

DEBT TRAPS AND THE CHALLENGES OF CATCHING UP:  
PAST AND PRESENT IN HUNGARY (Tamas Fleischer).

This paper will examine some influences of the debts of the past on present tasks, with special emphasis on the conditions of structural adjustment. However, in my opinion "debt" should not be taken, within this framework, to cover external financial debts exclusively, but should be set within an emphatically wider context. I shall first review some of Hungary's major accumulated debts.

\*Internal economic debts:-

- The lack of internal infrastructure.
- The lack of proper maintenance of buildings and production equipment.
- The ignorance of technological innovation.

\*Internal social and political debts:-

- Towards socially deprived groups.
- Towards underdeveloped regions.
- Towards persons persecuted for political reasons (eg. those who had property confiscated).

\*Internal environmental debts:-

- The health conditions of the population.
- The condition of environmental elements: air, water, soil, wildlife.

\*External environmental debts:-

- Influences extending beyond the borders.
- Global issues

\*External moral and political debts:-

- Admitting past roles.

\*External economic debts:-

- External infrastructural debts (missing links).
- External financial debts.

### The Internal Debts.

Even without a detailed analysis of individual types of debt it is nonetheless fairly clear that any attempt to correct the accumulated problems of the past by "undoing the inequalities of the past", the singling out of scapegoats etc., is a false starting point and would lead to an unending series of conflicts, irrespective of whether the issue to be dealt with is social, economic or environmental. This does not, however, imply that a clear picture should not be formed of the past, of its processes, of the present situation and of the debts. A clear, thorough analysis of the situation is primarily called for in order not to commit the same mistakes again and in order to direct ongoing processes without accumulating further internal debts.

The main task is to consider our debts as given and to chart a navigable path and set objectives from there. In contrast, political actions which try to revert to an ideal point, to "the" period prior to which the mistakes were made, in order to reassess past history, seem to enjoy considerable political backing in all Eastern European countries.

### External Economic Debts.

The management of the external debts differs from the above, especially in the case of countries where, compared to the creditor, the political and economic situation of the debtor nation has remained unchanged. In these cases the one-sided re-assessment of the past would, on the one hand, risk future loans and, on the other, it could only be achieved in any case in the form of a request.

In the following I shall discuss a few details concerning only external economic debts.

#### \*Infrastructural debts.

Infrastructure heads the list of backwardness in the Eastern European countries that immediately strikes even the casual Western visitor. I shall here review the partly realistic, and partly simplified, theories and myths concerning infrastructure, (or its lack).

On the level of commonplaces the problem is generally expressed as follows; in the Eastern bloc countries the building of infrastructure has been neglected in general and this poses a basic obstacle to the building of market links. The Western investor is facing problems of being unable to make phone calls, and with the difficulties and slowness of transport and communications between the capital cities of Eastern Europe and of the developed world. Consequently there is an abundance of offers, often supported with loans, for paving the way for market links by establishing and broadening the links now missing between East and West, including railway lines, highways and telecommunications between Vienna and Budapest. Similar plans could naturally also be quoted from Prague and Warsaw.

At the same time, an in-depth analysis clearly shows that in these countries the infrastructure was not merely neglected, but rather that radial networks of infrastructure, conforming to the centralizing power, were established, and horizontal links e.g. between individual provinces or cities were simply not built if their course did not correspond to the trajectories necessary for hierarchic control. This type of development policy is valid not only for the visible networks of transport and communication: similar principles can be demonstrated in the establishment of single-centre networks for education or trade.

These days when we are inclined, often with the aid of loans, to link the capitals of Eastern Europe with the Western centres, the lack of internal links within individual countries, as well as the weakness of links between these countries is not seen as a similarly grave problem. This is in spite of the fact that the infrastructural background to potential internal markets and to adjustment could best be provided by a multitude of internal links. What is in effect happening is that the strings hitherto pulled in Moscow are now being offered for example to Brussels, while the infrastructure needed to generate real changes in the internal structure remains neglected. Existing hierarchic networks are remaining dominant in individual countries, enabling the "new" power structure, once again, to be based on them.

To quote but a single example of the presence of this structure on a European scale, let us take a look at the custom tariffs system established along similar principles. While the presently existing regulations make East/West commodities exchange cheaper for all Eastern European countries (owing to existing and planned agreements), tariffs constraining East/East trade have remained unchanged. It would seem a logical step for those former East Bloc countries which show a similar standard of development and structure to make at least as great an effort towards a unified Europe without borders, as these same countries expect from themselves and from others in the fashionable slogan of East-West links.

#### \*External financial debt trap

Financial indebtedness can be approached from several aspects in terms of The Other Economy.

One can discuss at this point various proposals about the new strategies of handling the debt crisis. I would like to make it clear that I personally consider it unwise for a representative or citizen of an indebted country to raise this issue since reasoning will inevitably lead to the conclusion that these debts should be annulled and this calls for mutual agreement even if garbed in an extremely scholarly explanation.

The most often repeated argument is that there has been a net capital outflow towards the developed countries from the indebted countries for at least one and a half decades. This constrains vital imports and renders development impossible for these debtor nations and also constrains the possibility of further exports to these countries for the creditors, which in turn

restrains entire world trade. Consequently it is also in the interest of the developed countries to write off present debts.

It must here be emphasised that this line of reasoning is not alien to traditional Keynesian economics. The economic system encompassing producers, which invariably led to over-production crises within individual national economies, was expanded into a system which integrated producers and consumers into a broader system in which the state -- by directly increasing demand and by wages paid through the increase of investments -- took great pains to ensure that the other side of over-production i.e. under consumption (or rather lack of equilibrium) should not occur\*. In terms of systems theory the phenomenon of the debt crisis represents the same problem at the supra-national level, the only non-negligible difference being that the institutional depository of redistribution between individual states, a supra-national state, does not yet exist.

(\* It is an entirely different matter that the economies stimulated in this manner faced another obstacle within 2 to 3 decades, namely that their model of consumption assumed an infinite capacity for natural resources, energy and waste, which is why this model can no longer be accepted. In this sense, another broadening of the system is called for i.e. for a model which handles not only the producer and the consumer but also environmental resources as an internal element.)

In my view the basic question is why no steps have been taken towards a solution that is apparently beneficial for all -- both creditors and debtors. Are there perhaps specific counter interests and has this perhaps been overlooked as an important element?

#### Interest in Maintaining the Status Quo.

The due capital repayment of the Hungarian economy is 2 to 2.3 billion US\$ (7 to 7.5% of GDP), whilst the interest payments is 0.8 to 1.8 billion US\$ annually (3 to 6.5% of GDP). (Pal Gaspar: "The role of resource transfer in the process of the change of economic system" in "Magyarország a világgazdaság rendszereben". INFO-Társadalomtudomány 20, 1992 April, Budapest pp 67-74.) This would imply that the constant maintenance of the debt level would require a drain of existing resources corresponding to about 6-7% of GDP in the form of export surplus or internal savings.

Surplus capital (in a liquid form) evolved naturally in the world economy when in consequence of price modifications in raw material exporting countries a surplus in revenues suddenly developed which their domestic economies could not have absorbed. This occurred in several oil producing countries during the 1970's, and it was basically the surplus capital which accumulated during that period which provided the cheap loans lying at the root of the Eastern European debt problem.

Capital surplus also evolved in countries with a well functioning market economy in which the state did not want or could not create a growth in domestic demand e.g. because in consequence of saturated domestic demand it had to create the conditions of marketability elsewhere for certain goods. In this case, however, we are not dealing with liquid capital, but with the export of already existing equipment and innovations in the form of capital transfer.

Naturally, neither of these situations are to be found in the indebted developing and Eastern European countries; we are in fact witnessing an inverse process, with the main tasks of economic policy dominated by the necessity to withdraw capital to satisfy creditors. An awareness of this situation undeniably entails feelings of stress. This contributes to the fact that more words are wasted on the necessity to export and crisis management than about the necessary objectives of a development policy. Nor is this independent from an internal element of power, namely that the Finance Ministry in the government is able to considerably strengthen its position if it can continuously quote or invoke a catastrophe situation.

The maintenance of a sound atmosphere of panic is also in the interest of potential exporters from developed countries, who are selling goods which are no longer marketable in the developed world, or goods whose cycle is already declining, either because a new generation of wares has already appeared on the market, or because its development has run into a cul-de-sac because it has proven to be uncompetitive. If market forecasts suggest significant cut backs in major branches of industry it is the interest of the state to delay and to blunt the impact of these phenomena: one possible solution is the export of the branch of the industry in crisis, which is still profitable with loan subsidies, even if it is offered to a country of uncertain economic situation, making the complete return of the loan uncertain.

It would be worthwhile to investigate the prospects for maturity of investments offered to Eastern European countries with favourable credit terms. Does there exist a market for the goods produced using modern equipment? Can further research be based on new developments and innovations or is it already clear that they represent a cul-de-sac? Naturally, it should also be explored whether countries, which are not obsessed with the idea that in order to survive they desperately need capital imports (irrespective of content), would also require these goods.

The debt crisis, and the dependency and distress generated by it, can be linked to the export of infrastructural investments with state credit facilities which as suggested above are useful for maintaining a lack of adaptability and a dependency on a central power in certain countries. This tends to conserve present conditions indefinitely as well as enabling a major channel for external influences. One case in point is nuclear energy production. This reached its peak one and a half decades ago, orders for new nuclear plants have been on the decline since 1976. This typical declining cycle should be borne in mind when competing for favourable credits for investment offered.

The paper has hopefully demonstrated that the annual debt servicing arising from external financial indebtedness, although a major problem (which in Hungary corresponds to 10-14% of GDP), is nonetheless just one of the numerous internal and external debts which have been accumulated in the past. What needs to be reconsidered is, whether it should be seen as the most burning issue of economic policy, to the extent that it is now, especially when formulating future priorities.

We know that the debt problem constrains the widening of global trade and restrains the development of indebted countries. It should, at the same time, be clearly seen that the neglect of this problem is not mere carelessness. Rather, major interest groups, and indirectly the whole of the developed world, profits considerably from a situation in which branches of industries in crisis can be marketed and exported more easily. This also involves the export of further economic, social and environmental problems owing to the distressed situation in consequence of the indebtedness.

The global economic context, as well as the moral side, of the debt problem needs to be explored and analyzed, from both the debtors' and creditors' point of view, in order to find an acceptable solution.

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These discussion documents for eastern Europe and the former Soviet union have been produced by the London based New Economics Foundation. The foundation was created as a permanent expression of the principles which have informed The Other Economic Summits (or TOES). The Other Economic Summit met first in 1984 in tandem with the G7 summit. These alternative summits are a response to the failure of conventional economic theory and practice to promote general economic security and human welfare. These documents are part of a series free upon request to individuals and organisations in eastern Europe and the former Soviet Union. If you know of others who would like to receive these documents please contact us.

The first 12 of the discussion documents produced by the foundation are now available as a book "Economic Alternatives for Eastern Europe" (ISBN 0 9509909 6 5). It includes contributions from the ex-civil servant and futurologist James Robertson, Mrs. Maneka Gandhi (former Indian environment minister), Dr. Marek Gruchelski (advisor to Rural Solidarnosc), Dr. Mohammad Suliman (Institute for African Alternatives), the Russian organisation "Ecology and Peace", Australian social entrepreneur Shann Turnbull, engineer and manager John Davis, Jeffrey Gates (US employee share ownership expert), David Weston (Canadian expert on local currencies) and Hunter and Amory Lovins (energy experts).

This second collection of papers includes a rather ironic assessment of environmental consciousness in eastern countries by the Hungarian economist Tamas Fleischer, a ground breaking paper by the eminent economist Herman Daly on the ecological limits to economic activity (first presented to TOES 1984), a discussion of the rationale of alternative measures of the impact of economic activity (by Victor Anderson) and a consideration of the changes in the management of human resources required, in order to develop a truly sustainable enterprise culture (originally presented in Prague by Nick Robbins in 1991).

The final section of this collection is devoted to a discussion of the immense problems for the global economy presented by the international debt crisis and its implications for eastern Europe and the former Soviet Union. This includes a brief history of the crisis and some discussion of suggested solutions by the Hungarian economists Karoly Lorant and Laszlo Kapolyi, an open letter to the G7 leaders meeting in Munich from European Non Governmental Organisations and a wider consideration of the "debts" of the past in today's Hungary by Tamas Fleischer. We hope there is something here of interest to you.

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# Economic Alternatives for Eastern Europe

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