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AUTHOR	Levine, Michael
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ABSTRACT

This paper examines the economic changes that have taken place in recent years in two central European countries, Hungary and Poland. Findings in the paper are based on materials gathered during the summer of 1998 on a Fulbright-Hays seminar visit to Hungary and Poland and from talks with officials and professors in those countries. Observations in the paper present a general view of what has transpired in the last 10 years of economic change and development in Hungary and Poland; concluding that, although both countries will struggle with social problems into the 21st century, as long as they continue to move toward a privatized market economy and work toward economic and social reforms they will integrate successfully into the European Community. (Contains 33 notes and extensive charts.) (BT)

Hungary and Poland: The Transformation from a Command to a Market Economy, 1989-1998. Fulbright Hays Summer Seminar Abroad Program 1998 (Hungary/Poland).

by

Michael Levine

Hungary and Poland: the transformation from a command to a market economy, 1989-1998

By

Michael Levine

(Recipient of Fulbright-Hays Summer Seminar -- Hungary & Poland)

(September, 1998)

The Objective of these notes is to look at the economic changes that have taken place in two Central European countries, Hungary and Poland. These findings are based on materials gathered during the summer of 1998 on a Fulbright-Hayes seminar visit to Hungary and Poland. These observations are also based on talks and notes with officials and professors in these countries.[1]

In 1989, the Soviet Union abruptly abandoned the Eastern European countries. The Soviet Union didn't collapse until 1991 by which time she had pulled out her troops from Central Europe. This sudden failure of the Soviet Union provided these former satellite countries an opportunity to move from the restrictions of a command economy to the dynamic change brought by a market-based system. These observations will relate a general view of what transpired in the last 10 years of economic change and development in Hungary and Poland.

With all change there is a price to be paid. In Hungary and Poland under state socialism there was guaranteed employment, good pensions, and a national health care system that guaranteed everyone access to medical care. There were also shelves empty of retail merchandise, redundancy of jobs and job skills, lack of freedom of movement to countries outside the Iron Curtain, and a general stagnation in industry and manufacturing.

During the first five years of the transition, the economic costs were seen in real terms, there was an immediate lowering of living standards. Both Poland and Hungary faced a collapsing national health delivery system, a real decline in the value of pensions, and low public sector salaries. This meant that public employees including teachers, professors and public servants had to scramble for second and third jobs to make a living wage.

By 1995, both of these economies began rapid growth. Perhaps, this growth occurred to quickly. Poland was immediately faced with a period of serious restructuring of its heavy industry. The cost was a loss of jobs and lower wages. Her agricultural sector, neglected by the Communist leaders of Poland, is still faced with the need for major economic reform in order to meet the agricultural export challenges from the European Union (EU). They're over 4 million farms with an average size of 4.5 hectares (11.2 acres). More than 30% of the population lives in the countryside. This rural population is in need of solid jobs. There is little industry located in the rural areas of Poland that can provide the requisite jobs.

Like Poland, Hungary has its own unique set of problems. It must struggle with a shrinking Hungarian population and a large national minority citizenry that lives on state welfare. Any attempt to encourage Hungarian families to have larger families through public social incentives has resulted in national minority groups having larger families but staying dependent on the state's welfare system.[2]

When the transition began both countries experienced an immediate fall in income, employment and GDP. The two charts below show the fall of employment and rise in unemployment.

CHANGE IN TOTAL EMPLOYMENT HUNGRY AND POLAND 1990-1994

(Annual average percentage change) [3]

Country	1994 (labor force in thousands)	1990-1994 (cumulative change)
POLAND	14,475	-14.9
HUNGARY	4,045	-26.1

REGISTERED UNEMPLOYMENT HUNGARY AND POLAND (1990-1997) [4]

Unemployment rate (%)

	Hungary	Poland
1990		6.1
1991	11.8	11.4
1992	13.6	13.4
1993	16.4	15.4
1994	10	15.7
1995	10.9	14.9
1996	10.7	13.6
1997	10.4	10.5
1998	9.8	

The Polish labor market is much larger than Hungary. The chart on the Polish labor market shows the overall decline in employment and unemployment. Many people left the work force and received government pensions; they are called economically inactive people. The Population of Poland is 38.7 million. In Hungary, the population is around 10.135 million people and shrinking. Hungary's population growth rate is negative 2.5 percent while Poland's growth rate is 0 percent.

Polish Labor Market [5]
Changes in Employment 1989-1997

Sector	1989	1993	1994	1995	1996	1997
Total	17,746	15,118	15,282	15,325	15,842	15,926
Public	9,633	6,417	6,236	5,980	5,757	5,319
Private	8,113	8,701	9,046	9,345	10,075	10,607

Poland is three times larger than Hungary. Its total area is 312,683 square kilometers. Hungary's land size is 93,030 kilometers. Seven countries border both of these nations.[6] Poland's GDP is $136.66 Billion compared to Hungary's $30.7 Billion. To put some comparison to these figures in 1998 the California State Budget is $73 billion, the Gross State Product is over $800 billion 4 times greater than the GDP of Poland and Hungary combined. California's state population is 33 million.[7]

In 1989, with the Soviet retreat, Hungary was free to move away from the Soviet dominated command economy to a private and free market economy. The immediate result was increased unemployment and a subsequent drop in Gross Domestic Product. GKI Economic Research Co. showed in 1990 a fall in prices to 85% of 1989 prices. The low was reached in 1993. It was during this year that privatization reforms began to take hold and a steady increase in the economy took place. By 1997, the GDP had grown to 90% of 1989 in constant prices. The economy is growing at a real rate of 5 %. GKI's prediction is that during 1999 if economic growth continues the GDP will reach 1989 levels and continue to grow.[8]

Below are GDP figures from Hungary's Ministry of Finance. The Dollar conversions are based on the current value of the Forint at 215 to $1.00. Another aspect of GDP growth is the decline in Inflation that had reached a high of 35% in 1991 and since declined to 14% in 1998.

Hungary's Gross Domestic Product (GDP) [9]

Year	Billion Forints (Current prices)	Dollars in Billions	Previous year = 100 (Comparative prices)	Per capita, forints (Current prices)	Per capita in Dollars
1989	1,710.8	7,957.2	100.4	164,524.00	765.23
1990	2,079.5	9,672.1	96.7	200,634.00	933.18
1991	2,308.4	10,736.7	88.1	223,000.00	1,037.21
1992	2,805.0	13,046.5	95.5	272,000.00	1,265.12
1993	3,548.0	16,502.3	97.3	320,000.00	1,488.37
1994	4,365.0	20,302.3	102.9	423,000.00	1,967.44
1995	5,550.0	25,814.0	101.5	549,000.00	2,553.49
1996	6,604.0	30,716.3	101.0	647,000.00	3,009.30
1997					

1998 exchange rate $1 = 215 forints

Hungary has faced unique historic problems. She lost a large part of her territory, population and raw materials after World War One. The Yalta agreement, the development of a Socialist regime and economy after 1949 isolated Hungary from international developments. In industry, there was a policy of over employment to politically control the economically active population. The sudden change in 1989 was abrupt. Hungary didn't fight for her freedom it simply came. This made the sudden economic and social changes difficult to cope with.

The shifts to a market economy in 1990 allowed Hungary to move away from eastern markets and look toward European markets for development. After the initial drop in production, income and the rise of unemployment Hungary began a positive transition. The transformation in 1989 began in industry with massive layoffs. There were 1.2 million workers employed in the manufacturing sector of the economy. By 1996, this figure fell to 780,000.[10]

This decline in industrial employment represented a new efficiency created by a market driven economy. There was also a corresponding increase in labor productivity. Between 1992 and 1997 there was a 46 percent increase in industrial per capita production value with a corresponding drop in real wages of 40 percent. This meant that industrial efficiency was coupled with an immediate decline in the living standards of industrial workers.

This led to a decline in household consumption (using 1989 = 100). By 1992, household consumption was 92% of 1989 values. In 1996, it fell to 84% of 1989 levels and today it is still below 90% of 1989 values. This loss in household consumption is reflected in consumer confidence. In 1996, it reached an all time low of negative 65%. Today, it has improved to a negative 25%.[11] If Hungary was to become a competitive economy capable of integration into the European Union this transition had to be made. The key to the future is higher productivity, more jobs in the private sector and a rise in real wages.

Hungary has had an advantage in agriculture and forestry. Hungary during the socialist period specialized in large-scale agricultural production. Since 1989, changes have taken place in this sector. There has been a major decline in employment and value of products sold. This resulted in a tremendous lowering of the living standards of people engaged in agriculture. Farmers experienced high inflation, high interest costs, severe droughts, and a shift in ownership from subsidized collectives to privately owned lands. Part of the problem is a reflection in the change of purchasing power of the internal market that declined significantly between 1989-1994. This was also due to a loss of income and farm subsidies.

The decline in agriculture, 1989 to 1998, saw a 20 percent decrease in food to the former Soviet block, a fall in wheat production from 6.5 million tons to 3.9 million and in corn production from 7 million to 5.9 millions. On the positive side, there was a 40 percent increase in exportation of agricultural goods to the advanced European markets. Today, Hungarian agriculture is export-oriented and a source of foreign currency. In 1996 agriculture earned a positive $1.8 billion in foreign exchange balance. My own observations driving through the Hungarian countryside showed a healthy developed agricultural economy. There was large-scale production, new machinery and sophisticated methods of farm applications.[12]

This visual observation of the countryside was in sharp contrast to Poland where small-scale farming is still in existence with over 4 million farms having an average size of 4.5 hectares (11.2 acres). Much of Poland's peasant farmers still use feudal strip farming, hand cultivation, horse drawn plows, and non-mechanized horse drawn buggies for planting and harvesting of crops. This creates a major dilemma for Poland having to many small-scale inefficient farms competing with large-scale collectives and inexpensive imported agriculture products.

Poland must reform the Agriculture sector if she hopes to achieve efficiency in this area of her economy. Hungary's agricultural reforms took place in early 1992. Land was transferred into private hands. Private Individuals now could join new style cooperatives, economic associations or create family farms. 5.4 million hectares of land were affected by this reform involving one million cooperative members, retirees, and inherited landowners.[13]

In addition to making agriculture and industry efficient, Hungary has been working on building new infrastructure. Areas needed to be improved are the highway and railroad system. She must rebuild many of her bridges leading from the west Europe into Budapest to hold the heavy trucks from the European Union.

One area of infrastructure that has been changed is the telecommunications system. The telephone system has been modernized and a nation wide cell phone network developed. This has made the use of computers easier. The principle problem in moving into the era of the information age is capitalization. Many small and medium businesses and individuals lack the capital needed to move into the computer age.

There is a steady flow of foreign capital into Hungary. Large-scale foreign firms have found Hungary to be an advantageous place to invest capital. IBM has constructed a plant that assembles the world's smallest hard drives for notebooks and regular size computers. IBM saw Hungary as a country that has an inexpensive resource base and skilled labor pool. IBM's investment into the private economy is symbolic of the transition from a socialist to a private sector based market economy.

The largest change that has taken place in Hungary is the growing size of the private sector in the GDP. In 1990, it was 23% by 1996 it was 70% and it is predicted to be close to 80% in the year 2002. Connected to the issue of privatization is the formation of fixed capital. The low point was 1988 when it was 90 percent (1980 =100) by 1998 it was 120 percent.[14] By 1996 $14.7 billion of foreign capital investment flowed into Hungary. In the beginning much of this investment financed the purchase of state assets by 1996 the majority of foreign capital was related to privatization. Over 25,000 firms are joint ventures, one-sixth are exclusively foreign owned.[15]

With all this foreign investment, Hungary's largest problem remains its debt service. Today, the gross debt to GDP ratio is 64%.[16] One reason for Hungary's huge debt is the large public service area and pensions paid to individuals. To grasp the enormity of this issue in 1997 there were 3.9 million people employed, 345.9 thousand unemployed, or 4,289,600 economically active persons. There was also 3,511,100 economically inactive person. The rate of labor activity was 55%. The economically inactive persons receive pensions from the government. 55% of the population is working to support 45% receiving government support. This is a heavy burden on the Hungarian State and the working taxpayer.[17]

Couple this with the decrease of the Hungarian population and the concern of Hungarian leaders for promoting an increase in population is self-evident. Will there be enough productive workers in the future to support the population on pensions? Below are population figures for Hungary. Another concern is the low average earnings of Hungarian workers in both the public and private economy. In 1997, the average monthly gross earnings were 67,337 Forint[18] or $313 per month. This low income has led to the rise of the "black market."

One facet of the "black market" or what I call the "gray market" is the process where workers are employed officially in one job and then work two or three other jobs where the income is not reported to the government. The average teacher earns only $150 - 200 per month. To supplement this meager salary teachers either tutor or hold second and third positions. The "black market" is also used in retail exchange. Discounts are often given for cash by small private stores.

Hungary's Population, vital statistics[19]

Year	1980	1990	1996	1997
Population in thousands	10,705	10,355	10,174	10,135
male	5,188	4,972	4,863	4,842
female	5525	5,383	5,311	5,293
Number of marriages	80,331	66,405	48,930	47,000
per thousand inhabitants	7.5	6.4	4.8	4.6
births	148,673	125,679	105,272	100,500
per thousand inhabitants	13.9	12.1	10.3	9.9
Deaths	145,355	145,660	143,130	139,434
per thousand inhabitants	13.6	14.1	14	13.7
Natural increase, decrease (-)	3,318	-19,981	-37,858	-39,000
per thousand inhabitants	0.3	-1.9	-3.7	-3.8
Infant mortality	3,443	1,863	1,148	989
per thousand births	23.2	14.8	10.9	9.9
Average life span				
males	65.5	65.1	66.1	66.4
females	72.7	73.7	74.7	75.1

Low wages are compounded by Hungary's steep tax. The worker pays between 20-43% of his or her gross income in tax to the government. The employer until the social security reforms of 1998 paid another 40% of the gross income to the government's pension system. Under the 1998 law, workers must join a private insurance system. They will pay 22% to the central pension fund and 6 percent to the obligatory private pension funds.

Besides the income and social security tax, there is also a 25% vat tax and a 12 percent health insurance tax.[20] This complicated and costly tax system has caused workers to find creative ways to generate income with out reporting and paying taxes to the central government. People become entrepreneurs because they are taxed at a different level. Doctors who receive a very low salary even before the collapse of the Command economy system doctors found a simple way to enhance their salary and avoid taxes.

They demanded tips for service although public health insurance granted free access to medical care. These tips were not reported. Patients don't know if they tipped too much or to little and whether the service they receive reflect an appropriate tip. Many doctors are moving into private health care where they can charge a normal rate for their services. If a patient pays for services, this fee is not reported since no bill is generated.

The people expect the continuation of socialized health care. This made it difficult for the government to reform the health care system or eliminate pensions. It's a catch 22. High taxes are necessary to maintain social services wanted by the people. The government requires high tax revenues to pay for the services. These high taxes are avoided or rejected by the people wanting the social services.

When the Iron curtain crumbled with no fanfare or effort the people were elated and startled by the new possibilities of shifting to a market economy. At the same time, the people didn't necessarily want to throw out the old social system. They liked their subsidized rents, socialized medical care, guaranteed employment, free education, and retirement pensions. With the shift to a market economy, these were no longer affordable.

During the last ten years, the political leaders have been searching for ways to wean people from the old socialist system and engage them fully in a market-based economy. The new government of Viktor Orbán the youngest Prime Minister will face the tough choices of bringing about reforms of Hungary's social system. These reforms are important if Hungary is to join the European Union in 2002.

These economic and social problems are also being experienced in Poland. Like Hungary, Poland has grown significantly in the last six years. Her real GDP per year growth rate has ranged a low of 3.8% to a high of 7%.[21] This growth has been due to a number of factors. The changes were brought about by:

> There was a liberalization of trade and services. This led to the increase of exports and higher profits to Polish Exporters. The liberalization included changes in a number of laws related to modification in the tax Code, the Custom Act, the Banking Law, the Mortgage Banking Law, a new Foreign Currency Law, a new law on Economic Activity, a new Property Law, and a new Public Finance Law.

Foreign Direct Investment has increased from $12 billion in 1996 to $17.7 billion in 1997. A 47.3 Percent increase in investment by Europe, the United States and Asia.

The share of the private sector has grown to 67 percent of the economy. In 1997, Private sector industry invested 76% more than in 1996.

Government subsidies were lowered to the restructured coal mining, steel production and shipyard sectors allowing for lower tax rates and a simplified tax system.

Privatization is taking place in the telecommunications sector, banking and energy contributing to growth in the Polish economy.

The government is moving to accelerate pension reform. This will have a positive benefit on capital markets and the banking sector.

The government is monitoring macro-economic indicators, including trade deficits, exchange rates and interests rates.

The government is looking for solutions to restructure Polish agriculture to increase efficiency and make it products more compatible and competitive with the European market.

Finally, there is the planned construction of 2,600 kilometers of highways at a cost of $10 billion. This will provide contracts for the private sector and further economic development.[22] This infrastructure development will facilitate commerce with the rest of Europe.

Today, the Polish economy is expanding quicker than many EU economies. However, this growth will have to continue before Poland can catch up with Portugal and Greece, the poorest of EU countries. In 1997, the per capita GDP was $3,500 three times less than the poorest EU countries. To integrate fully into the EU, Poland will have to meet the requirements of the Maastricht treaty. The Budget deficit must be below 3% of GDP, Public debt below 60% of GDP, a stable currency and inflation at a level of 3% or below.[23] Poland's inflation in 1997 was 14.9%, her public debt to GDP ratio was over 60% and her budget deficit was 4.2% of GDP.[24]

GDP [25]					INDUSTRIAL OUTPUT			
Country	1989 =100	Previous Year 100			1989 =100	Previous Year 100		
	1997	1995	1996	1997	1997	1995	1996	1997
Poland	111.8	107	106.1	106.9	112.9	109.7	108.5	110.8
Hungary	89.8	101.5	101	103.9	87.5	104.6	103.4	106

Poland and Hungary have a way to go on the issue of inflation. Poland has been moving quicker to deal with inflation by stabilizing the Zloty and working to steady interest rates.

INFLATION [26]

Previous year = 100

Country	1995	1996	1997
Poland	27.8	19.8	14.9
Hungary	28.2	23.6	17.5

With the lowering of inflation and the growth of GDP, real incomes have risen from 4.8% to 7.2% in 1997. Real wages increased by 9.2% and real social security payments by 4.4%. There has been stabilization in the ratio of pensions to wages at 61%. The hope is that with the rise of real wages and pension reform household savings will increase.[27]

The average monthly growth and salary in the enterprise sector in 1997 was $333. There are 9.3 million pensioners receiving an average of $185/month. Farm pensions are even less than employment pensions.[28] The low pay of pensions leads to black market activities. People on pensions engage in selling goods in flea markets and on the streets as ways of increasing their incomes. This pension problem is similar to Hungary. A large

Poland's Population, vital statistics [29]

Year	1990	1992	1994	1996	1997
Population in thousands	38183	38418	38581	38639	38660
% increase	0.4	0.3	0.2	0.1	0.1
male	18608	18708	18778	18797	18803
female	23614	23701	23868	23903	23929
Marriages (in thous.)	225.4	217.3	207.7	203.6	204.9
per 1000 population	6.7	5.7	5.4	5.3	5.3
Live Births (in thous.)	547.7	515.2	481.3	428.2	412.6
per thousand inhabitants	14.3	13.5	12.5	11.1	10.7
Total deaths (in thous.)	390.3	394.7	386.4	385.5	380.2
per 1000 population	10.2	10.3	10	10	9.8
Infant deaths (in thous.)	10.6	9	7.3	5.2	4.2
per l000 population	19.3	17.3	15.1	12.21	10.2
Average life span					
males	66.5	66.7	67.5	68.1	
female	75.5	75.7	76.1	76.6	

number of non-productive persons living on the public dole being supported by a heavily taxed working class.

The average Polish household consumes about $150 per month. Food accounts for 37% of expenditures, housing 22%, transportation 10%, education and culture 8%, clothing 6%, health, hygiene 7% and other 7%.[30] The large amount of income spent on food is indicative of the low incomes in a developing and expanding economy.

From the above demographic statistics on Poland, it can be seen that in spite of Poland being a 90 percent plus Catholic country, the increase of population in the decade of the nineties has been very low. In the past year, the Catholic Church and their political allies were able to end Poland's abortion laws. Dr. Maciej Kozlowski, Vice Minister of Foreign Affairs told me this summer that while the law has abolished abortions the government would neither enforce the law nor prevent women from visiting the Romanian OBGYN abortion clinics that openly advertise in Warsaw.

The role of the Catholic Church in Polish politics is controversial. The impact on economic development remains to be seen. A major area of needed reform is agriculture. The connection between agricultural reform and the Catholic political demands is very close. Over 30 percent of today's population are rural with close to 24 percent of the active population involved in agriculture on several million small farms. These small agricultural units are inefficient. The Catholic Church receives a large part of its political support from the rural population. The national social-political goals of the church supported by rural members are in conflict with needed agricultural reforms.

Another area of reform being proposed by Poland's Finance Ministry is the current income tax system. Currently, Polish income is taxed at a 19%, 30%, and 40% level. The Finance Ministry is proposing a 22% flat tax on all levels of income. If this proposal goes through in 1999 there will be a 22% and 32% tax rate. In the year 2000, personal income tax will be reduced to 22%. Company income tax will drop from 36% to 22% in 2002.

The argument put forward by Finance Minister Leszek Balcerowicz is that a reduction in tax will provide an incentive to work harder because a smaller portion of earnings will go to taxes. This is the same argument that is being put forth in the United States by Congressmen Avery and Mr. Forbes owner of Forbes. Both of these Americans have stated that the lowering of income tax will increase investments, create jobs and economic growth.

This is debatable because the key to these tax cuts is eliminating exiting tax loopholes. A flat tax would also place a burden of taxes on the lowest income earners. Today, in Poland, the problem is not high tax rates but the small amount of income to reach the highest brackets causing massive tax evasion. The untaxed income is equal to between 15 to 25 percent of gross domestic product.[31]

Opposition labor parties oppose the flat tax policy as undermining their "pro-family tax policies. It might be more effective if the current tax system was stretched out so that it would take substantially higher incomes to reach the 30% and 40% tax brackets. What is important in this debate is the energy and effort being put into reforming and modernizing the Polish economy. This effort is helped the number of Poles that live in other countries including the United States that provide important economic and political links for Poland.

In Central Europe, Poland, and Hungary will continue to be economic leaders in the rapid transition to a market based economy. The current Russian economic woes will slow growth. The predicted growth of GDP in Poland by 6% has been lowered to 5.25% and Hungary's 6% growth has been lowered to 4.75%. In general, the impact of Russia's economic crisis on Europe will be about 5%. German banks will be the big looser in Russia's financial collapse. This may have an direct impact on Hungary and Poland because of the connection between German banks and foreign capital inflows to both countries.[32]

Russia is no longer integral to Poland and Hungary's long-term growth strategy. The impact is short term in fact; "Events in Russia are verging on the irrelevant for Central Europe." The weaknesses experienced in the financial markets of Poland and Hungary is only transitory. What is central to Poland and Hungary's long term growth is internal reform the flow of western investment and trade with Europe.[33]

Poland's rapid move to reform and liberalize her trade and tax codes, the rapid move towards privatization and attempts to accelerate pension reforms have paid off in the economic rewards of rapid and consistent growth. Poland's weakness lies in the need to reform the agricultural sector of the economy and pension system.

Other issues that Poland faces are at a non-economic level. In spite of Poland new constitutional protections of native minorities, they are still treated as second class citizens. I found in my journey throughout Poland that she remains intensely anti-Semitic. This is an irony considering that there are very few Jewish people living in Poland. It is estimated that in Warsaw, eight thousand people have registered as Jews and perhaps up to 30,000 in all of Poland. As long as minorities have to register as such, there will never be true equality in Poland. Registration implies a second class citizen status. What impact this will have on Poland's economic and social development is difficult to predict.

In a similar vein, Hungary must also deal with national minorities residing within her country as well as Hungarians living in surrounding countries. Hungary has a large population of Gypsies living within its borders. A large number of these citizens live on pensions creating an economic dilemma in Hungary's attempt to reform these programs. Any attempt to limit pensions appears to be aimed against national minorities. What I found is that the difference between Hungary and Poland in dealing with national minorities is their respective attitudes.

Hungarians are willing to have a national dialogue on the future of national minority in their economic and social life. The Poles cling to old prejudicial attitudes and have chosen to ignore their stereotypical prejudices towards national minorities. They are insensitive to the inclusion of minorities into Poland as Poles. Today's prejudicial attitude of Poles is not much different from the turn of the twentieth century. This racism on the part of contemporary Poles creates a permanent friction within Polish society.

In conclusion, both countries will struggle with these social problems into the twenty-first century. However, as long as they continue to move toward a privatized market economy and work toward economic and social reforms, they will stay on the track of integration into the European Community. The current global economic recessionary forces may slow the pace of this integration. It is to Europe's advantage to integrate Central Europe into the European market. For with this integration comes the hope of continued future peace in Europe.

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[1] As a recipient of the Fulbright-Hayes summer seminar to Poland and Hungary, I attended many lectures by prominent professors and politicians. Many facts and figures not footnoted are based on lecture notes and comments from the speakers listened to during this summer seminar. They also represent the opinions of Hungarians and Poles that I visited with at the time of this six-week visit in June and July 1998. One of the best sources in English is <u>The First Polish Economic Guide</u> '98, Common Europe Publications, Warsaw, 1998.

[2] Professor Borisz Szegàl explained the complex relations and history of minorities in Hungary including the large gypsy population. Gypsy culture has historically lived at the fringe of society and has grown accustomed to taking advantage of Hungarian State social pensions rules to supplement family income. Any attempt to encourage larger Hungarian families only encourages the Gypsy population to grow. Attempts to integrate the Gypsy population into the work force and make them a productive part of Hungarian society has meet with resistance by the older generations of Gypsies. Professor Szegàl is currently finishing a book on this subject.

[3] Laszlo Szamuely, "The Social Costs of Transformation in Central and Eastern Europe," The Hungarian Quarterly (volume 37, winter 1996), p. 57. Szamuely's analysis is pessimistic. He expected "major unfavorable structural processes" such as mass unemployment and pauperization to worsen bringing about "dissatisfaction, apathy, violence and crime on a scale that can no longer be handled (pp. 68-69)." He wrote this in 1996. Unemployment and inflation have declined and GDP has grown. His predictions for Hungary and Poland have proven to be unfounded. Russia, on the other hand, is on the verge of economic and social collapse.

[4] Laszlo Szamuely, "The Social Costs of Transformation in Central and Eastern Europe, "<u>The Hungarian Quarterly</u> (volume 37, winter 1996), p. 57. <u>Government Securities Market: Monthly Report April 1998</u>, Central Statistical Office. <u>Monthly Bulletin of Statistics</u>, Hungarian Central Statistical Office, September 1997, p. 2. <u>Poland International Economic Report 1997/1998</u>, Warsaw School of Economics, Warsaw, 1998, p. 30 & 94. Finding quantitative statistics in Poland in English translation is very difficult. The material on Gross Domestic Product figures was generally give as percentages.

[5] Poland International Economic Report 1997/1998, p 94.

[6] Hungarian Statistical Office, http://www.ksh.hu/eng/free/e7maor/tabla.html, August 21, 1998.

[7] A Primer of California Politics by Lawrence Brewster, St. Martins Press, 1997, p. 30.

[8] Material provided to author by Dr. Judit Barata, economist and research manager for GKI Economic Research Co., Budapest, Hungary, July 1998.

[9] Hungary: Essential Facts, Figures & Pictures, MTI Corporation, 1997, page 111.

[10] These statistics come from Hungary: Essential Facts, Figures & Pictures, pp. 110-120.

[11] GKI Economic Research Co., Budapest, Hungary, July 1998.

[12] Hungary: Essential Facts, Figures & Pictures, pp. 117-119.

[13] Hungary: Essential Facts, Figures & Pictures, p. 119.

[14] GKI Economic Research Co., Budapest, Hungary, July 1998.

[15] Hungary: Essential Facts, Figures & Pictures, p. 127.

[16] Government Securities Market: Monthly Report, April 1998, Central Statistical Office.

[17] Monthly Bulletin of Statistics, September 1997, Hungarian Central Statistical office, p. 22.

[18] Monthly Bulletin of Statistics, June 1998, Hungarian Central Statistical office, p. 2.

[19] Hungarian Statistical Office, http://www.ksh.hu/eng/free/e7maor/tabla.html, August 21, 1998.

[20] Material provided to author by Dr. Judit Barata, economist and research manager for GKI Economic Research Co., Budapest, Hungary, July, 1998.

[21] The First Polish Economic Guide '98, p 80.

[22] "Impact of Foreign Direct Investment on the Polish Economy," Krzysztof Cichocki, July 27, 1998 draft report for the Center of International and Strategic Studies, Washington DC. The above material was taken from the report prepared by Dr. Cichocki and given to me in Warsaw.

[23] Cichocki, p. 20.

[24] The First Polish Economic Guide '98, p 92-93.

[25] Poland: International Economic Report, 1997/1998, p. 29.

[26] Poland: International Economic Report, 1997/1998, p. 30.

[27] Poland: International Economic Report, 1997/1998, 1998, pp. 43-43.

[28] The First Polish Economic Guide '98, p 59 and Poland: International Economic Report, 1997/1998, pp. 85-87.

[29] Poland: International Economic Report, 1997/1998, p. 47.

[30] Poland: International Economic Report, 1997/1998, p. 90.

[31] "Polish Fin Min Proposes 22% Tax To Replace 19%, 30%, 40$ Taxes," Dow Jones Newswire, August 31, 1998.

[32] It is reported that Deutsche Bank will take a 2 billion-mark hit from the loss of value in Russian treasury notes. "Fears Grow That Russia Crisis Damage Will Spread Through Central Europe." The Wall Street Journal Interactive Edition, September 2, 1998.

[33] "Dresdner Cuts Czech, Hungarian, Polish Growth Forecasts, Dow Jones Newswire, September 2, 1998.

Andrezej Dakowski
Executive Director
U.S. - Polish Fulbright Commission
Ul. Nowy wiat 4
00-497 Warsaw
Poland

September 12, 1998

Dear Andrezej,

Enclosed is my project for the summer-seminar to Hungary and Poland. I have already sent a copy to Huba Bruckner in Hungary. His copy should arrive about the same time. This project is an overview of my impressions of the economic transformation that has taken place in both countries since 1989. It was based on the materials I was able to accumulate while in your countries.

Thank you for your assistance during my stay, it was a trip that I will not forget for a long time to come. The experience I had was quite memorable. I have thought often in how difficult it must be to live in a country like Poland where so many people were murdered by the Nazis during World War Two by their inhuman hatred and know that much of the same prejudice still exists today.

My own relatives died in the Nazi death camps of Poland. I was looking forward to the experience of returning to Poland, the country of origins for my family. Today, for any national-minority living in Poland it has to be a difficult experience knowing there will never be acceptance as an equal.

For a person as cosmopolitan and compassionate as you are I empathize with your struggle. Perhaps someday, the Polish nation will put aside their narrow view of who a Pole is and learn to appreciate their own heroes who sacrificed their lives during the war to save others from the horrors of a Nazi death. At least the new Constitution is a step toward tolerance for people born in Poland of a different nationality.

Respectfully,

Michael Levine
877 East Woodhaven Lane
Fresno, California 93720
USA
209 434-5037
mikel@csufresno.edu

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