schools of thought on the integration question. One school sees CMEA integration as primary, after which there would follow integration with the West. A second school of thought envisions first integration with the West and then inter-CMEA development. All the East European countries have the same basic economic structure, and therefore don't have much to offer each other. I don't believe that it is possible to develop ideas for East European integration alone. However, a more elaborate East European division of labor is highly likely, if and when integration with the West brings results.

EIR: How will infrastructural development be financed?

Inotai: During the restructuring period, it must come from the outside. The best possibility is the European Investment Bank. There is however a political bottleneck in that their resources are only for the use of members of the [European] Community, except for special projects in the Mediterranean countries. The French have proposed that the EIB be allowed to finance projects in Hungary. The yearly budget of the EIB is around 10 billion ECU, with 700 million ECU earmarked for outsiders. If Hungary could get 100-200 million a year of this for the next five years, it would be a substantial contribution.

The main question then is how to implement these projects. . . . There must be a regional effort. With regard to the human infrastructure, however, each country must be dealt with individually. In Eastern Europe most of the countries belong to the Catholic world. Witness the role of the Roman Catholic Church in Poland, Czechoslovakia, and Hungary. Other countries have a different culture. The countries should not be treated as a homogeneous entity.

EIR: What type of infrastructural projects would be needed for Hungary?

Inotai: One important item would be the construction of more bridges on the Danube. The Danube cuts Hungary in half in a north-south direction. Outside of Budapest there are only three bridges over the Danube. The other seven are located in Budapest. In the north, the Danube cuts westward towards Vienna, serving as the Czech-Hungarian border for that part of the country. Here there is only one bridge. More bridges would be absolutely necessary in order to create greater possibilities for an increased flow of goods within the country. Transportation costs could then be cut and environmental demands met.

EIR: What is your situation with regard to the energy supply?
Inotai: Fifty percent of Hungarian energy resources are internal. We have modest oil and natural gas resources and low-quality coal. The rest has to be imported, primarily from the Soviet Union. Now it's clear that the Soviets can't deliver the required amounts to the CMEA countries. I favored making a common infrastructure with Austria and some other West European countries for energy needs. For structural reasons, you can't shift your machinery inputs, but you can shift your natural resources. In the 1970s the Adria pipeline was built, going through Czechoslovakia, Hungary, and into Yugoslavia, ending up at the port of Rijeka. At that time oil prices were falling and it would have been useful to use the pipeline for importing Mideast oil. Unfortunately, we did not carry through the agreement with the Yugoslavs. We also have seasonal energy trades with Austria. In the winter, we can supply them with energy and in the summer, their hydroelectrical power starts to function, and they export energy to us. This collaboration could be developed further.

EIR: Do you think Hungary will be facing a food shortage this winter?
Inotai: On the contrary. The main problem Hungary will be facing is a surplus of food. The restrictive EC policy has hurt the Hungarian food exports. During the 1970s, Bulgaria, Poland, Romania, and Hungary had an export surplus in food products. During the '80s Hungary was still a major exporter. There is no food shortage, although we will have a problem with inflation. In 1988 we had 16% inflation, mostly because of the Valued Added Tax. We have now cut subsidies on food items, although these are still maintained on heating, rent, and communal services. Subsidies on consumer goods have been cut. Some milk and flour subsidies are still maintained, but all the others will be knocked away as a result of the new agreements with the International Monetary Fund. Inflation was at around 20% during 1989 primarily due to the federal budget deficit and to unforeseen wage increases. The wage increase is more a result of political rather than economic factors. In certain areas, monopolies have raised prices. Companies operating at a loss are now paying high wages. Heavy industry has a very strong lobby group in Hungary. Opposition from these Stalinist lobbies has not been overcome. It is not the ownership question in itself which is important, but rather the need of a de-monopolization of the Hungarian economy.

EIR: What economic measures do you see as necessary for reforming the Hungarian economy?
Inotai: First of all, it is important that there be a liberalization to increase competition. Secondly, there must be a reform of ownership and a breakup of the big companies, where feasible. Thirdly, we must encourage the rise of small companies and cooperatives.

EIR: How do you think the upcoming elections will turn out and what direction will that affect economic policy?
Inotai: The Democratic Forum will probably be the winner in the upcoming elections. They have strong support in the countryside. Although it is improbable that any two parties will get 50%. We might even have a three-party coalition, which will of course be a very weak government. Therefore the elections in March will give us some kind of coalition and, therefore, a weak government. We now have numerous parties. There is the Democratic Forum, the Liberal Democrats, two new parties from the transformation of the Hungarian Communist Party, (the Reformed Socialists grouped around Poszgay and the Hungarian Socialist Workers Party grouped around Grosz), traditional parties like the Smallholders, a Social Democratic Party (two factions), the Volkspartei, and the Christian Democrats. There are other parties, but these are the ones which will probably get above the 5% limit needed to get into the parliament. We have a lot of innovative talent in Hungary. A coalition might have a 50-60% majority. There will be great instability like in the Italian model. The difference here is that the Hungarian economy is so dependent on a functioning government.

The economic program of the new government will probably hurt heavy industry and the Stalinist lobby. They have a vital interest in exporting to the Soviet Union, an export which is considerable, as well as advantageous, since exports to the Soviet Union have been paid in a very short time. The government wants to substantially limit the export to the Soviet Union. An instrument to achieve this would be to revalue the forint [the Hungarian currency] and stop exporting subsidized goods to the Soviets. The future of Hungary depends on how successful the government is in wielding power over the industrial (and agricultural) lobbies.

One-third of the industrial production going presently to the Soviet Union and the East European countries in the framework of the CMEA would probably respond to limited incentives for exporting to the West. Another third could be transformed into competitive production by larger amounts of investments and technology transfer. In this field, direct capital investment is expected to play an essential role. Then there only remains one-third which might cause a political problem.