Chapter 6

The Right Hand Thinks

On the Sources of György Matolcsy's Economic Vision

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WHY MATOLCSY?

The hero of my chapter, György Matolcsy, is the governor of the Hungarian National Bank and the former minister of the national economy, a scholar and a columnist, the economic visionary of Viktor Orbán, and the architect of what he calls "unorthodox" economic policy.

From a bird's eye view, everything seems fine. During the past decade, Matolcsy's career as a top policymaker has been unbroken: as a minister, he managed to survive a deep economic crisis that threatened sovereign default in the early 2010s; as a central banker, he has contributed to restarting and sustaining economic growth in the country. He has strong views of all fields of economic policy with thousands of pages written, half a dozen books published, and a magnum opus, entitled *Equilibrium and Growth*,[1] completed. The latter celebrates his unorthodox program and serves as a principal textbook at "his" publicly funded János Neumann University in Kecskemét.[2] Yet, the more I read Matolcsy's writings, the deeper my hesitation became: would applying standard procedures of intellectual history-writing to understand his work as a visionary not blow up its academic significance?

Nonetheless, I decided to prepare this chapter but in the back of my mind Helmut Schmidt's witty remark was preserved: *wer Visionen hat, sollte zum Arzt gehen.* If Matolcsy did not maintain a symbiotic relationship with Orbán (who called him his "right hand"),[3] I certainly would confine my analysis to a series of sarcastic remarks ridiculing a self-conceited voodoo economist[4] who happened to be in the right place at the right time. However, what if Orbán was correct by saying, with a large dose of self-praise, that "the [present Hungarian] prime minister is a quasi-Adenauer, and the minister for economic affairs is a quasi-Erhard"?[5] What if Matolcsy really found a recipe for a lasting economic miracle in Hungary—a "veritable fairy tale,"[6] as he likes to brag?

This chapter will not check whether that recipe has been successful. Instead, I will be interested in its composition and genesis, and examine the main ingredients of György Matolcsy's economic thinking in both communist and precommunist times. First, the major components of his current unorthodoxy will be presented. Then, in identifying the historical sources of unorthodox economic policy (UEP), I will highlight some crucial similarities between moderate reformism under communism and prewar étatism, and reveal a surprising continuity of state interventionism in Hungary over almost an entire century; an economic paradigm that survived the allegedly neoliberal era after 1989.[7]

However, before becoming immersed in intellectual history, let me indicate the kind of juicy stories of "everyday Matolcsyism" that the reader will not hear from me. I will leave it in the good hands of critical-minded journalists in Hungary to portray him as a kitchen-table historian indulging in the heroic past of ancient Hungarians who, in Matolcsy's view, excelled in gastronomy and brain surgery. Similarly, no mention will be made of his thesis of genetic bonds connecting ethnic Hungarians and Japanese, and I will also disregard his attraction to numerology (he fears the number 8).[8] Furthermore, although it would take us closer to the sociology of the Orbán regime, I will not devote even a single paragraph to Matolcsy's nepotist and protectionist allures that manifest themselves by employing his own girlfriend and future second wife (and her sister and mother) in the National Bank and in its foundations, allocating large credits to his cousin (and, through him, to Matolcsy's two sons) as well as to spending public funds for the establishment of his "personal" university of economics, or subsidizing his PhD supervisor's department at another university.[9] More importantly, all informed guesswork describing Matolcsy's role as Orbán's kingmaker will be ignored. Ostensibly, after 1994, during the periods in which Fidesz was in opposition, he mobilized his business network, which emerged in the turbulent times of privatization before and after 1989, in order to assist his future boss in financing the "national side" of Hungarian politics.[10]

Political analysts still owe the public an explanation for the lasting relationship between this "odd couple." Why did Orbán decide to elevate Matolcsy's unorthodox economic policy to the level of *Staatsideologie*, knowing the political risk of supporting an economic advisor of dubious fame who is, in addition, a rather arrogant, snobbish and narcissistic communicator?[11] Nevertheless, aside from unconditional loyalty, Matolcsy also had a spectacular intellectual commodity to sell to his idol. He offered the Fidesz government in both 1998 and 2010 an easily digestible and applicable economic philosophy. It embraced all necessary properties of a populist program, ranging from harsh attacks on the harmful economic policy of socialist-liberal governments, through naming the wrongdoers—including the Western "principals" of the domestic "agents"—to a simplistic economic plan of overcoming hardships and substantially increasing the autonomy of the Orbán administration against global and regional economic organizations.[12] This program also promised to contribute to a rapid consolidation of the national-conservative elites and an efficient mobilization of their electorate. Apparently, the old wisdom of "the Moor has done his duty, the Moor can go" does not apply here because, after a while, the prime minister fell in love with the economic policy package advocated by his aide and kept glorifying it as a cornerstone of his System of National Cooperation.

CELEBRATING UNORTHODOXY

Calling his own economic program "unorthodox," Matolcsy provokes two kinds of reactions from critical observers. On the one hand, one can interpret the UEP as a manifestation of sheer ignorance about the economic orthodoxy of our time and decide not to go beyond a hasty analysis of the program's *political* rationality. In this case, the UEP will be regarded as a postmodern product of politics, a *bricolage* of poorly defined economic principles that often exclude each other.[13] What is actually unorthodox in Matolcsy's policy mix is that, as ironic as it may be, in formulating his interventionist agenda he borrows heavily from a body of thought he vehemently attacks most of the time. Introducing the flat tax and trusting in its trickle-down effects,[14] preferring workfare to welfare, supporting transnational companies and weakening the trade unions, etc.—that is, policies he should have rejected as "neoliberal delusions," to cite his favorite stigma—became principal constituents of the UEP.[15] By means of this mix one cannot offer an exhaustive description of "Matolcsyism" for good. Any other idea he deems useful (or just fashionable) may be taken on by him at any time. In 1990, Matolcsy said this in an interview:

> I do not regard myself either as a liberal or a neo-conservative economist. I see my place in an intellectual coalition, in which Keynesian and neoconservative ideas coexist perfectly, but also the practice of social market economy or even liberal techniques of finance.[16]

On the other hand, his program also can be considered a thought experiment that has something to do with interventionist theories of *economic* policy along a Third Way between capitalism and communism; theories that look back on a considerable past in the Hungarian history of ideas. Here, an obvious object of scrutiny is Matolcsy's role as a moderate socialist reform economist in the 1980s.[17] In a search for further historical analogies, prompted by the stubborn attempts of the Orbán regime to return to the 1930s, it is also child's play to discover some of the main ingredients of Matolcsy's economic doctrines in the works of agrarian populists on both the left and the right. An eminent member of that group was Mátyás Matolcsy, a leading economist of the national-socialist camp in Hungary,[18] and a distant relative of our hero. Child's play can be dangerous though. It is really not too difficult to demonstrate the similarity between core elements of Hungarian economic thought at these stages and Matolcsy's agenda today, and even telling personal links between the three can be revealed. However, let me stress upfront that even a strong evidence of similarity does *not* lead to the conclusion that (1) the moderate socialist reformers were semi-fascist thinkers,[19] or that (2) Matolcsy has borrowed ideas from his ancestor on purpose. He may not be familiar with and is not responsible for the thoughts and deeds of his relative in retrospect.

What is the gist of Matolcsy's proud unorthodoxy? Let him speak first:

> In 2010, Hungarian economic policy returned to pragmatic economic thinking. Its core is that it is labor, capital, and knowledge (technology) that produce new value. As a contrast, redistribution . . . does not create new value. (Matolcsy, 2015, p. 211)

By and large, these three sentences summarize his "theory of value" as presented in his voluminous book *Equilibrium and Growth*,[20] in which he tries to canonize the UEP-generated "breakthrough in economic history" (*ibid.*, 9–35). In Matolcsy's opinion, this breakthrough was due to a clear formulation of a series of other scholarly theses of his own. Reading his works,[21] one has the impression that he regards the following insights as his most significant scientific discoveries:

- Economic equilibrium is contingent on growth, and both depend on increasing employment while restrictions reduce effective demand and the pace of growth and, as a consequence, reproduce crisis.
- Crisis has many faces: underconsumption, underinvestment, growing external debt, and budget and current account deficits. In Hungary, the global crisis was preceded and/or complemented by an employment and demographic crisis, a growth crisis, and a structural crisis—all leading to a "neither equilibrium, nor growth" combo representing a "transition crisis."
- The "equilibrium or growth" dilemma can be solved with the formula of "growth + employment = sustainable equilibrium," in which raising the level of employment (cf. "work-based society") is the salient point. With its help, the familiar symptoms of economic malaise such as high budget deficit and public debt can be "grown out." In the short run, however, the "balanced budget + employment = growth" rule has to be followed.
- Imbued with neoliberal illusions, the international economic organizations force a therapy of severe and counter-productive restrictions (shocks) upon the countries in crisis, and guide them along the "Mediterranean Road" toward new crises.
- Following the advice of these organizations, Hungary has replaced state ownership with foreign ownership, public monopolies with private monopolies of large transnational firms (particularly in the banking and energy sectors), and a wasteful planned economy with a wasteful market economy. Incomes were channeled from the "real" economy to the financial sector.
- Meanwhile, "the West" began to be outcompeted by "the East," the economic success of which is based on enhanced state intervention, a large share of public ownership, cheap labor, hard work, strong family ties, and a high level of exports supported by a weak currency. Hungary also needs such a "developmental state." Matolcsy describes his ideal hybrid regime in the following way:

> From the Anglo-Saxon model, we have to borrow the flexibility of the labor market and the tax system of low rates. However, the unlimited market, the dismantling of state control in all fields, and the principle of ownership without responsibility, must not be taken on. [. . .] As for the economy, the patterns to follow can be the North-Italian, Bavarian, Austrian, Slovene . . . medium-sized family enterprises from which a majority of jobs, tax revenues, and even innovation emerge. [. . .] My sympathy lies with the Asian family-centered model—I think it fits Hungarian habits perfectly. . . . [This model] is based on self-reliance . . . it does not need large public pension and healthcare systems. [. . .] The transfer of value patterns, diligence, morals and reliability, knowledge, and expertise do not emerge from market entrepreneurship, but primarily from family frameworks. The family does not work along the lines of profit-making, but is based on feelings of love and belonging.[22]

- In the lack of a strong developmental state, the country was forced to sacrifice many of its comparative advantages (especially in agriculture, transportation and tourism), let its economy deindustrialize and turn into an "assembly line" for transnational companies. Thereby, it became fatally exposed to global forces that siphon off capital from Hungary.

In what follows, it will not be my intention to contest the above platitudes, prejudices or blatant fallacies often hailed as original scientific inventions. This had been done by some of my distinguished colleagues during the past three decades.[23] Yet, why conceal the fact that as a member of the Hungarian research community of economists I also feel challenged by every second sentence of Matolcsy, especially when he speaks, in a patronizing tone, of mental traps that allegedly constrain the fantasy of "neoclassical-liberal" economic theorists and political elites.[24] Fortunately, putting on the cap of a historian of ideas, I am privileged to focus on locating his work in the history of economic thought in Hungary rather than submitting it to a quality test.

Matolcsy's economic discourse has not changed much during the past thirty years: its main pillars had been cemented under late communism. True, it became a bit more sophisticated by borrowing the "music" of the Stiglitz-style critique of the Washington Consensus and that of the Eastern European version of the "Varieties of Capitalism" school,[25] not to speak of other new-collectivist interpretations of current capitalism.[26] At the same time, these intellectual impacts produced an "anything goes" blend of economic principles reinforcing the Eastern European type of state-oriented conservatism and contradicting the "neoliberal" elements of the UEP mentioned above. Matolcsy's rhetoric grew more self-confident with the global financial crisis of 2008 and the subsequent calamities within the Eurozone. Today, when he is fully convinced that his unorthodox approach managed to reverse the decay of the Hungarian economy, his "narrative of the savior" reached hitherto unknown heights of self-praise.

In the time of the first Orbán government between 1998 and 2002, Matolcsy as the minister of the national economy was not yet authorized to convert each and every one of his pet ideas into an all-embracing package of economic policy. The subsequent eight years of the socialist-liberal coalition reinforced his conviction that combining the socialist "fire" of forcing economic growth, impeding liberalization and pursuing egalitarian social policies with the liberal "water" of equilibrium-oriented restrictions and further steps toward the privatization of welfare services leads nowhere. He decided to release the economic program of the socialists from the captivity of the liberals, and to accomplish what the socialists never dared/could/wanted to accomplish: a sovereign state-capitalist regime with a fast-growing economy and moderate welfare performance. Matolcsy realized that any cautious development policy requires close cooperation with international economic organizations and was persuaded that external assistance would constrain the government's room to maneuver. Austerity measures would imply huge political costs while providing no guarantee to avoid the trap of dependency.[27]

He was confident that the theoretical insights listed above were confirmed by the "lost decade" of socialist-liberal rule and laid the foundations for the following aims and means of UEP:

- In order to stabilize the economy, the government has to radically loosen its relationship with international economic organizations (in Matolcsy's words, launch a "freedom fight" to end "colonization") in order to avoid a strong conditionality that would block the use of unorthodox means of crisis management such as the nationalization of private pension funds or levying special taxes on banks (a "tactical nuclear weapon" as he says). The country must turn its back on the IMF, that is, no bail-out programs, not even stand-by arrangements are to be accepted.
- Similarly, the supervision of domestic economic policies by the EU (and the IMF-EU cooperation in reviewing the country's economic performance) need to be weakened by meeting the Maastricht criterion for the budget deficit. The IMF can be asked to leave the country ("We threw them out," in Matolcsy's parlance),[28] but jeopardizing EU transfer payments would be too high a price to pay for national sovereignty. This is the final limit of provoking Brussels with a peacock dance, to use Orbán's favorite metaphor. A substantial weakening of national currency[29] (and pursuing a loose monetary policy in general) is an adequate technique of attaining the goals of the UEP; a technique the government would not be allowed to apply if Hungary had introduced the Euro. Thus, joining the Eurozone must be delayed as long as possible.
- While temporarily risking sovereign default and capital flight, the government can rely on societal support resulting from economic growth, an increase in employment and consumption, redistribution of incomes to the upper and middle classes via flat tax, state subsidies for domestic capitalism, or privileges offered to public servants and part of the cultural elite, etc., and a containment of poorer social groups up until incomes of the better-offs begin to trickle down. The means of containment include public works, tax cuts (e.g., family tax relief), price controls (e.g., of utility services), and so on, which will sugarcoat the pill of provisional welfare losses in the first phase of the UEP.
- The main sources of stabilization through accelerating growth are the EU's development funds, remittances of Hungarian migrant workers, confiscation of private pension funds, restructuring the budget by curtailing "unproductive" expenditure (cf. welfare retrenchment), levying special taxes on banks, telecommunication, commercial, utility companies, etc.—that is, preferably on foreign capital from the West—while promoting capital inflow from the East (e.g., through a "residency by investment" program), channeling savings into government bonds, reducing income taxes and raising VAT,[30] etc. These sources are exploited to make a first push. The momentum of stabilization is further maintained by massive government intervention ranging from the renationalization of "strategic firms," the launching of large-scale public credit programs and development plans of "reindustrialization," to use the official label,[31] to employment subsidies. To secure firm political background for these policy measures within the

EU, the subsidies should benefit a selected group of companies, primarily German car manufacturers, which will also be exempted from special taxes. Evidently, the strength of the first push depends on the consolidation of the institutional setup of the Orbán regime, above all on the rapid elimination of constitutional checks and balances on central economic decision-making (paradoxically, including that of the independence of the National Bank)—a precondition Matolcsy expected his "Adenauer" to satisfy.

- Regarding the cultural/psychological sources of the "growth turn," they are granted by "national cooperation," i.e., to quote Albert Hirschman, by the "loyalty" of the winners of the UEP and the "exit" of the losers. In the near future, the regime will reproduce itself almost automatically. Given the risks of a devastating reaction to the UEP by the global markets, this Grand Design must be well-protected inside the country. It not only has to be backed by a supermajority in parliament, a party-state under control and a wide network of vested interests, but, being an ingeniously uncomplicated construct ("simplicity" is Matolcsy's favorite term), it also needs to become comprehensible and acceptable by ordinary citizens, or at least they must not see any alternatives to replace it with. The UEP's path is as narrow as the razor's edge. Therefore, one needs to "dream big," to use Orbán's phrase, about the future, and take huge risks. To mobilize for the "revolutionary" process, the economic architects of "national cooperation" also have to promise big (e.g., create one million new jobs in ten years, introduce one-digit income and profit taxes, reduce public debt to 50 percent of GDP, become the center of industrialization in Europe, catch up with Austria in 20 years, etc.), "talk big" using newspeak (e.g., work-based society, "Eastern wind," "Hungarian Miracle," etc.), and radiate optimism as well as invincibility.

ON THE LEGACY OF MODERATE REFORMISM

Below, I will skip the question of whether these aims have been attained and the means have proven appropriate during the past decade. Also, it will not be asked what the price of this vast experiment in social engineering has been. Similarly, the proportions between deliberate action, spontaneous developments, luck and improvisation will not be examined, just as I will also disregard the cases in which Matolcsy made a virtue of necessity.[32] What really interests me here is his toolbox of ideas, or more exactly, the question of when and how the main instruments may have been placed in it in the past.

I had a tormenting feeling of *déjà vu*. Orbán's arrogant reference to similarities between Ludwig Erhard and György Matolcsy was correct in one respect: both economists had spent their formative years under authoritarian

regimes. However, while the father of the "German miracle" emerged from the Nazi era as a veritable (social) liberal, our hero carried over from communism and beyond a much heavier legacy of state interventionism, irrespective of the fact that from time to time he also takes pride in presenting himself as a devotee of *Soziale Marktwirtschaft*.[33]

In trying to comprehend Matolcsy's recent texts, I was traveling in time, first back to the 1980s into the thick of reform economics (market socialism). The methodology, many of the key concepts, the style and the sociological position of the author all reminded me of the moderate reformers (and the fallacy cherished by a number of foreign analysts of economic thought in Hungary prior to 1989). Frequently, these analysts mistook exception for rule. In focusing on the radical wing of reform economists, a small minority of the research community at the time, they often forgot about the overwhelming majority, the moderates. Today, one can hear their voice from Matolcsy's writings.

In the second part of the 1980s, Matolcsy drifted to the camp of radical reformers, and took part as a co-author in formulating their emblematic manifesto "Turnaround and Reform."[34] At the same time, he remained cautious, did not flirt with the Democratic Opposition (a loose network of anti-communist activists), and did not publish in *samizdat*. Accepting a high-level position in the national-conservative government in 1990 proved to be a point of no return. He found a political home there (he joined Fidesz later) but has not ceased to measure himself against his former colleagues among the radicals.

Here I cannot dwell upon the "speculative" (verbal) institutionalism of reformist thought, the affinity of reformers for artificial designs of reconciling the "plan" with the "market," or their embeddedness in high politics in the communist era.[35] Rather, a cursory distinction will be made between the radicals and the moderates. While the moderates believed in a gradual evolution from *socialist* to *social* market economy (*nota bene*, to a rather statist version of the latter), and accepted a slow change in major institutional regimes of the planned economy, the radicals demanded a rapid dismantling of the communist party-state and central planning as a prerequisite to shifting to a less statist (but not neoliberal) version of capitalism.[36] If a bigger picture were needed, one could add that, in contrast to the radicals, the moderate reformers, many of them unreconstructed socialists, had strong reservations against reestablishing the hegemony of large-scale private property, opening up to the West, and introducing resolute austerity measures to stabilize the economy. They showed a clear preference for what we call today a "developmental state," that is, a large public sector surrounded by small- and medium-sized semi-private enterprises regulated by a strong government that does not always bother itself with protecting property rights and other market freedoms under the rule of law. Some of them did not even mind a national-protectionist conversion of the party-state. When, in 1990, Matolcsy joined the government of József Antall, he subscribed to the elements of the moderate program almost word-by-word.

Observers tend to trace the origins of Matolcsy's current unorthodoxy by referring to his rediscovery of Keynes during the 1990s,[37] to the attraction of the Chinese success story of managed capitalism, and the heartfelt approval by him of the critique of the Washington Consensus all over the world. In my view, however, these sources are to be regarded as nothing but the whipped cream on the cake, as we say in Hungarian. His views had already been affected by old-school Keynesian concepts earlier, in the community of moderate reform economists. Similarly, the success stories of the Little Tigers had seemed to the less liberal-minded economists in Hungary already more than attractive by the 1980s, and much of the post-1989 condemnation of the Washington Consensus had been anticipated by them when they pondered how Hungary could escape from the trap of indebtedness before the collapse of communism.

Moderate reform economics served as a net collecting such concepts floating in the air during the agony of planned economy. At the time, Matolcsy, as a ministerial official and later as a researcher, was primarily interested in reforming state ownership. He conceived of marketization *without* genuine (competitive) privatization either by assisting small entrepreneurship at the border of formal and informal economies, or by integrating large state-owned firms in huge government holdings reminiscent of the Japanese or Italian regimes of industrial organization.[38] When, in 1986, János Kornai termed the latter strategy of state-led modernization "Galbraithian socialism,"[39] he used an over- and an understatement at the same time. I am afraid that he overestimated the impact of Keynes upon moderate reformers, and, simultaneously, underestimated their propensity for state-collectivism, and even *dirigisme*.

Many of them (especially those representing branch ministries and big state companies)[40] were enchanted by large public development programs to be executed by robust government agencies. Instead of privatizing the big firms, they demanded empowerment of the managerial elite (the "technostructure"), the acceleration of export-led growth, as well as the expansion of consumption and public investment even at the risk of upsetting the macroeconomic equilibrium. The moderate reformers were right to fear that a transition to liberal democracy would hamper the implementation of their far-reaching modernization strategies. Imbued with technological optimism and with a strong belief of promulgating cutting-edge institutional schemes of modern capitalism, they talked about the radical reformers as "ultra-liberals" with the same contempt as Matolcsy when he places curses on those whom he calls neoliberals today. To tell the truth, at the time he did not share each and every interventionist views of the "Galbraithians," but rather swung back and forth between them and the radicals. Ironically, he may be farther from the latter in our days than he was at the end of the 1980s.[41]

MEDIATING BETWEEN TWO MATOLCSYS

There is no reason to further invoke the memory of long-forgotten Hungarian economists here, though I cannot help settling on the name of Sándor Kopátsy who has been the chief mentor of Matolcsy ("my second *alma mater*," as he says) for about four decades now.[42] Over 90, he still served Matolcsy as an advisor. Born into a Protestant lower-middle-class family in a provincial town, Kopátsy became a regional leader of the National Peasant Party after the war, turned to communism rapidly, but kept his agrarian leanings, and worked as a self-made economist in the Planning Office. He was a 1956-er who was approached by the secret police to serve as an agent after the revolution,[43] a middle-level official in the Finance Ministry, as well as an active supporter of the New Economic Mechanism in 1968—a not-so-untypical career path in communist Hungary. It was the end of the 1960s when he became a family friend of the Matolcsys (György was 13 in that year).[44] Since the late 1970s, they worked in the Finance Ministry, made research, published, did business, and played politics in close cooperation. Both were party members before 1989. No doubt about it, until recently, the theory provider (the *Ezzesgeber*) in their tandem was Kopátsy, who in his most creative phase of life used to write a book almost every year.[45] An interesting difference between them today is that—while Matolcsy enthusiastically identifies himself with the parvenu political culture of the Orbán regime as a whole—Kopátsy often attacks its neo-feudalistic patterns and romantic politics of history from a puritanical-plebeian perspective.[46]

Kopátsy belonged to the moderates among the reform economists (he still considers himself a left-liberal thinker),[47] and his early ideas on how to smuggle limited and informal private property rights into the institutions of state ownership—that is, by turning large public firms into holding enterprises and opening vistas for SMEs and cooperatives—provided Matolcsy with fresh food for thought. The latter wrote his first study on these topics in 1981. While Kopátsy planned to keep the holdings in state property, transferring their shares to public pension funds, and sell only a small minority of the shares to private persons, Matolcsy designed a more tricky, rapid, and down-to-earth procedure of privatization by suggesting a gradual evacuation of company centers through selling the individual factories, workshops, commercial agencies, etc., of the companies to insiders or other firms (cf. cross-ownership) at very friendly prices. This scheme was called "spontaneous privatization" (a term coined by him).[48]

Matolcsy borrowed from Kopátsy, besides the holding model, the idea of a dual economic structure dominated by large firms in industry and small- and medium-sized companies in agriculture, the critique of restrictive economic policies, fast liberalization, and of ignoring the "Eastern" markets, the admiration of state-led development based on reflationary policy and the like,[49] as well as a peculiar style of economic thought. This style abounds in pompous propositions without proper verification by formal models and with a parochial contempt for modern economics.[50] As the titles of Kopátsy's works demonstrate, his economic views are underpinned by a shallow culturalist discourse in history concerning "missing the road," the "society of quality," the "way out," the "history of human race," and the "forgotten village." I am sure these phrases ring a bell even with readers who have just read Kopátsy's name the first time. If I add what the word *TETT* means in the title of the book on the "society of quality," they will not have to think twice to identify an important birthplace of Matolcsy's moralizing-psychologizing economic vision. This acronym, denoting "act" or "action" in Hungarian, refers to nature, morals, knowledge, and talent (*természet*, *erkölcs*, *tudás*, *tehetség*) and invokes the activist spirit of the radical social movements in the Hungary of the 1930s.[51]

As a young man, Kopátsy found himself on the left wing of the national-populist (*völkisch*) movement, idolizing Imre Kovács, the chief ideologue of the National Peasant Party—a devotion Kopátsy has cherished up till now.[52] Why do I mention Kovács's name? Because he was a friend of another leading agrarian expert, one of the most talented young economists of the populist camp in the interwar period who turned to national socialism and became an MP and a prominent intellectual of Ferenc Szálasi's Arrow Cross Party. While Kovács campaigned against citizens of German origin in Hungary (*Donauschwaben*), his friend wanted to get rid of the Jews. At the same time, both hated Hungarian aristocrats almost as much as the two ethnic groups in question. The reader will already know that the name of the economist was Mátyás Matolcsy.

An engineer by training, he also studied economics (for example, at the London School of Economics), and—following the defense of his doctoral dissertation in economics in 1932—joined the Hungarian Institute for Economic Research (MGKI) as an expert of national income statistics. With time, he became a passionate advocate of land reform who regarded the coalition of landed aristocracy and Jewish plutocracy as the main obstacle to a fair redistribution of land among ethnic Hungarian smallholders. At this juncture, he was a typical adherent of Third Way ideology located between feudal capitalism and communist planning. In 1935, he entered politics as an MP of the national-conservative government party of Gyula Gömbös, then joined forces with left-wing populist writers and agrarian sociologists and the Smallholders Party, finally arriving in the national socialist camp and becoming a top politician of the Arrow-Cross Party in 1942/1943. Matolcsy was known as an Italian-style fascist rather than a Nazi fanatic, someone who called for the total expropriation of Jewish fortunes and the deportation of all Jews, but did not dream of an *Endlösung*. In his parliamentary speeches and newspaper articles, however, he demanded the sharpening of anti-Jewish legislation by resorting to a harsh racist discourse that contained phrases such as "total dejewification," "concentrating the Jews in labor camps," and compared the Jews to ulcers that should be "removed from the nation's body" (cf. Ungváry, 2001; Matolcsy, 1941b, 1942a,b).[53]

Although to my knowledge György has not quoted Mátyás (yet),[54] he must have read some of his works, or at least heard family stories about his famous relative, an economist like him, at the dinner table.[55] Be as it may, many of György Matolcsy's current economic views sharply remind the observer of those advocated by his ancestor. It is of secondary importance, I believe, whether György actually read Mátyás's texts. Maybe, he simply "reinvented the wheel." Thus far, it has been either dangerous or uncomfortable in Hungary to talk publicly about a high-ranking fascist relative. Therefore, even if György had been familiar with each and every work written by Mátyás, he would not have been keen to admit it. It is also possible that even Sándor Kopátsy avoided speaking with György about Mátyás. Nevertheless, the Kopátsy-Kovács connection may be the missing link in understanding the transfer of ideas from Mátyás to György.[56]

I have four salient points of resemblance between Mátyás Matolcsy's thoughts and the UEP in mind:[57]

1. the combination of large public property with small- and medium-sized private properties;
2. the violability of private property rights;
3. the superiority of state interventionism in a "managed economy" (*irányított gazdaság*)[58] over the free market; and
4. the concept of a work-based social state (*szociális munkaállam*).

The following brief quotations from Mátyás Matolcsy's 1938 book *New Life on Hungarian Land* (*Új élet a magyar földön*) reveal many similarities:

> Economic liberalism is replaced by the managed economy. . . . This subjects the goal of maximum utility to the universal interests of the nation. The fundamental characteristic trait of the managed economy is the loosening of the rigid principle of the inviolability of private property. . . . The assets remain in private hands, but the owner will be responsible not only for himself, but also

for the state. Instead of the pagan concept of private property in Roman law, we will define a concept matching Christian civilization. . . . The mandatory maximum of the utilization of production factors, the maximum of capital gains of production goods, and the maximum of personal incomes is to be stipulated [by the state].[59]

The concept of a "work-based state" is central to his political speeches, in which he pays tribute to Mussolini's corporatist regime, and demands a large increase in employment and welfare for laborers, particularly the rural poor.

One might easily add another four (or even fourteen) points to the four points above. They would range from the adoration of the Japanese model of state capitalism, welcoming industrial policies and price controls and blaming the banks, through taking pride in a Hungarian *Sonderweg*, and a predilection for grandiose master plans of social transformation (in his case with a special emphasis on land reform and family farms), to the reinforcement of the Christian middle class and the stimulation of population growth. In principle, Third Way thinkers in Central Europe could evolve in a liberal direction as demonstrated by the example of the Freiburg School in Germany. It should also be noted that not all agrarian populists in Hungary became national socialists during the late 1930s.[60] Thus, György Matolcsy could have inherited a less inglorious relative who harbored similar ideas (say, Imre Kovács) than Mátyás Matolcsy. In any event, the similarity between the interventionist agendas of the two Matolcsys is not tantamount to sameness: Mátyás was a staunch critic of feudal legacies, a supporter of agricultural cooperatives, and—most importantly—a politician with a high level of social responsibility, demanding steeply progressive taxation and the leveling of incomes. Last but not least, Mátyás did bother with statistics.

I began my chapter by referring to a book of our hero published some years ago, and a few pages later ended up first in the 1980s and then back in the 1930s. In fact, this has been a rather slow move. Normally, we Hungarians do this trip in only a second by switching on the public radio or television today.

NOTES

1. Matolcsy (2015). Books with over six-hundred pages and a title like this are usually published by Nobel laureates.

2. This is the hometown of Matolcsy's family (the mayor is his relative). Our hero managed to allocate public funds, much of them originating from the EU, to build a new campus.

3. In Orbán's words "Nobody can promise me so much money, for which I would be willing to sacrifice my right hand." See index.hu (2010).

4. Matolcsy's close colleagues from among the reform economists in the Finance Ministry and/or the Institute of Financial Research before 1989, with whom I have had ample opportunity to speak during the past thirty years about his academic and political career. use sharp words to criticize his ignorance of economic theory. The ironic question asked by the former minister of finance István Hetényi, following one of Matolcsy's self-admiring conference presentations—"Gyuri, you do not bother with statistics, do you?"—is still widely remembered among Hungarian economists (Dudás 2010). Regarding his activities as a minister or central banker, they consider him a maverick, a self-conceited gambler who, if *Fortuna* happens to like him, may reap the harvest of unsown seeds (cf. free-riding on "quantitative easing" in the United States, or the fall of energy prices after the global economic crisis). In the eyes of these experts, many of whom became leading policymakers of the socialist-liberal coalition, Matolcsy has always been a skillful specialist in politicking and economic counselling—a job that made him rich during privatization in the late communist period—rather than a luminary in economics (cf. Várhegyi 2013).

Younger experts who were brought up in the world of neoclassical economics over the past quarter of a century show even less compassion. See origo.hu (2014). They look down on Matolcsy as a parochial government *apparatchik* who, in his lack of mathematical knowledge, is unable to understand a text written in the language of modern economics. He is regarded by them as an aborted old-Keynesian who thinks that the substance of *General Theory* can be confined to a simplistic growth formula based on boosting consumption and employment through government spending. In their view, Matolcsy is best described as an adventurer who likes to cherish antineoliberal conspiracy theories and spread geostrategic blah-blah about the inevitable decay of the West (see also Máriás 2013a,b).

5. See index.hu (2010).

6. See cnn.com (2012).

7. For another element of the interventionist tradition in Hungarian economic thought, see László (2014). He wonders whether the "Hungarian twins" in the United Kingdom, Thomas Balogh and Nicholas Kaldor, would endorse something like the UEP if they were still alive.

8. See index.hu (2011a, 2012), magyarnarancs.hu (2018).

9. See Dudás (2010), Keller-Alánt (2019a,b), Máriás (2013a,b), Mészáros (2012). Matolcsy decided to write his dissertation some years ago.

10. As his mentor Sándor Kopátsy—more about him later—said, "Matolcsy conjured up so much money with his progrowth economic policy and trickery, that the elections [in 2002] must not have been lost" (Kopátsy 2002a).

11. To be on the safe side, Orbán has always counterbalanced Matolcsy in the government with experts in fiscal policy during the past nine years – for example, with the dry, accountant-like economist Mihály Varga.

12. Among economists, Matolcsy was called "seven-percent Gyuri" after he promised Orbán to attain such a high rate of growth in the Hungarian economy already at the end of the 1990s. He discovered Keynes and introduced Orbán to his views long before the global economic crisis. Apparently, there was no cultural gap between the prime minister and his *intimus*. The former required exactly what was distilled by the latter from a large variety of Keynesian thoughts, namely, the slogans of full

employment and rapid growth (as guarantees of political stability) as well as the opportunity for the regime to increase the ratio of state redistribution (as a guarantee of feeding its cronies and winning the elections). See Mészáros (2012).

13. For more on this, see the notion of "simulacrum," to be introduced in the Conclusion of this volume.

14. Matolcsy provided Hungarian comedians with an easy joke when he said in the Hungarian parliament in 2012 that the introduction of the flat tax had increased the number of births in Hungary in some months.

15. See Matolcsy (2007).

16. See Matolcsy/Lindner and Horváth (1990a).

17. For a summary of the stages of his academic and political career before 2010, see Mihályi (2010, 452–55), Dudás (2010).

18. For his biographical details, see the last section of this chapter.

19. To take the example of racism, it would be unfair to draw a parallel between a top politician of the Hungarian fascists who wanted to deport all Jews from the country and Orbán's right hand, who "only" contends, in line with the new Fundamental Law, that the persecution of Hungarian Jewry began only at the onset of the German occupation in 1944 (Matolcsy 2013). The only fascist economist who became a leading figure in various communist governments after 1945, and finished his career as a moderate reformer was Béla Csikós-Nagy.

20. Symptomatically, no renowned academic economist wrote a review of this book. Apart from Matolcsy's aides, the only person who took his "theory" seriously was the journalist Zoltán Farkas (2016), who published a devastating criticism of it in an economic weekly. For critical assessments of the UEP by other journalists, see, e.g., Keller-Alánt (2019a,b).

21. What comes below is a concise summary of Matolcsy's unorthodox views without detailed references to these books, journal articles and interviews: (books) Matolcsy, (1981, 1991, 1998, ed, 1999, 2003, 2004, 2008, 2009, 2015); (articles) Matolcsy (1981, 1988a,b, 1989a,b,c, 1990b, 1995, 1996a,b,c, 1997a,b, 1998a,b,c, 1999a, 2002, 2007, 2011, 2013); (interviews) Matolcsy/Lindner and Horváth (1990a), Matolcsy/Farkas (2000), Matolcsy/Tardos (2010).

22. See Matolcsy/Tardos (2009, 204–6), Matolcsy (2007).

23. These are perhaps the most thorough critical assessments of Matolcsy's UEP: Antal (1998), Farkas (2011), Mihályi (1992), Pete (1999), Surányi (2016), Várhegyi (2013, 2016, 2019a,b). See also the chapters by János Köllő, Péter Mihályi, and Dorottya Szikra in this volume. A former deputy governor of the National Bank, Júlia Király, condensed the criticisms in one sentence: "Unorthodoxy is when one does not read the textbooks" (Király 2013). Today, a majority of experts are ready to disapprove of Matolcsy's thoughts only anonymously.

24. Even if members of the economic research community in Hungary had not been frustrated by the roughness of Matolcsy's attacks on neoclassical theory and economic liberalism, the fact that he demolished the excellent research base of the National Bank and spends a colossal amount of taxpayers' money on his antiliberal obsession in higher education would have irritated them. As stated by leading economists of the Hungarian Academy of Sciences, the National Bank intervenes in higher education without any quality control and violates the autonomy of universities by forcing them to adjust to the expectations of the donor. See mta.hu (2015), Laki (2015).

25. cf. Kovács (2013).

26. Matolcsy published many dozen brief pseudo-reviews of English-language books in the conservative weekly *Heti Válasz* between 2002 and 2013 (see valasz.hu 2019). In these, he does not analyze the selected works in detail, but picks those ideas of the authors, leading social scientists in the West, that underpin his own policy proposals. The lessons he draws at the end of each review revolve around some kind of new (non-leftist) collectivism based on conservative values along a "Fourth Road." Matolcsy prefers to choose authors with an antiliberal thrust, condemns 68-ers, applauds the success stories of state capitalism in the East, attacks "casino capitalism," speaks of the "pirates of the money world," calls for a Green New Deal, and unveils anti-Hungarian conspiracies.

27. For more on Fidesz's learning curve, see the Conclusion.

28. See index.hu (2011b).

29. A controversial result of weakening the Hungarian forint was a steep rise in the revenue of the National Bank, which—instead of being transferred to the country's budget—has been used by the newly established foundations of the Bank to finance Matolcsy's ambitious educational programs and his personal network. By the way, loosening monetary policy to stimulate growth belongs in the most orthodox toolboxes of economic policy.

30. In 2012, the general rate of VAT in Hungary was increased to a record-high 27 percent.

31. The development plans of the government were named after Ignác Darányi, István Széchenyi, Kálmán Széll, and others, i.e., leading politicians of the Monarchy and the Horthy regime, respectively.

32. Critical analysts agree that the "Matolcsy moment" of growth *and* equilibrium could not have been reached during the past couple of years if Hungary had not received generous subsidies from the EU (and sizable remittances from her citizens working abroad), and had not been able to free-ride on the post-crisis recovery of the world economy. They also contend that the country's success is temporary, since it has not been underpinned by a remarkable rise in productivity as well as in private savings and investments, and is threatened by a tremendous decline of the quality of its economic and legal institutions due to the political consolidation of Orbán's cronies. According to a well-documented and most disturbing criticism (Király 2019), Matolcsy first had to dig a deep hole to climb out of it later. As a minister, he inherited in 2010 an economy that survived the global crisis and began to stabilize itself when the Orbán government pushed it back into recession by applying UEP.

33. See Matolcsy/Tardos (2010). In this interview, Matolcsy stresses the importance of the reformist legacy of late communism in developing a "renewed liberal and social market economy." (See also Matolcsy 2009.) Here, instead of "liberal," he uses the word's old Hungarian translation, "*szabadelvű*." During the 2010s, even this term vanished from his rhetoric.

34. cf. Antal et al. (1987).

35. For an analysis of "reform economics" as a research program and a political project, see Kovács (1990, 1991, 1992).

36. Let me mention here some of the then well-known moderates: Iván T. Berend, Péter Ákos Bod, Béla Csikós-Nagy, István Hagelmayer, István Hetényi, Róbert Hoch, Mihály Kupa, Péter Medgyessy, Rezső Nyers, Gábor Révész, Tamás Sárközy, and János Tímár. The group of radicals included László Antal, Tamás Bauer, Lajos Bokros, István Csillag, Mihály Laki, László Lengyel, András Nagy, Attila Károly Soós, György Surányi, and Márton Tardos. As usual, the works of András Bródy, Ferenc Jánossy, János Kornai, and Tibor Liska resist even such a rough classification.

37. See Matolcsy (1996a). This study anticipated nearly all key ideas and policy goals that would feature in the UEP. In an effort to rehabilitate Keynes, Matolcsy celebrates the theory of his supposed predecessor as a bible of crisis management, catching up with the advanced world, correcting the mistakes of the monetarist turn, and strengthening the state. To illustrate the sloppiness of his reasoning, here are two sentences from the core argument he presents without any proof: "There emerges a simple difference between advanced societies and Hungary. While in the former 70 percent of society are able to stabilize the economy through their demand and 30 percent destabilizes it through decreasing demand, in the latter the proportions are almost exactly reversed" (*ibid.*, 192).

38. cf. Mihályi (1992, 82–83), Kovács (2018, 143–72).

39. Kornai (1986, 1730–32).

40. Here I think of authors such as the industrial managers and policymakers László Kapolyi, László Horváth, and Ádám Juhász, or the economists Ferenc Kozma and Andrea Szegő.

41. See, e.g., Matolcsy's numerous articles in *Heti Világgazdaság* on ownership reform between 1985 and 1989, as well as Matolcsy (1988a,b, 1989a,b,c, 1990b).

42. Matolcsy's former colleagues also mention other persons that he chose to respect and/or to follow. They include his former superiors in the Finance Ministry István Csillag, István Hetényi, Péter Medgyessy, and—currently—Viktor Orbán.

43. According to my research in the archives of state security in Hungary, Kopátsy was "asked" to work as an informant in 1957, but it is not clear whether he filed reports after 1960 (Kopátsy 1957–60, 2011a; see also Lengyel 2014). In 2002, it was leaked out by members of the so-called Mécs Commission (a parliamentary body investigating the past of government officials) that Matolcsy had reported to the secret police before 1989, but to date there is no public evidence for his collaboration. See also Kovács (2008).

44. Kopátsy wrote the script of a television series, in which a certain "Dr. Brain" explained the New Economic Mechanism to ordinary citizens (*Magyarázom a mechanizmust*). It was produced by a film studio (with an affiliation in Kecskemét) managed by Matolcsy's father, a Protestant intellectual who became friends with Kopátsy.

45. This is a selection of Kopátsy's books: Kopátsy (1983, 1989a,b, 1992, 1993a,b, 1995, 1996a,b, 1998, 2000, 2001a,b,c, 2002a,b,c, 2005, 2006, 2011b,c, 2013).

46. cf. Kopátsy (1996a,b, 1998a, 2001a,b). See also Lengyel (2014).

47. For his reformist creed, see Kopátsy (1989a,b).

48. See Kopátsy (1969, 1988, 1989), and Matolcsy (1981a, 1988a,b, 1989a,b,c, 1990b). For a comparison of the two schemes, see Mihályi (2010, 82–83). During the 1980s, these reform projects were part of a whole series of proposals for restructuring state ownership. At the time, some of them (e.g., those designed by István Csillag and László Lengyel or by László Antal and Márton Tardos) counted as more radical than these two. For a thorough analysis of "cross-ownership," see Stark (1996).

49. In 2002, this is how Kopátsy recalled his views before and after 1989: "I did not approve a rapid exit from the Eastern markets. They have remained valuable even for rich Western countries [. . .] I did not approve that loss-making companies were driven into bankruptcy with no reason. Even a loss-making firm is better than mass unemployment. It is better not only from the perspective of budgetary equilibrium but also from that of the moral state of society. [. . .] I did not approve a much faster liberalization than the Hungarian society and economy could digest. [. . .] A fundamental insight of mine in economics is that . . . without deliberate depreciation of money one cannot carry out economic development catching up with rapid technological progress. [. . .] As an economist, my most important message is that inflation is one of the greatest inventions of the twentieth century." (Kopátsy 2002c)

50. Matolcsy praises his mentor thus: "It will be the time of veritable intellectual globalization when Kopátsy's thoughts will circulate at big universities in China and India, and be cited in both Bakonybél [a small Hungarian village] and Paris." (Matolcsy 2011) Matolcsy follows Kopátsy's style of writing in republishing large segments of his earlier articles and books in later ones, and "sparing" the reader from a precise definition of his main scientific terms as well as from a minimum number of notes and references to present the state of the art he wants to surpass. Probably the best example for this approach is Kopátsy's 360-page book *New Economics* (*Új közgazdaságtan*, 2011c). While Kopátsy is the sole author of his works, in Matolcsy's case it is difficult to judge the share of his collaborators in the research and writing of his books.

51. One of Kopátsy's idols was the novelist and playwright László Németh, who envisioned the "revolution of quality" in the 1930s. Kopátsy borrowed from him the emphasis on morals, knowledge and talent, and transmitted these concepts permeated by ethnic essentialism to Matolcsy, who quotes his mentor's views extensively. For instance, in his *Equilibrium and Growth*, Matolcsy writes about "talent capital" and the "two invisible sources of economic growth: morals and talent." Moreover, he suggests the following magic formula: "knowledge x talent x morals = value," adding that the breakthrough made by the Orbán government in the first half of the 2010s was contingent on a "hidden moral turn" and the exploiting of the advantages of the "Hungarian way of thinking" (Matolcsy 2015, 217–22).

52. cf. Kopátsy (1996b).

53. See also Matolcsy (1934, 1938a,b, 1941a,b), csaladitemeto.hu (2019).

54. In his article on Keynes (Matolcsy 1996, 197), he cites Kovács's famous work *Silent Revolution (Néma forradalom)*, for which Kovács collected research materials in a long study tour across Hungary together with Mátyás Matolcsy.

55. Recently, Mátyás's son, Mátyás Matolcsy Jr., published a very detailed family history (cf. csaladitemeto 2019), and the family has organized so-called "Matolcsy

meetings" since 2002. When, some years ago, György was blamed for not dissociating himself from his "uncle's" anti-Semitic ideas, he responded through an official letter by the National Bank, stating that Mátyás was not the uncle of György. (See hvg.hu 2013.)

56. Another source of information could be an opinion leader among young officials and researchers of the Finance Ministry and a close colleague of Matolcsy, László Lengyel. In the 1980s, he studied the history of economic thought in Hungary during the 1920s and 1930s, and published about István Varga who – as director of the Hungarian Institute for Economic Research – worked and published together with Mátyás Matolcsy (Lengyel 1986, 2014).

57. These are some of Mátyás Matolcsy's most important books: Matolcsy (1934, 1938a,b, 1941).

58. Sometimes he even used the term "managed *planned* economy" to express the level of state interventionism he considered appropriate and his respect for central planning in the Soviet Union (Ungváry 2001).

59. Matolcsy (1938b, 15, 59, 61).

60. cf. Trencsényi et al. (2018, 142–61, 225–41), Kovács (1993). At any rate, one did not have to be a populist thinker to be part of the interventionist consensus of the interwar period. The German concept of *gelenkte Wirtschaft* (managed economy) was taken over by the former Czechoslovak minister of finance, Karel Engliš whose 1936 book entitled *Regulierte Wirtschaft* (Regulated Economy) was translated into Hungarian immediately. Its etatist message was accepted in a way or other even by more liberal-minded scholars in Hungary such as Farkas Heller, Ákos Navratil, Tivadar Surányi-Unger, and István Varga.

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