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A 'Bittersweet' Story

The Privatization of the Hungarian Sugar Industry

SUMMARY
Dr Péter Bertalan's monograph, *A 'Bittersweet' Story. The Privatization of the Hungarian Sugar Industry in the Light of Globalization and Geopolitics* reveals the economic history of an era with scientific fastidiousness, but nevertheless in a readable and understandable style, by depicting an authentic picture of the privatization of the Hungarian sugar industry after the transition to democracy. Although his inquiry focuses on a single industry and, in particular, the Kaposvár sugar factory, he is not analysing a unique phenomenon. He places the bittersweet story of the sugar factory in a broader context, and points out the deep-rooted conflicts and complex processes which accompanied the change of regime.

Journal of Economic Literature (JEL) code: N64, O25, P21, Y3

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Péter Bertalan is a historian, political scientist, and Associate Professor at the University of Kaposvár. In this book he covers a topic which remains relevant today. He raises and attempts to answer an important historical question: has the political and economic transition been completed? The author's position is that the change of regime is an ongoing process that continues today.

I must begin the appreciation of this book by mentioning that it is a very important work not only for general readers but also for experts, and that it fills a gap in the literature. The author studies and provides a structure for a vast range of sources, and does this not only as an economist, but also through the eyes of

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an historian. His research areas are the impact of globalization on regionalism and area development, and social, political and economic trends in the 19th and 20th centuries. The book is therefore not unexpected and without precedents; it is an organic continuation of the author's previous research. Besides overviewing the available academic literature, press articles, reports, and memoirs, he has conducted extensive archival research. The great merit of the book is the presentation of all this information that he has collected.

In the book the era of the political and economic transition unfolds before us, with all its conflicts, political games, and hidden contexts. The story guides the reader through the internal and external difficulties that the small Central and Eastern European had to contend with during the change of regime and the privatization that accompanied it. Although the study focuses on a single industry and on a single company within this sector, it analyses a very important general issue which has significance beyond the individual character of the industry. He describes the problems faced by the majority of domestic companies during the sudden collapse of the centrally planned socialist economy and the transition to the capitalist market economy.

The story begins in the historical period of the Cold War, at the end of which the Soviet system was losing out to the dominant position of the USA in the field of the development of military technology and armament. It was not necessary for a shock to occur, as the Soviet planned economy collapsed in exhaustion. This significantly changed the international geopolitical environment. With the ending of the bipolar world order and, the shift in the balance of power, the geopolitical fault lines were opened up again in the Balkans. This series of political earthquakes, as the author puts it, in the countries along the central and eastern European fault line as well as in Ukraine, occurred at different times and with different rates. The author points out that, "the process called change of regime is a protracted sequence of events" and draws attention to the interesting perspective that, "we should avoid the currently still accepted conclusion, arising from the rapid succession of the events, and from the domino effect, that the transition has definitively ended."

The small states of Central and Eastern Europe were doubly lagging behind the West. They struggled not just with technological disadvantages but also the structural composition of their economies was not capable of a smooth transition from the socialist planned economy to the newly established market economy. The Central and Eastern European countries had to face new challenges in a globalized world. The author considers that the primary problem of globalization is over-indebtedness.

The increase in revenues from the sale of petroleum resulted in a large amount of free cash existing in the newly emerging financial system. These funds were made available at a seductively low interest to countries wishing to close the gap. After 1980, however, the cost of interest on loans increased as a result of the rise in the US dollar exchange rate. Countries unable to service the increasing instalments of loans tried to repay the earlier debts by additional borrowing. But the new loans were obtained on less favourable terms, and in this way a debt spiral began. These problems were compounded by the fact that, "the countries receiving the loans witnessed a slowdown in economic growth, partly caused by the deterioration of exchange rates, and on the other hand by the fact that a substantial part of the loans was used not for investments but for direct measures aimed at maintaining or increasing the standard of living."

The Hungarian government had already begun the accumulation of external debt in the years between 1970 and 1989 i.e. during the previous regime. The National Bank of Hungary took out foreign (IMF and World Bank) loans in US dollars on behalf of the Hungarian state. The original conception behind and goal of these loans was the technical modernization of the Hungarian economy. In the 1970s investments and equipment purchases were made of unprecedented size. These investments primarily served the strengthening, stabilization, preservation of communist state power. Economic efficiency and profitability played only secondary roles. The proportion of unproductive construction was significant. Similarly to the other small countries in the region, Hungary used the funds received for maintaining and improving the standard of living, and not for investments in improving efficiency. Because the unrealized or failed investments did not provide a return, Hungary was not only unable to generate enough resources to repay the loans, but was also incapable of covering the interest payments. This situation was partly due to the extremely adverse conditions of the loans, and partly due to the tragic deterioration in the balance of foreign trade and the exchange rate (oil price explosion). Beginning in 1982, the state had been forced to take out new loans in order to ensure the necessary amounts for interest payments. This started the 'debt spiral'. Because of the low and declining performance of the Hungarian economy, by the end of the 1980s the external debt had increased to over 20 billion US dollars.

The solution for financing the repayment of these debts was the selling of national assets. State ownership of these assets was exchanged for cash, and this cash was used for debt repayment. The post-communist government accepted to become the legal successor of the external debt, and assumed the payment of the previously accumulated debts. The explanation for this was to maintain the country's creditworthiness.

Referring to the shocking fact that "twenty years after the first years of the regime change (1989–1990) Hungary's government debt had reached 140 billion dollars", the author asks a very important historical question, "Has the political and economic transition been completed?"

At the time of the change of regime everything was legally owned by the state. In order to be able to sell public asserts, a new law was necessary. The door to privatization was opened by the 1988 Company Act, which created the legal framework for the establishment of the different types of company familiar in market economies. This law also allowed foreigners to acquire property. The next step was to transform state-owned enterprises into companies; limited liability companies and joint stock companies were formed. The political leaders opted for the privatization of national assets in order to be able to pay the interest on loans taken out earlier.

Immediately prior to the change of regime every publicly managed property and asset was socially owned. Immediately afterwards, however, the state arbitrarily changed its management rights into ownership, because this was the only way that it could sell and privatize the property of society. The government used the wealth of society "guarded" by the state as the source of financing for the accumulated public debt, i.e. it sacrificed the national wealth to pay off overdue loans. The author pertinently states that, "The balance of demand and supply evolved to the detriment of the sellers and to the benefit of the buyers. The great range of choice offered the opportunity for 'asset stripping'. There were buyers only for the most valuable assets. What happened was the automatic auctioning of the national economy in the given market situation."

The author explains the situation of the Hungarian sugar industry in this economic climate. Immediately prior to the transition, Hungary had twelve sugar factories. These plants had been operating for decades; the majority had been established in the period 1880–1912. They survived the World War II and all the adversity of the subsequent decades. Due to investments made in technology in the 1960s and 1970s, about half a million tons of sugar were produced annually. This covered not only the 300 thousand tons of domestic consumption, but also allowed a significant amount to be exported. Sugar production was one of the most successful sectors of the Hungarian economy, a fact which is explained by the well-organized vertical integration, the favourable natural conditions for beet production, and the up-to-date technology used.

The Hungarian sugar industry was one of the key players in the transformations during the change of regime, and it was among the first victims of privatization. Its particular situation and its strategic importance is explained by its significant role in the traditionally prestigious and successful Hungarian food industry and its close connection with the agricultural sector.

The industry's importance is repeatedly emphasized by the author: "Hungarian food production is highly-ranked in the world market. Sugar production is the flagship of this multi-constituent industry. The sugar industry can be considered the heavy industry of the food-production sector. It is in contact with the entire chain of the food-production industry and agriculture. Its position and condition was, and still is, an important indicator of the state of the Hungarian economy."

As mentioned above, significant investments have been made in this industry, and a series of technological improvements have been implemented, so that the Hungarian sugar factories were considered valuable items of property at the time of the change of regime. Their importance is emphasized by the fact that the most important sector of our national economy at that time was the food industry, in which sugar beet growing and sugar production was an important component. In these conditions finding a buyer was not difficult. Foreign producers were eager to take advantage of the newly opening market, often with the sole intention of purging the market. The foreign owners were not interested in production; their main goal was to close down the purchased companies, with the purpose of reducing competition and obtaining a market for the existing capacity in their home countries. All the 12 state-owned sugar factories were bought up by western European multinational sugar companies in 1990. All but one, the Kaposvár sugar factory, were shut down after the EU's sugar reform and the introduction of production quotas. In order to protect sugar production in their home countries, the foreign owners ceased production in Hungary.

The fate of the Kaposvár sugar factory represents one of the most important chapters in the industrial history of Somogy County and the surrounding region. The factory had an important role in the development of Kaposvár by providing workplaces and developing infrastructure.

The author guides the reader through the history of the refinery. He provides an overview of the circumstances of nationalization in 1948, and the development priorities of the Communist Party until the 1960s, when the reconstruction of the sugar factories fell by the wayside because at that time the focus was on heavy industry. We can also read about the problems of the early 1980s (sugar beet shortage, underutilization of capacity, deficiencies in management, and profit deterioration) and about the end of the decade when the refinery struggled with major financial difficulties. The author concludes that, "The transformation into a company represented an escape, but external help was needed for this at that moment. Government resources were not available; only a foreign buyer could undertake the burden of the transformation, because lending had faltered. Therefore, it can be stated, based on the documents analysed, that the transformation into a company and the spontaneous privatization occurred in a single step."

Reference is made to the way that the factory was influenced by the changes in sugar beet production. The author reveals the macro- and micro-economic factors that influenced the area under cultivation and the volume of production, so we can see that beet production was stressful and full of conflict. Readers can follow the evolution of production capacity, the way that cooperation developed with the beet growers, the personnel changes that took place, the changes made in technological investments, and the way the factory was transformed into a joint stock company. During the privatization, the factory became the property of the Austrian Agrana GmbH, and now it is the only sugar factory in Hungary. All the other 12 refineries that were once active were shut down after the EU introduced the sugar reform and quota-based production, slashed sugar price subsidies, and even offered incentives for producers to cease activity.

The author closes this bitter story with a sweet ending. For the factory there is hope for staying alive, which is not only of local, but also of national interest. The encouraging hope for the future is represented by the already implemented or ongoing multimillion euro investments of recent years, the successful increase in the number of sugar beet producers and the extension of the area under cultivation. As a result of continuous innovation, in 2007 the factory started to produce biogas based on plant waste by using domestically developed technology. Besides covering the needs of the factory, the energy produced is capable of heating different local facilities, such as the local swimming pool or the Kaposvár FC football club. The goal is to achieve total independence from external fossil fuel energy sources by replacing them with green bioenergy.

At the end of this chapter, the author concludes that the present and the future of the Hungarian food industry, and of the sugar sector within it, is and will be determined by the fate and the economic policies of the European Union. As a result, the question arises: what is the way forward for Europe and for Hungary?

From here onward the attention is redirected towards the global space. The author provides an insight into the most important geopolitical changes of the 21st century. It is interesting to follow him through the analysis of the conflicting spheres of interest of the major powers. We can read, among others things, about the crisis in Kosovo, about the so-called Arab Spring, the war in Georgia, and the political games between Russia and the USA.

A particular emphasis is given to the Syria situation. In Syria the Arab Spring provoked a civil war with significant consequences in time and space. The author states that this has a bearing on our present and future: "Syria is located in an important geopolitical area. The ongoing civil war clearly demonstrates the interdependence between geopolitical and global political and economic processes." By using a historical analogy, the author calls the situation in Syria, "the new approach of the 'Eastern Question'". Because of the Syrian civil war and its direct consequence, the formation of Islamic State, the world has to face two relevant phenomena of globalization: the strengthening of global terrorism, and modern migration.

In the preface of the book, the author writes about his intention of placing the story of the Kaposvár sugar factory in a broader perspective: "The history of the modern economy and the analysis of related social trends are understandable only by taking into account the complicated paradigm system of globalization and geo-economics." Because of the size and geopolitical location of Hungary, its internal politics depends largely on the external political environment. The situation of the Hungarian sugar industry is closely determined by the international economic trends and economic processes.

The book is structured as follows:

The first chapter discusses the economic history of the change of regime in Hungary in the context of globalization and geopolitics. Here not only the Hungarian political and economic transformations are discussed, but the reader also receives a full overview of Central and Eastern European developments of that time. The book explores and explains the reasons why the changes were inevitable. The author analyses global political relations, the processes taking place in the world, and the interactions between geopolitics and the change of regime, helping the reader to put the Hungarian privatization into context. The economic processes of the Cold War era are analyzed from a geopolitical point of view, and the author explains the economic crisis in which the Eastern European countries faced the constraints of regime change and privatization. This period was characterized by a lack of economic restructuring, state-owned companies operating with obsolete technologies, fierce price competition following the market liberalization, the loss of Comecon markets, and increasing public indebtedness. Under these circumstances quick measures were needed to create the economic and legal conditions of privatization, to demolish the socialist economic structures, and to build a new market economy.

The second chapter is dedicated to the 'bittersweet' story of the Kaposvár sugar factory. Here the author analyses the Hungarian change of regime in the light of the cataclysm of the sugar industry. The history of the refinery unfolds before us page by page, with all the turning-points, major changes, and difficulties that had to be overcome.

In the last part of the book, a light is shone on current geopolitical movements: the extraordinary strengthening of the position of the United States, the direct US presence in the Balkans and in the Middle East, the most important changes generated by the Arab Spring, and Russia's active involvement in the Middle East with the aim of reducing western influence.

Overall, I highly recommend this this great political scientist's new book to anyone who is interested in a non-politicized and ideology-free insight into the authentic history of the years before, during, and after the change of regime in Hungary. The book has the great virtue of meeting, at the same time, the requirements of readability and scientific rigour. The following main questions will probably arise in the mind of every reader: was the privatization necessary? Was this the appropriate way to sell the wealth of the nation? Did privatization serve the public interest? The author provides plenty of information, but leaves the drawing of conclusions and the finding of answers to the reader.

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