

Interview with Dr. Magdolna Csath, Professor

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DOI: https://doi.org/10.35551/PFQ_2025_1_6

„For me, it has always been more important to do a job that is professionally challenging and where I can learn.”

Magdolna Csath graduated from the Marx Károly University of Economics in 1966 and studied applied mathematics at the Eötvös Loránd University in 1967-68. In 1969, she won the national competition „Young People’s Competition in Economics” organised by Hungarian television. In 1972-73, she completed the MBA programme at the London Business School (England). In 1996, she was awarded a Habilitation in Economics at the Budapest University of Economics and Business Administration. She received her doctorate in economics from the Hungarian Academy of Sciences in 1991. Between 1999 and 2002, she was awarded a Széchenyi Professorship Fellowship to support her teaching and research work. She taught for five years in the USA and one year in Great Britain. In the USA she was awarded the „L. J. Buchan Distinguished Professorship Award”. She received the Albert Szent-Györgyi Award in 2008 and the „For the Hungarian Economy” Award in 2015. She is an advocate of development as opposed to growth at any price. She believes that the economy exists to serve the people, rather than the people exist to serve the economy. She is particularly interested in the possibility of developing the Hungarian economy based on knowledge, innovation and people. She has published more than 100 papers in Hungary and abroad. She is the author and editor of the book „Regime change in the economy, or how Hungarian industry disappeared”, published by Kairosz Publishing House in 2015, and „Economics: social economics, macroeconomic foundations”, published by the National University of Public Service in 2014. Her most cited books are „Strategic Planning in the 21st Century”, „Competitiveness Management” (National Textbook Publisher 2010) and „Competitiveness Mosaic” (Academic Publishers 2023). Important recent papers include „Growth or Development Trap” (Financial and Economic Review 2022) and „The role of Intangible Capital Investment and Intangible Assets in Improving Competitiveness” (Financial and Economic Review 2023). She is a Private Professor at the National University of Public Service and a lecturer at the Pázmány Péter Catholic University. Member of the National Competitiveness Council from 2017 to 2022.

Magdolna Csath stands out as a unique figure in Hungarian economic life, consistently challenging conventional views and examining economic phenomena from an alternative perspective. During your career, what inspired you to depart from the established views?

I could summarise my thoughts on this in three main points. First, my professional background. I studied at the University of Economics and Business Administration, majoring in industry, which gave me a unique perspective. It brought me close to the real world of business and corporate operations. For example, it was a special experience to study industrial technologies at the Technical University, which made the training even more practical. In addition, I gained a thorough understanding of macro- and micro-economic processes and finance, which gave me a balanced perspective that later shaped my work. I never completely turned away from macroeconomics, but I always kept the practical aspects in mind, and vice versa. This balance was very important for me and became a strength in my work.

My second point is my professional values. From the very beginning, I followed strict principles based on two key elements. The first is honesty, which I brought from home and which my teachers reinforced in me. I have always believed that I should express my professional opinions honestly, even if this might lead to some conflict. At the same time, I have always done this with the intention of improvement: my primary aim has never been only to criticise, but to make constructive suggestions. I believe that it is the responsibility of the professionals to suggest improvements. If they see a problem, they should talk about it. If it turns out later that they were wrong, they should of course admit it.

Finally, I would like to mention the importance of role models. I have seen many professional and human role models whose behaviour, values and commitment have had a profound impact on me. These guiding personalities have reinforced my conviction that it is worth taking the difficult paths, if they are paths of long-term progress and development. Of course, this has sometimes led to conflict situations, but I believe that these difficulties have contributed to my professional development.

According to Baron Holbach's famous saying, „the wide highway of science is trodden by so many that no grass grows on it.” What gave you the strength to stick to your views consistently?

The truth is that it has always been extremely important for me to be able to live up to my own moral and professional principles. It may sound simple, but for me one of the main motivations was to be able to look in the mirror with a clear conscience.

This attitude has often caused difficulties in my career. I have had several jobs, and more than once I have decided to change because I felt that I could not identify with the values or the way the organisation worked. When I saw that a situation could no longer be changed, and that it would be pointless to fight, I moved on. I have always followed this principle, and although it was not an easy decision to make, in hindsight I am grateful for these experiences. Every job I have had has given me something to learn, even if we eventually parted ways.

This approach stems from my values and professionalism. I feel that remaining in a situation that is unacceptable to me from a professional or moral point of view means that I would not be able to face myself after a while. In such cases, I prefer to opt for change.

Salary has never been a primary consideration for me when switching. There were times when I moved on for less pay, because professional development and maintaining my own values were always the most important thing for me. The most common reason for changing jobs was that I found myself in a professional situation where I could no longer identify with my environment, where I could no longer accept the values and the suggested solutions that had been developed.

As an example, before the regime change I taught in a management training institution. Even then I believed that a so-called „socialist company” can only be successful if it uses modern management methods, such as strategic planning and financial analysis, and therefore these methods must be taught. However, these subjects were classified by the management of the institution as ‚capitalist methods dangerous to socialism’. I tried in vain to argue that these were not political but professional subjects, but in the end the debates and differences in values led to my dismissal from the institution. I do not regret it, because it gave me the opportunity to learn new things and gain further professional experience. It is true that I had to go abroad to do this.

Similar incidents have occurred several times in my career. For example, in a ministry where I worked as head of the economic department, I suggested that efficiency calculations should be carried out for major national programmes. In the environment of the time, this approach was not well understood. I then decided to return to academia, where I could work more freely according to my professional principles.

For me, it has always been more important to do a job that interests me professionally, where I can grow and learn. If a particular job no longer gave me the opportunity to develop, or if I got into professional conflicts, I decided to change. Although I may not have reached higher positions because of this, I have never regretted my decisions.

You have extensive national and international experiences. Is it worth bringing the two closer together, and if so, how?

There are indeed marked differences. I can give you four examples from the academic communities that I have had the opportunity to get to know in the United States, Great Britain, Austria and the Czech Republic.

Of all of them, I had the best time in the US, if I look at the university environment and ignore the cultural factors. When I first went abroad, I had no previous experience of the education system there, as earlier I had only attended conferences in the US. When I went to work there, one of the most striking impressions was the extraordinary helpfulness of my American colleagues. They supported me in everything and the general atmosphere was very open. Not only was there a natural freedom to ask questions, but also a curiosity and openness to new ideas. It was appreciated when someone had a new approach and I did not encounter any rivalry or jealousy. This positive, supportive atmosphere was extremely inspiring, especially in the light of the fact that I went abroad in the last years of socialism, when hierarchical relations and lack of openness were still evident in the workplace, even in the university environment.

In Britain, I was confronted with significantly different practices. Even though I was working as a head of department, I was made to feel more like I came from Eastern Europe. The hierarchy was stronger, and junior lecturers, such as adjunct or assistant lecturers, had less say in departmental decision-making. Although my professional skills were recognised, building relationships - both with colleagues and students - was more difficult than in the US. For example, when I taught at the University of Stirling in Scotland, I found that students were less likely to ask questions or get involved in professional discussions - they were more likely to come to me with questions during breaks. This was in stark contrast to American universities, where student involvement and direct communication were taken for granted.

The Austrian university environment at the time was as formal and hierarchical as the British. I spent a semester at the Catholic University of Innsbruck, where I taught strategic management and international business. When I tried to interact in a lecture, it turned out that this was not the norm in that environment. It was not „appropriate” to ask questions from the professor in lectures. The seminar was the place for discussions and debates.

In Austrian and British universities, I often encountered more rigid teaching methods, where classes were less interactive and passive learning dominated. In contrast, in American universities, group work, discussion of case studies and discussion-based teaching were common, allowing students to actively participate in class and apply the knowledge they had acquired immediately. When I returned to Hungary, I tried to incorporate these elements into my teaching - for example, by setting practical exercises, initiating discussions, and inviting experts from companies. Initially, this was not always understood. For example, one of my senior managers once accused me of using looser, interactive methods just to be popular with students. I believed, and still believe, that students should not just memorise materials, because knowledge is constantly changing and evolving. The most important thing is that they learn to think, to reason and to formulate opinions in a civilised way. Fortunately, this approach is becoming more and more widespread in our country, although it is not yet universal.

If you look at the overall assessment of domestic economic policy over the last thirty to forty years, what do you see as the main problems? When and what would you have done differently? In what areas have economic and financial governance performed particularly well?

I think that although a longer-term perspective would be justified, the great opportunity came at the time of the regime change, so it is worth starting from whether we made good use of it and what direction Hungarian economic policy has taken since then.

During the regime change, an economic policy model became dominant in the domestic thinking, which was built on the so-called „low-road” economic policy option. This means that the economy should compete by minimising costs for investors, relying on cheapness, low wages, low taxes and different subsidies in order to attract as many foreign capital investments as possible. This means that the internal

capabilities of the economy, like the domestic enterprises, were not given the necessary opportunities to strengthen themselves, rather the economy was expected to function well by attracting foreign capital with a variety of subsidies, despite the fact that the goal of foreign capital obviously was not to make the Hungarian economy successful in the long term, but rather to earn and repatriate as much profit as possible.

The implication is that foreign capital is attracted primarily because the conditions are favourable for them, for example, low labour costs, ample state support, infrastructure development and other benefits.

I believed at the beginning that, although this model might seem to produce positive results in the short term, in the long term it was unlikely to contribute to the country's catching up in terms of development. In fact, the model used was based on the typical neoliberal Washington Consensus economic philosophy, which proclaimed that foreign capital would solve everything, therefore it should be allowed and even encouraged. As a reminder, at the time of regime change, the World Bank, the IMF and the US Treasury Department advised the countries in transition to open their doors to foreign capital as much as possible, to encourage it to come in and to trust foreign investors to fix their economies. This was a typical neoliberal approach, which is still present in Hungarian economic policy today. I believe, however, that the consequence of this is that the structure of the Hungarian economy has become highly dependent, and that activities have disappeared or been weakened that would be necessary to improve competitiveness today, in other words, the Hungarian economy has become too simplified, monolithic and dependent on a few dominant foreign sectors. Moreover, these sectors are in the midst of a major crisis in the context of the changes of our times. Diversified economic structures are particularly important in a rapidly changing and uncertain environment. Heavy exposure to imports also creates vulnerabilities. This is why it is disadvantageous that many sectors that used to be successful earlier in Hungary have ceased to exist and we have to source their products from abroad for high prices. Being forced to import rather than produce domestically also greatly increases dependence on exports, as a steady increase in exports is essential to sustain the growing volume of imports. It should be stressed that this heavy dependence, especially in crisis situations such as the Covid epidemic or a war situation, can shake the whole economy. It is also worth mentioning that the sectors that have become strong are not of domestic interest. An excellent example is the automotive industry, which plays a dominant role in the Hungarian economy but is in fact a German-owned sector. As the German economy is currently in a weak state, the resulting problems have naturally spilled over to Hungary.

This model is not good either, because the engine of economic growth, foreign capital, is profit-driven, and most of the new value created, the profit, leaves the country. The more foreign firms come in, the larger the profit share of GDP will be, and the majority of this is probably repatriated, as the reason of investment was precisely the significant profit production and repatriation opportunity. Thus, although the increase in GDP is apparently positive, the value generated does not contribute to real local development, which can have very negative long-term social effects. We can already see this today with the deteriorating innovation and knowledge indicators, and the growing inequalities.

In the case of significant foreign participation, it should be noted that growth measured by GDP does not necessarily mean sustainable economic growth, nor does it guarantee the prospects for future growth. In this context, we should also point out that development does not just mean spending money in general, but also investing in sectors that will secure the future, such as knowledge, innovation and the environment. However, as international analyses point out, investment in this area represents a very low proportion of total investment in our country. Economic policy focuses investment on physical infrastructure, construction and machinery. We might add that it does so without any return on investment assessment.

Another problem with growth-oriented economic policy is that it does not take into account externalities, i.e. the impact of foreign capital inflows on national wealth. And national wealth is not just the sum of financial assets, but also includes human and natural resources. For example, if a foreign firm makes an investment that damages the natural environment or does not provide adequate working conditions, that investment should not be supported. If, for example, a company settles on good quality farmland that uses polluting technology and employs workers in working conditions that are harmful to their health - as we have seen recently - then this type of investment, although it may increase GDP but it also decreases national wealth of the country.

The effects of economic attitudes and policies ultimately affect society as a whole. If a country relies constantly on foreign capital, physical investment and low-cost labour, it is in effect devaluing domestic values, nature, people and knowledge. This results in a lack of focus on innovation and a failure to build an economic structure that can give the country a real competitive advantage in the future.

How do you see the situation of Hungarian businesses in regional and global comparison? What are the strengths of Hungarian businesses and what are they lagging behind in? What is the reason for this lag and to which time does this lag go back to: 1989, 1945 or even earlier?

The situation of Hungarian enterprises is quite different in regional and global comparisons, as there are significant differences between foreign and domestic owned firms in the corporate sector, as well as between companies of different sizes. Hungary does offer a favourable environment for large companies, supported by economic policy decisions and state support. However, these subsidies do not always lead to lasting economic benefits and often do not result in commensurate innovation or development.

The figures for R&D funding and expenditure as a share of GDP, while encouraging, do not reflect real innovation results. For example, the Hungarian government spent the most on R&D support for firms as a share of GDP in 2023 compared to the EU average, but our innovation indicators – such as the number of patents, trademarks, innovative jobs or the share of innovative firms – are significantly below the EU average. This suggests that while money does get to companies, it does not always lead to real intellectual or technological progress, due to a number of factors.

For example, it is questionable whether economic policy makers are really able to select the right sectors and companies that really make the most efficient use of state

aid. Aid is often not targeted at the most innovative sectors or firms, but rather at those that already have a market advantage or stronger linkages, so that the country's scarce financial resources may not be well used for development. Let us add that it is obviously good for the firms, as they save their own resources. It is no coincidence that we also rank poorly in the EU for firms' own R&D investment.

This situation is particularly disadvantageous for the small, domestically-owned companies with low level political contacts, but with significant innovation potential. A related problem is that economic policy is too centrally driven and does not take into account market needs and market conditions for improving competitiveness, creating missed opportunities. In order for the economy to make better use of the potential of innovation and to move away from a „low road” economic policy, support policy should be better adapted to market realities, with a greater emphasis on strengthening SMEs and on ensuring that the diversity of the economy is supported by the emergence of local start-ups and the strengthening of the green economy.

We recently conducted a major survey in the corporate world and came up with some very interesting results. The survey specifically targeted the SME sector. We found that the majority of SMEs are extremely distrustful. One reason for this is that the domestic regulatory and governance environment is often perceived as unfriendly, even hostile. They often find that, while they are heavily penalised for minor mistakes, similar mistakes by large companies do not have such consequences. In addition, SMEs often feel insecure in the economic environment because there are many unexpected changes for which they cannot adequately prepare.

Another important problem is that a domestic reference is often a prerequisite for entering export markets, but surveys show that municipalities, state-owned enterprises and large Hungarian-owned companies often prefer foreign suppliers. In many cases, this is true even if SMEs were price and quality competitive. For small businesses, however, this raises not only market but also ethical problems. There are also suggestions that there may be unfair behaviour characterizing the choice of the foreign partners, which adds to general mistrust. They also have little chance of winning public procurement contracts.

Other surveys have also shown that the quality level of Hungarian management is generally below the desired level. This is also true for large companies, but the problem is particularly significant for SMEs. However, there are also very successful and well-run small companies. One of the characteristics of such companies is that they have been deeply involved in business from the start, and they do business not only in Hungary but also abroad.

It is also a serious problem that public pressure often forces entrepreneurs to become suppliers to foreign businesses, often putting them in a vulnerable position. While there is great potential for cooperation along the value chain, it can only work if companies seek to cooperate correctly, based on trust and with common objectives. Forced cluster organisations do not deliver real results, because without trust, cooperation is doomed to fail. And what we are witnessing at the moment is that SMEs, which have been forced by the state into a supplier role, are losing orders as a result of the crisis in the automotive industry, which could lead to a rise in unemployment.

Finally, it is also important to note that a further danger of an economic policy aimed at further strengthening manufacturing is that the real growth opportunities are already in services, not in manufacturing, and will be even more so in the future. And it is precisely the manufacturing sector in which technological change will lead to significant job losses. Greater attention should therefore be paid to strengthening the service sector for the future.

You have done a lot of work on innovation policy. How do you assess innovation performance? What do you suggest to economic policy makers on how to improve the innovation performance of Hungarian companies: through institutional change, capital injections or a change of mindset? For the latter, whose change of mindset is needed?

Hungary ranks 21st among the 27 EU Member States in the 2024 EU Innovation Scoreboard. Detailed analyses show that there are significant gaps in a number of areas. The biggest gap is in the areas of human wealth and intellectual wealth levels: Hungary is ranked 25th for these two areas. It should be pointed out that the scientific skills needed to successfully apply the technologies of the future, the so-called „human capital” is underdeveloped. The proportion of graduates in STEM fields (science, technology, engineering, mathematics) is very low in Hungary. According to the latest Eurostat data, Hungary 24th in the European Union in this respect, ahead of only three other countries, which also hinders, for example, the widespread application of digitalisation. In this context, it is important to stress that digitalisation does not simply mean the existence of technological infrastructure - such as broadband internet or 5G availability - for which we are not badly placed - but the effective use of technology, which requires a knowledge-based approach. This is why it is a problem that we are lagging behind not only in STEM fields, but also in human wealth in general.

Turning to company practices, it is often found that the use of subsidies is not always efficient. For example, some companies do not carry out market research to see whether there will be a viable demand for the type of innovation they are planning to introduce. This is particularly the case for firms that receive free or subsidised state aid. However, when it comes to their own resources, companies think much more carefully about their investments. This difference is also reflected in international comparisons. Countries with high levels of business investment in R&D and low levels of public subsidies tend to have an excellent innovation performance. Denmark, Sweden and Finland are typically at the top of the innovation rankings, despite – or perhaps because of – the fact that public aid is minimal, but companies are careful about how they spend the R&D money.

Another way to strengthen domestic innovation, besides restructuring the support structure, could be to encourage the emergence and „growth” of new, innovative sectors in the economy. This could for example include investment in sectors related to the green economy, where Hungary is currently lagging behind. It is also often suggested that assembly companies already operating here should be encouraged to bring R&D activities to Hungary. However, this does not always

work, as these companies prefer to carry out their strategically important research in their foreign centres. Although Hungarian engineers are often involved in the development process, making a significant contribution to innovation, this often takes place at foreign sites rather than at home. One disadvantage of this is that, although Hungarian state support is used, the patents generated are not linked to Hungary, so these results do not appear in the country's intellectual assets.

It is also important to understand that innovation is not just about product development. A key opportunity for Hungary lies in strengthening its innovation absorption capacity, i.e. in effectively applying and developing existing innovations. From a strategic point of view, those at the forefront of innovation take significant risks, while those who follow directly behind often have a greater chance of success. Another major problem in our country is the low level of process and management innovation. These areas, such as more efficient operation and better management of companies and the use of digitalisation, could directly contribute to improving productivity and competitiveness. Forcing new products at all costs is not necessarily the only good goal, but improvements that can also increase innovation outcomes by optimising existing systems are also beneficial. Finally, of course, support for basic and original research is important even if there is no immediate market outcome, but such research should be encouraged primarily in research institutes and universities where the necessary expertise and infrastructure is available. However, the level of research funding in this area is still below the desired level.

You are one of the few university professors who have been able to create a professional network around yourself. How can this be achieved? What do you need to do this?

To create a strong professional network a diverse team is needed, preferably with members from different fields and several universities. I really like working with young people, my teams involve many young researchers, typically PhD students, sometimes BSc or MSc level students. I look for young people in whom I see 'spirit' - who ask questions, actively participate in class and are creative in their approach to tasks. As a teacher, I find it important to have an open atmosphere in my classes where everyone is free to share their opinions.

My team members come from different backgrounds - young students, university colleagues and business leaders, even from SMEs. Working together, this diversity allows us to look at problems from multiple perspectives. Younger people can ask questions from more experienced people, and business people can give insights into how things work in practice. Ideas are generated in a collaborative, creative process where everyone is on an equal footing.

The essence of teamwork is that there are no hierarchical levels. There is no professor or director, but everyone participates as a fellow researcher. This atmosphere contributes greatly to team members being motivated and enjoying working together. Of course it is not easy to set up and maintain such a teamwork, but the results are usually very good.

Thank you for the interview! ■