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THE WHITE HOUSE
WASHINGTON

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MEMORANDUM OF CONVERSATION

SUBJECT: Meeting with Miklos Nemeth, Prime Minister of Hungary (U)

PARTICIPANTS: The President
James A. Baker, III, Secretary of State
Mark Palmer, Ambassador to Hungary
John H. Sununu, Chief of Staff
Brent Scowcroft, Assistant to the President
for National Security Affairs
Marlin Fitzwater, Assistant to the President
and Press Secretary
Robert Blackwill, Special Assistant to the
President for National Security Affairs
Robert Zoellick, Counsellor to the
Department, Department of State
~~James Dobbins, Acting Assistant Secretary for~~
~~European Affairs, Department of State~~
Dennis Ross, Director, Policy Planning Staff,
Department of State
Condoleezza Rice, Director for European
and Soviet Affairs, NSC Staff (Notetaker)
Interpreter

Miklos Nemeth, Prime Minister
Gyula Horn, Minister of Foreign Affairs
Thomas Beck, Minister of Trade
Erno Kemenes, Director, National Planning
Office
Vencel Hazi, Hungarian Ambassador to the U.S.
Bela Szombati, Interpreter

DATE, TIME July 12, 1989, 10:10 a.m. - 10:45 a.m.
AND PLACE: Delegation Room, Parliament Building

Prime Minister Nemeth opened the discussion, saying that the Hungarian government is honored that the President chose to make this visit in the first year of his Presidency. The visit would give impetus to the Hungarian-American relationship. The Prime Minister noted that American political and moral support are needed as Hungary attempts fundamental political and economic reform. Hungary is trying to improve relations worldwide. The opening is not against any power but is toward many -- Southeast Asia, the West and the U.S.S.R. There is a great deal to do to

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break up the Stalinist system and move toward a more open one. Hungary must achieve a balance between constitutional, parliamentary, governmental and executive processes. The Hungarian Socialist Workers Party (HSWP) also considers it its basic duty to look at the past and open dark spots. At root of the reform is an understanding that the Stalinist model is at a dead end and that radical economic and political reform are needed. (C)

Prime Minister Nemeth called attention to the new draft constitution which does not express the leading role of the Party but does protect basic human rights and freedoms, including: the formation of a multiparty system; freedom of association and demonstration; free emigration; freedom of conscience; and freedom of the press and expression. The problem, he noted, is to simultaneously execute political and economic change. He said that he is confident that this can be achieved successfully. (C)

Prime Minister Nemeth continued, saying that the role of the government in the difficult period of transition is to guarantee peaceful conditions and create a partnership with the opposition parties. Discussing several outstanding issues, Prime Minister Nemeth remarked that the HSWP is committed to free and fair elections because they are the only basis for a stable government. He noted that Hungary is trying to avoid the creation of a power vacuum -- as exists in Poland -- because such a vacuum would be destabilizing and would be especially troubling for relations between the superpowers. He expressed his belief that the HSWP can renew itself and will be able to, through electoral means, gain a dominant position in the coalition. The danger is that if the HSWP is defeated, the opposition is not yet ready to rule. The HSWP is, however, developing a program of organizational assistance to the opposition. The goal is to keep the Interior Ministry and the Army out of politics, a position held by the leadership of these institutions. In summary, the HSWP must announce that it will not abuse its powers and on that basis, proceed to completely democratic elections, respecting the will of the people. (C)

Turning to the economic situation, Prime Minister Nemeth highlighted the high level of foreign debt as a key problem, admitting that the money had not been well spent. He said that in the future Hungary must emphasize working capital and joint ventures and the creation of new forms of ownership in which private, state and public property receive equal levels of protection. The Prime Minister also noted the importance of guarantees for foreign capital, including repatriation of profits and insurance against nationalization. (C)

The Prime Minister continued saying that the most important task, one which is broached rarely, is to reform thought and to engender a break with old ways. Hungary must reinstitute values

of competition, enterprise and the system will only work well if there is entrepreneurial freedom. He cautioned that, while Hungary can learn a lot from other countries, including the United States, the model adopted must be uniquely Hungarian. The adoption of foreign models, before and after World War II, has led to nothing but difficulty. The Prime Minister asked the President to remember that the political and economic institutions of the United States have been developing for 200 years and to expect Hungary to change course completely in 3-5 years would engender disaster. (S)

Rather, Hungary needs tolerance and patience from the outside. In this regard, Prime Minister Nemeth said that Hungary is proceeding from the assumption that the Brezhnev doctrine is dead. This was, he said, affirmed at the Warsaw Pact Summit in Bucharest. Some leaders of socialist countries hold other opinions but not Gorbachev. (S)

Finally, Prime Minister Nemeth emphasized the importance for Hungarian reform of strengthened international financial and economic contacts. He said that in the fall, Hungary will present a concrete three year program and would like to get IMF support. While relations with the IMF are good, he argued that the Fund tends to give the same advice no matter what the disease: create realistic prices and devalue currency; reduce budgetary deficits; and privatize the economy. The Prime Minister stated that Hungary agrees with the prescription but needs flexible terms in undertaking these measures. He asked for the help of the United States and implored the President to raise the issues at the Paris Summit. (S)

The President said that he would like to make a few general comments, though he was more interested in hearing further views from the Prime Minister. The President remarked that he recognized the changes going on everywhere, including in the U.S.S.R. He said that he wished to reiterate, as he had earlier, that the United States was trying to undertake policies that would not adversely affect the reform process. The President articulated his support for the IMF and what it is trying to do in terms of broad economic policy but noted the Hungarians' plea for flexibility. The President promised to discuss with the Secretaries of State and Treasury what could be done in this regard. He said that he understood the uniqueness of Hungary's situation and that the U.S. is blessed with economic growth, sometimes modest, sometimes buoyant. If there is a lesson to be learned from the American experience, it is that entrepreneurship, especially small business, can have magnificent results. In the U.S., the 20 million new jobs were mostly in small business. (S)

The President said in conclusion that the U.S. understands that it cannot design a political system for Hungary but that the principles articulated by the Prime Minister are ones that

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Americans support. He underscored his intention to do nothing to complicate the process of reform and remarked that he looked forward to the meeting with the G-7 to describe the vibrancy of the Hungarian experience and to work out a plan of concerted action with the allies. (S)

Secretary Baker added that Hungary's 61% of GNP in government spending is far too high and that the central government share in the U.S. is much lower. (S)

Prime Minister Nemeth agreed but noted that everything takes time. He thanked the President and all of the participants for the exchange of views. (U)

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