Financial nationalism and democracy:

Evaluating financial nationalism in light of post-crisis theories of financial power in Hungary

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Abstract

Since the global financial crisis, for IPE scholars a core intellectual puzzle is to explain the rise of financial nationalist governments into power and their sustained capacity to pursue financial nationalism in an era when the interconnectedness of global financial markets surpasses any historical level. Financial nationalism is puzzling because of its capacity to redistribute gains from international financial transactions among a larger share of domestic society. This paper, using the example of Hungary, identifies financial nationalism's unexpected achievements through contrasting it with claims of three theories of financial power: structural power of finance, financialization of state institutions, and financialization of everyday life. Specifically, it documents the Hungarian government's achievement to increase domestic ownership of banks, to importantly enlarge the scope of central banking, and to significantly reduce the credit exposure of a large segment of the Hungarian population. At the same time, it also describes an underemphasized critical condition of financial nationalism's advancement, at each examined policy domain, namely the diminishing democratic oversight of major financial transformations. Finally, the Hungarian example does not suggest that financial nationalism inherently leads to democratic decline, only that its many impressive economic achievements should be understood within its political context.

1. Introduction

Financial nationalism is on the rise. Countries ranging from the United States, Russia, China, and Taiwan, to Germany and Hungary embrace financial nationalist policies although to varying degrees. Under the Trump administration, the U.S. has gradually grown wary of Chinese financial investment in U.S. markets. Therefore, the former U.S. President Donald Trump strengthened the Committee on Foreign Investment in the U.S. and used it to block a number of Chinese investment projects. In May 2020, the U.S. Senate passed a bill that could lead to Chinese companies such as Alibaba and Baidu being barred from U.S. stock exchanges. In Europe, Margrethe Vestager, the European Union's chief competition regulator, has suggested that EU-member governments buy stakes in domestic companies to block Chinese takeovers. Financial nationalist measures, however, not only target China. Germany, for instance, is flirting with financial nationalism to shield large banks from foreign investors. Also, Japan recently has moved to limit foreign investment in many of its publicly listed firms. Russia, in the aftermath of its military attacks on Ukraine, reacted to Western sanctions with financial nationalist policies. In particular, Russian authorities resumed a narrative of opposing the neoliberal order dominated by the US dollar. At the same time, China's financial nationalism is changing from a largely inward and defensive orientated policy to an increasingly outward orientated policy reflecting on its changed position in the international political economy (Petry 2020).

Scholarly studies, surprisingly, have not yet caught up with the growing media attention on financial nationalism. Until recently, two approaches defined research on financial nationalism: a legal perspective and an International Political Economy (IPE) perspective. From a legal point of view, Lupo-Pasini (2017) argues that the 2008 global financial crisis (GFC) was the turning point for the change in the orientation of financial regulators away from a transnational focus towards the domestic market. While before the GFC, the trend was towards liberalization and regulatory co-operation, the GFC prompted states globally to assert more control over domestic and international financial markets, and the European Union to strengthen EU-level bank supervision. As a result, a key development in the post-Bretton Woods financial system, namely regulatory cooperation through the adoption of common, prudential standards for financial institutions, was halted (Lupo-Pasini 2017). Instead, financial nationalism manifested itself in the strengthening of regulatory unilateralism, ring-fencing for national banks and host-country control, digital protectionism such as protectionist policies against FinTech giants, and a fragmentation in international payment systems. Finally, from a legal perspective, financial nationalism is also the reason behind systematic attacks on central bank independence globally.

IPE scholars are less interested in the legal nature of the regulatory turn and focus instead on a wide range of statist policy choices that governments globally adopt. Studying the growing assertion of state autonomy vis-à-vis global finance, IPE scholars have been both surprised and hopeful with regards to the rise of financial nationalism (Ban and Bohle 2020; Johnson and Barnes 2015; Naqvi 2019). Their surprise stems from the unexpectedness of financial nationalism's triumph in many such areas of economic policy formation in which previous scholarship has documented the heavy hand of global financial markets. The turn towards statist solutions has been explained as deriving from an ideational turn with normative consequences that emerged in the aftermath of the GFC (Baker 2013). While pre-GFC, policy makers generally trusted the efficiency of financial markets to create the best conditions for economic growth and stability, following the GFC, many states have sought to develop a more assertive external and internal financial policy (Antoniades 2017). An activist state is seen now as a viable option to markets in directing credit to developmental projects. In fact, we have witnessed a rise in interest in public development banks both in the global South (Griffith-Jones and Ocampo 2018; Mazzucato and Penna 2018) as well as in the European Union (Mertens and Thiemann 2019). IPE scholars thus investigate conditions and particular policy fields within which states, especially with small and open economies, can establish autonomy, increase policy scope and mitigate the disinvestment threat by large banks (Naqui 2019).

While focusing on the enabling factors contributing to the rise of financial nationalist policies, most IPE approaches do not investigate the interactions between the process of reasserting national sovereignty and the political structures within which financial nationalism unfolds. For scholars looking at China, interest is limited to state banks and the interaction between domestic and foreign businesses —the feedback effect of these interactions on the state-party relations is rarely analyzed (Chin and Gallagher 2019; Kring and Gallagher 2019). With respect to small and open developing countries, such as Bolivia, the general interest of analysts stayed with the political economic conditions under which the reassertion of autonomous decision making in finance was possible, while the impact of these developments on political institutions is left unexplored (Naqvi 2019). In Eastern Europe, Johnson and Barnes (2015) defined and analyzed financial nationalism in Hungary, Bohle (2014) registered the enlarged policy scope in housing finance and Ban and Bohle (2020) described the effect of different growth models on the peripheral financialization of the economy. Yet, the interaction between financial policy formation and the quality of democratic oversight has not been explored.

This essay seeks to fill this gap. I use the example of Hungary to analyze financial nationalist policies in relation to three theories of international finance and financialization in order to outline the change in policy scope while exploring the quality of democratic oversight. These theories are the “structural power of finance” (Culpepper 2015; Strange 1996), the “financialization of the state” (Karwowski 2019; Mader, Mertens, and van der Zwan 2019) and the “financialization of daily life” (Martin 2002; Pellandini-Simányi, Hammer, and Vargha 2015; van der Zwan 2014). The analysis aims specifically at (1) assessing the state’s increased autonomy in bank ownership decisions, (2) describing an overarching change in the conduct of monetary policy and (3) highlighting the capacity of financial nationalist policies to counteract the financialization of everyday life by reducing foreign exchange vulnerabilities of households. However, this review will also evaluate the impact of financial nationalism on the quality of democratic oversight of financial policies and the uneven integration of society into the financial nationalist project and its economic gains. It is argued here that financial nationalism, as it is advanced in Hungary, severely harms democratic institutions, provides financial resources only to well-connected businesses and unevenly integrates the society into the benefits of the financial nationalist policies. The fact that financially nationalist governments may take advantage of their increasing control over domestic monetary institutions and flows to undermine democratic policymaking is the key Hungarian lesson that future IPE scholarship on financial nationalism should take more seriously. Finally, because the selected case of Hungary is highly integrated into the economic and political structures of the European Union, I also analyse the role of the EU in the process of financial nationalism’s advances and the accompanying democratic backsliding.

The paper is organized as follows. First, in Section 2, an encompassing definition of financial nationalism as proposed by Johnson and Barnes (2015) is presented. Section 3 explores Hungarian financial nationalism in relation to the findings of the „structural power of finance” approach of IPE. Section 4 analyses the financial nationalist central bank. Finally, the findings of the „financializaiton of everyday life” literature are contrasted with the achievements of financial nationalist policies, which achieved some degree of de-financialization for the middle classes but increased informal financialization of the poor. In relation to all three processes the sections highlight occasions in which they undermine democratic practices. The European Union’s complacent attitude is also documented. The last section concludes.

2. What is financial nationalism?

In this paper, financial nationalism is defined, following Johnson and Barnes (2015), as “a subset of economic nationalism that focuses on using monetary and financial policies as instruments to pursue a nationalist agenda” (Johnson and Barns 2015: 537). Understanding the actual manifestation of financial nationalism, however, depends on how one defines the nationalist agenda. Johnson and Barnes follow a very cautious path: on the one hand, they assert that financial nationalism should be understood as the manifestation of a political strategy which, on the basis of a ‘nationalist ontology’, defines a set of financial policy scripts along a politically marked binary division of insiders and outsiders. This conceptualization of financial is helpful in that it allows for a large variety of financial policies to fall into the category of financial nationalism as long as they are based on and justified by a nationalist agenda (Abdelal 2001; Helleiner 2002; Helleiner and Pickel 2004; Pickel 2003; Clift and Woll 2012). Indeed, as Helleiner (2002) demonstrates, economic nationalism may historically refer to not only protectionist but also liberal policy scripts. Lindstrom (2015) provides contemporary evidence for economic nationalism and financial nationalism which is used as reference to nationalist-protectionist policies, as in the case of Slovenia in the 1990s (Lindstrom and Piroska 2007), and the most extreme version of neoliberal policies as in the case of Estonia during the same time (Kuokštis 2015).

However, Johnson and Barnes also define financial nationalism in a more substantial manner, and they provide five interlinked policy activities of financial nationalist governments as the most typical of their practice. The first of these is the defense of the national currency. Financial nationalists are keen on ensuring an exclusive use of their national currency as a means of exchange and store of value within the nation’s geographical boundaries. Monetary sovereignty does not oppose the promotion of the national currency in international practice. On the contrary, internationalization of the currency may be a symbol of national power and a tool of foreign policy. Second, financial nationalists seek to establish and preserve autonomy in the conduct of monetary policy. According to Johnson and Barnes financial nationalist will usually pursue “dirty floating” (interventionist) rather than a fixed or pegged exchange rate. Third, central bank independence is regarded as dysfunctional. For a financial nationalist autonomous monetary policy means that the central bank should be an ally of the government and placed under the control of nationalist politicians. Therefore, a financial nationalist government seeks to undermine central bank independence, pointing out that it is an outlier in the state apparatus, controlled by technocrats who are closer in ties to international networks than to the national body politique (Johnson 2016). Fourth, financial nationalists are also banking nationalists and therefore prefer national control of the banking sector, with national control meaning ownership rather than physical location of the banks (Epstein 2014a). Banking nationalism can include preferential treatment of domestic banks, hostile regulatory and supervisory approach to foreign banks and domestic development banks. Fifth, financial nationalists tend to be skeptical about international institutions, specifically the World Bank and the International Monetary Fund (IMF), and any other international organization they perceive as a threat to their policy autonomy.

Financial nationalism has been shown to drive the economic policy decisions of countries such as Hungary (Johnson and Barnes 2015; Piroska et al., 2020), Poland (Mérő and Piroska 2016), Bolivia (Naqvi 2019), Russia (Johnson and Barnes 2018) and also China, with somewhat altered priorities (Helleiner and Wang 2019). The Central Bank of Turkey's macroprudential policy conduct can also be categorized as financial nationalist (Yağcı 2018). For IPE researchers the core intellectual puzzle is to explain the rise of financial nationalist governments into power and their sustained capacity to pursue financial nationalism in an era when the interconnectedness of global financial markets surpasses any historical level. In order to broaden this perspective on financial nationalism, I turn to analyzing its many surprising achievements in Hungary while also highlighting its impact on the quality of democracy in an EU member state.

3. Financial nationalism's capacity to increase state autonomy in relation to the structural power of finance

The key feature of financial nationalism that surprises researchers of the global political economy is its capacity to increase state autonomy in relation to the overwhelming structural power of finance. The structural power of finance to undermine state sovereignty has been observed in IPE ever since the deregulation wave of the 1970s (Cerny 1994; Germain 1997; Strange 1983). The opening up of financial markets and increased capital mobility led to a previously unprecedented level of volatility and volume of daily financial transactions that today outweighs many developing countries' yearly domestic revenues (Cerny 1998). As states are constrained in their choices of domestic policymaking, the financial sector increased and eased the exit option of capital, thus further compelling states to put in place such policy mixes (low tax, liberal labor market, open financial sector) which please capital owners. In the 1990s, researchers observed that when states did not follow the logic of market liberalism, the financially powerful actors were capable of exercising power over them by using the leverage of international debt (Stallings 1992). Today, public and private debt levels, the accumulation of debt, growing inequalities of income and wealth, etc. jointly explain the power of finance over governments for IPE scholars working in the new and complex field of financialization (Antoniades and Griffith-Jones 2018).

For many analysts of the structural power of finance, the 2008 global financial crisis did little to weaken these forces (Bell and Hindmoor 2015; Culpepper 2015; Culpepper and Reinke 2014; Woll 2014). While evaluating the institutional conditions and the extent to which finance has been able to exercise power over regulators in shaping the content of the post-crisis regulatory reforms, researchers conclude that it is still finance that has the upper hand. Bell and Hindmoor (2017), for instance, find that regulators were influenced by international banks when defining the new macroprudential capital rules and consequently capital requirements were set at levels lower than originally planned. Woll (2014), who looks at bank bailouts after the global financial crisis, finds variation in the extent to which bailout packages were shaped by bank lobbying. Her most interesting finding is that banks could exercise the most influence when they did not act collectively but forced governments to deal with them on an individual basis (Woll, 2014).

Variation in the responses of individual states has also been presented as a counter argument to the overarching power of financial structures (Cohen 1996). Already in the 1990s and 2000s, IPE researchers pointed out that the liberalization of financial markets was driven by domestic politics, and domestic political institutions played a key role in explaining the results, which often contradicted expectations of scholars of strong globalization. Exploring individual country experiences from the developed world (Kurzer 1993; Loriaux 1996; Perez 1997) to developing countries in East Asia and Latin America (Haggard, Lee, and Maxfield 1993) to the post-socialist countries (Johnson 2000), researchers confirmed a general trend towards liberalization. However, these authors also document some key differences, unevenness, and resistance, which, taken together, questioned some of the core observations and policy consequences advanced by scholars who looked only at the global changes.

While registering the profound, culturally and historically defined containment of the power of finance, none of these scholars has observed the features of financial nationalism as described here. The key difference, it seems, lies in the intention of political actors. While national political actors up until the 2008 financial crisis, have resisted, postponed, and questioned the liberalization trend in finance, they have not formulated active and ideologically motivated counter-initiatives that would have aimed to re-establish state autonomy.

The motivation to counter the course of liberal market reforms in finance seems to be linked to the global experiences of the financial crisis. For a financial nationalist, the 2008 global financial crisis has been a key proof for the non-viability of the liberal economic order (Hesse 2021). In Europe the financial crisis exposed the structural dependence of peripheral countries and the limited room for maneuvering of governments to counterbalance the effect of the crisis for their economies. However, responses on the periphery to the GFC depended upon the interpretation of the causes of GFC, and financial nationalism only emerged in countries where country specific historical and cultural experiences favored such an interpretation (Piroska et al. 2020).

Once in power, financial nationalists aimed at countering the structural power of finance through the exercise of banking nationalism and changed the ownership structure of the banking sector (Epstein 2017; Mérő and Piroska 2016). The GFC not only created a political motivation for nationalist governments to protect the stability of their domestic financial markets via increasing domestic ownership, but also provided an opportunity to take over foreign banks' subsidiaries that were badly hit. A key new feature of banking nationalism is that it is not satisfied with tilting the domestic regulatory playing field in favor of domestically owned banks (Gilpin and Gilpin 2001), but more explicitly facilitates the takeover of foreign owned banks by national insiders. More precisely, facilitating the taking over of foreign banks by national insiders goes hand in hand with the nationalist redrawing of bank regulations and bank supervision. The latter activity is however constrained by the degree of integration of a country into international governance structures such as the European Union.

In terms of bank regulation, financial nationalist governments of Poland, Hungary and to some extent Romania are constrained by their membership in the European Union. In order to retain decision-making power in regulation both financial nationalist governments chose to stay outside the Banking Union in 2014, the EU's most recent step toward differentiated integration

(Mérő and Piroska 2016). Their status outside the Banking Union and the Eurozone allowed these countries to retain their authority over banks, i.e., the right to authorize the establishment of new banks or to approve the takeover of banks.

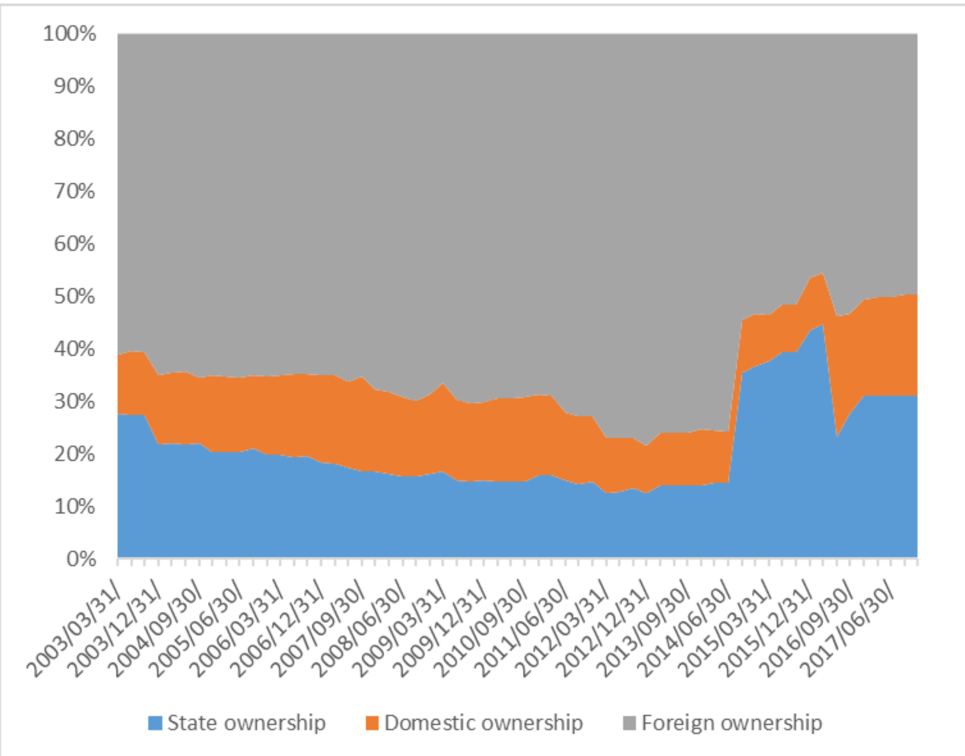
Retaining regulatory autonomy, a number of Eastern European governments supported takeovers of foreign owners by domestic owners. In Poland, in 2017, for the first time since 1999, the share of domestic investors in the sector's assets was higher than the share of foreign owners. At the end of 2018, it reached 54.1%. In Hungary, domestic investors controlled 13 commercial banks (eight banks were controlled by the state and five by private capital) and all cooperative banks. The year 2019 was that of the cooperative sector's final consolidation, including the related commercial banks. At the end of April, three banks and a cooperative merged, while at end of October this new entity merged with another commercial bank and 11 saving cooperatives. At the end of 2018, 49.9% of the banking sector's shares was held by domestic entities with almost two-thirds of that in the hands of the state. This is a remarkable change as domestic ownership in 2014 stood at a mere 24.2%. Even in Romania, we can observe a downward trend in foreign ownership. Although in 2018 about 75% of the Romanian banking sector's assets were held by institutions with foreign capital, this represents a downward trend compared to the 91.3% registered at the end of 2016. It is crucial to recognize that these changes are driven by political considerations and did not happen as a result of foreign bank owners' decisions. Clearly, in the Eastern European region, where governments are not controlled by financial nationalists such as Slovakia or Czechia, we do not see such changes and the dominant foreign ownership of over 90 % of total bank assets remained stable. In Slovenia where foreign ownership of banks was the lowest in the region before the crisis (Lindstrom and Piroska 2007), foreign ownership increased by 2018 (Piroska and Podvršič 2020).

Moreover, foreign owned banks in the Eastern European region pursued a second-home market approach where bank subsidiaries are established with a long-time view, and parent banks have maintained a capital base even when the crisis hit the parent bank's home market (Epstein 2014b). German, Austrian and Italian banks would not initiate drastic changes in their ownership shares; in fact, they showed remarkable persistence even when, for example, the Hungarian nationalist government used its power to levy a special tax exclusively on their activities (Király 2016). In sum, the above-described ownership changes are clearly the result of financial nationalist leaders proclaiming that financial stability and economic development may only be achieved if banks have majority domestic control.

A closer look at the structural changes in bank ownership, however, reveals a remarkable pattern of loosening democratic oversight throughout the process. We will illustrate this tendency using the example of how Hungarian domestic owners acquired their positions. The weakening of democratic oversight is apparent in the neglect of the central bank to respect transparency and accountability, the clear manipulation of purchasing prices of banks and the selection of well-connected owners. The new owners with close ties to Prime Minister Orbán used the acquired banks to provide preferential credit to business actors from Orbán's circles, thus strengthening the economic base of the increasingly anti-democratic Orbán regime. A short overview of the largest bank domestic takeover should be illustrative in this respect.

In 2012, in a speech given at the Hungarian Chamber of Commerce and Industry, Viktor Orbán declared his government's goal to radically change the bank ownership structure. Even with a supermajority in the Parliament, Orbán had to wait until 2013 – until the end of the mandate of the incumbent governor – to be able to appoint his ally György Matolcsy to the central bank so that he would be able to fully achieve his policy goals. This is because post-crisis central banks became the key institutions not only for monetary policy formation but also for managing financial sector related polices in general. While foreign banks suffered losses due to the Orbán government's special taxes and other measures, they maintained their presence in Hungary in line with their long-term commitment and second home market model (Epstein 2014b). In the years following the financial crisis, Hungary nationalized or took minority stakes in Granit Bank, Erste Bank and Széchényi Bank. By the end of 2017, Orbán's wish came true and the majority of assets in the Hungarian market were controlled by domestic owners (see Figure 1).

Figure 1: Bank ownership in percentage of total assets 2003-2017 in Hungary



Source: Hungarian National Bank (2018)

However, the story of the domestic takeover of MKB shows that the process was marred with secrecy, obscure ownership changes including public funds, and violation of transparency requirements. In 2013, two major banks were for sale on the Hungarian market: the Bayerische Landesbank's subsidiary, MKB, which suffered serious financial losses and experienced a major crisis in management (Király, 2016) and Budapest Bank, a GE subsidiary. Both banks were for sale for reasons connected to the global financial crisis. As a first step of MKB's domestic take over, the Hungarian state purchased MKB, then the fifth largest commercial bank in Hungary. In legitimizing the purchase, the Hungarian central bank maintained that it represented a "threat to financial stability" as well as that the "bank was unable (unwilling) to make any contribution to the growth of the economy." MKB was purchased under complete secrecy even though the nationalization involved public funds. As a second step, the Hungarian central bank and supervision authority, MNB, drew MKB under resolution citing the reasons the bank would probably have failed within a year. The next step was a separation of bad assets to a bad bank, while the good bank received state transfers, which is considered state aid under EU law. At this point, well-connected businesses could purchase some of the better-quality businesses of MKB. The European Commission found it compatible with the internal market mechanism in December 2015. Bad loans in the amount of about HUF 213 billion were separated from MKB's portfolio in 2014. MKB Group generated an audited loss of HUF 76.4 billion in 2015. During privatization, i.e., the market sale of its shares, the best bidder was the syndicate of Blue Robin Investments S.C.A., the METIS Private Equity fund, and Pannónia Nyugdíjpénztár. The purchasing price was HUF 37bn, a price that seemed to many analysts to be substantially lower than the net value of the bank.

According to the press a few months later, after transactions of the investment funds, the new domestic owners are Lorinc Meszaros (Orbán's own strawman), Tamas Szemerey (Matolcsy's cousin) and Zsigmond Jarai (Minister of Finance in the first Orbán government). Once in Orbán's circle of domestic ownership, MKB became the source of legal funding for projects that served to consolidate the governing party's political dominance. Specifically, domestically controlled banks are essential sources of credit for such kind of economic investment that support Orbán's political purposes. The example of purchasing TV2, a commercial tv channel, Index.hu, an internet-based journal, and investing into privatized universities, are cases in which the Orbán-allied investors were instrumental in damaging the freedom of media and speech, the freedom of academia, as well as restricting the authority of opposition-party controlled municipalities, etc. Finally, a careful reading of the above case study also reveals that the European Union's Commission was involved in this process and approved it, i.e., it disregarded the suspicious circumstances exposed by investigative journalists.

4. Financial nationalism and the financialization of the state: the case of central bank independence

In this section, I investigate financial nationalism's distrust of the financialization of state practices. For a number of researchers, financialization of the state is the process of the penetration of financial logic into public domains, which compels public decision makers to act as private financiers rather than as a public authority (Gabor & Ban, 2016; Kirkpatrick, 2016; Lagna, 2016; Trampusch & Fastenrath, 2019). Karwowski (2019) emphasizes that the process of the financialization of the state has important negative consequences for the ability of the state to fulfill its duties towards its citizen and it is also held less accountable for its actions

(Karwowski 2019: 1001). She examined financialization of the state in relation to both fiscal and monetary policies and presented compelling evidence for the entrenchment of the financial logic into governments' practices globally. Others look at the role of international debt in inducing or enforcing a financialized logic on government institutions' behavior (Fastenrath, Schwan, and Trampusch 2017). But financialization of the state does not stop at the level of government organizations and policies. There is growing evidence that similar financialized practices are at work in public institutions charged with welfare and social provisions, such as healthcare and education, pension systems and funds (van der Zwan 2019), taxes and tax collection, public infrastructure networks and utility providers, etc.

In this section, I highlight financial nationalist governments' distrust of central bank independence. Central banks as government institutions have also been examined for their proclivity to follow the logic of financial markets to the detriment of their public mandate. In particular, Gabor and Ban (2016) analyzed the ECB's behavior on repo markets during the heyday of the sovereign debt crisis to point out the incongruity of the ECB's valuation of "safe assets" with its mandate to serve as lender of last resort to member states governments (Gabor and Ban 2016). The ECB's mistaken argumentation driven by concerns for the stability of financial markets was also behind its decision to deny the Hungarian, Polish and Latvian central banks' request for euro swap agreements during the financial crisis (Piroska 2017). Others argued that not only particular central banks, but the practice of central banking is also in transformation and the logic of financial markets is evident in central banks' interaction with financial market actors (Braun 2020).

Financial nationalists distrust central bankers for their expertise and neoliberal views as well as for their immersion into international networks that bring them into the "epistemic community" of central bankers (Johnson and Barnes 2015). Therefore, the central bank is a must-control institution for financial nationalists. Financial nationalists' distrust of central bank independence, stems, on the one hand, from the central bank's perceived integration into international networks of financial technocrats who have been able to exercise control over a national institution (Johnson 2016). On the other hand, financial nationalists – as many other populists – distrust independent central banks as they distrust expertise and technocrats in general. Financial nationalists' distrust in central bank expertise also stems from the fact that liberal technocratic central bankers would most often disapprove of financial nationalist economic policy on the ground that it harms the principle of liberal markets. Control of the central bank thus allows financial nationalists to increase their government's economic policy scope, i.e., to engage in economic policy choices that no liberal economic technocrat at the central bank would have approved. Just as increasing domestic bank ownership, controlling the central bank is a way for peripheral countries to increase their governments' economic room for maneuver. While bank ownership provides financial nationalists with necessary financial resources, a controlled central bank enlarges their options for the formation of economic policy.

Once in control of the central bank, financial nationalists with no respect for liberal expertise may introduce a formidable array of mission creep. This is illustrated by the case of the Hungarian central bank, which we will review below. In the following, we will review how central banking has been rewritten under financial nationalist control in the case of Hungary.

When the Hungarian Prime Minister Orbán's former economic minister, György Marolcsy, entered office in March 2013, he declared that from now on the primary aim of monetary policy was to support the government's economic policy (Dönmez and Zemadl 2018). To define financial nationalist monetary policy, the Hungarian central bank, MNB, became a very active user of macroprudential instruments and redesigned them to mitigate the external vulnerability of the banking sector by privileging domestic currency use. Moreover, since 2013, MNB's conduct underwent a substantial mission extension. Sebők (2018) identified six policy fields: the MNB (1) became the supervising institution of the banking sector after a merger with the Bank Supervision Authority in 2013; (2) the MNB assumed development banking functions: following the Bank of England's Funding for Lending initiative, the MNB designed a credit program for small and medium size enterprises to boost investment. (3) It took active part in commercial banks' restructuring as a resolution authority, (4) through its 'self-financing' initiative reduced the government's foreign currency dependence (5) it built up a real estate portfolio, and (6) created new research foundations through which it ventured into higher education. The list may be continued to include an attempt to launch a regulatory Sandbox for easing fintech companies' entrance to the financial market and with the new interest of the central bank in greening financial practice and help facilitate the launching of green bonds. As a development bank, the MNB has successfully helped small and medium size enterprises during the post-crisis years when foreign-owned banks were unwilling/unable to provide credit (Endresz, Harasztosi, and Lieli 2015).

However, the unorthodox policy choices were also accompanied with the self-aggrandizement of the central bank governor and put corruption at the center of the enterprise. This is further the result of the kind of implementation of unorthodox policy choices that systematically undermined democratic scrutiny, a process we will detail in the following. One of the first and most important steps in the direction of reduced public scrutiny was that implicitly the profitability of the operation of the central bank was declared as a primary objective of the bank's operation and the banks' policy instruments and their calibration were subsequently subordinated to this objective. Once the central bank accumulated profit (in the magnitude of several percentage of the GDP), the central bank governor was in the position to launch such exceptionally well-funded unorthodox programs. However, these programs, although mobilized public funds in formerly unimaginable sums – due to the legal independence of the central bank –, their spending required no immediate parliamentary scrutiny and the central bank systematically refused any civil society actors, opposition parties, etc. to gain knowledge about the funds. Moreover, some of the unorthodox funding policies were connected to corruption charges made by the press allegedly benefiting politically connected business actors.

To see a concrete example for how the lack of democratic oversight of a financial nationalist central bank allows the central bank to engage in a socially harmful activity enriching Orbán's business allies, the case of the MNB's foundations should be highlighted. Matolcsy, shortly after getting into power in 2013, set up six foundations (Pallas Athéné Alapítványok) to promote the education of “unorthodox economic thought,” among other policy goals. The foundations established educational programs, scholarships, bought buildings for these purposes, and established a new economic university in Kecskemét to promote ‘unorthodox economics’. Around one-third of the funding allocated to the six foundations was spent on these purposes. However, the foundations also bought luxury properties, masterpieces, rugs, a violin, commissioned designer pianos, funded books by and about Matolcsy, and sometimes fell for outright scams such as providing funding to the “Future University” run by “knights” in the small town of Sümeg. Most of these purchases were mired in patronage, lacked transparency and were conducted without due process. They also resulted in the MNB becoming a key player in the office-building real estate market. Two thirds of the foundation’s funds were used to buy government bonds on secondary markets. Although the first of the foundations was established in 2013, only in November 2015 did the finances of these foundations become public knowledge. The figures shocked the public: the foundations controlled HUF 259.6 bn (roughly USD 1 bn)—almost double the sum allocated for the entire Hungarian higher education budget (HUF 137 bn in 2016), or close to Hungary’s entire defense budget (HUF 299 bn in 2016).

Central bank independence was then used by the financial nationalist MNB as a shield not for protection from the government but from the scrutiny of civil society, and from the investigation of other independent institutions such as the Hungarian Academy of Sciences (Laki 2015). For two years, the MNB refused to make the foundations’ balance sheets public claiming at Parliamentary hearings that the taxpayers funds had lost their public character. This resulted in a public uproar: ‘lost its public fund character’ has quickly become a slogan chanted by soccer fans, journalists and opposition leaders in reference to Fidesz-related corruption.

What is also characteristic of financial nationalism inside the European Union is the fact that it emerged under the watch of a number of EU institutions. Given the enormity of the sums spent on the foundations, the involvement of EU actors was comparatively modest in the campaign to enforce transparency. The ECB’s mandate to review Hungary’s CB conduct is derived from Protocol (no 4) on the statute of the European System of Central Banks (ESCB). In the case of the MNB, it seems that the ECB prefers a very narrow interpretation of its mandate to ensure price stability. It only assessed the foundations’ operations from the perspective of their compliance with the prohibition of monetary financing. Here, the ECB did find a violation of EU requirements and demanded the redirection of the Foundation’s investments from government bonds. This is a very limited focus when considering the exceptionally wide scope of the foundations’ activities. Furthermore, it was only two years after their establishment in 2015 that the ECB’s Annual Report mentions this issue. Because the announcement is made in the ECB’s Annual Report it bears no legal consequence for EU member states, and the ECB remained satisfied with moral persuasion.

In effect, the ECB neglected to investigate these issues more thoroughly and the corruption charges altogether. Unlike in the pre-Matolcsy era, when the ECB initiated an infringement procedure in response to the re-writing of the CB law, no legal changes were demanded this time. The fact that the MNB was satisfying minimal legal requirements, while undermining Central Bank Independence (CBI) through non-transparent and potentially corrupt foundations, was sufficient to convince the ECB both legally and politically that there was no need for intervention. Not even the explicit demand for further investigation by Hungarian and German members of the European Parliament changed the ECB's position.

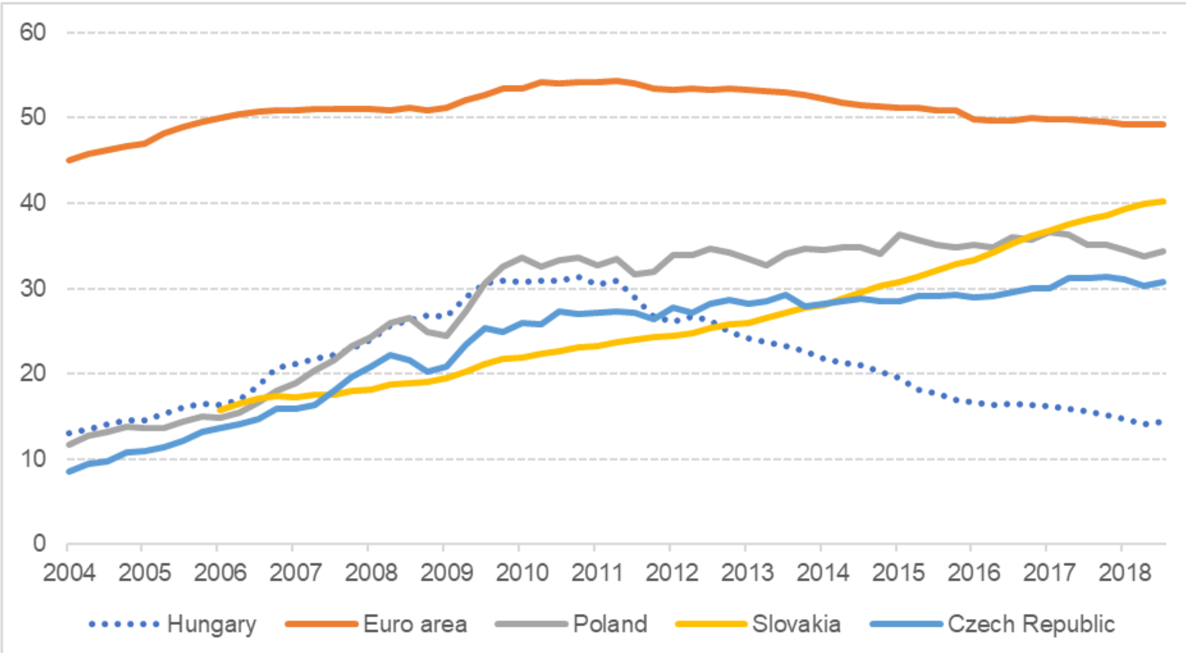
In 2016, Eurostat, the EU's statistical office, looked into the MNB's foundations, announcing that: "Eurostat is discussing with the Hungarian statistical authorities the possible rerouting of operations carried out by the Hungarian National Bank, deemed to be undertaken on behalf of the government." This more explicitly entailed an investigation into the possibility that education carried out by the central bank is a government function; therefore, its cost should figure in the government's budget. This could have been an issue for the ECB to consider because it is a form of prohibited government financing. The tactic of monitoring Hungarian bodies on the part of the ECB, EMPs and Eurostat was effective to the extent that the foundations began decreasing their capital share in Hungarian government bonds and publish business reports yearly. Although the six foundation were merged into one, no major changes to the foundations' operations occurred. As such, EU actors' satisfaction with the technical fixes effectively led to cosmetic compliance, while nevertheless fundamental revisions to the MNB's goals, structure and relation to the government were accepted.

5. Financial nationalism enhances "financialization of social relations": official credit retrenchment and unofficial credit expansion

Financial nationalism is also examined for its capacity to halt the financialization of social relations more broadly understood such as excessive mortgage exposure of households and the naturalization of consumer debt (Bohle, 2014; Pellandini-Simányi and Vargha, 2019). Scholars working in the field of the financialization of everyday life point out that the daily encounter with financial products, credit rating systems and new political and media discourses promoting a financial entrepreneurial spirit led to the penetration of the financial logic into everyday realms that were once free of financial calculus (Pellandini-Simányi et al. 2015). These cultural approaches concern themselves with the rise of the citizen as investor (van der Zwan 2014). They argue that finance's penetration into every day practices is made possible through specific narratives and discourses that emphasize individual responsibility with regards to risk-taking and promote a calculative assessment in financial management and have potentially harmful consequences especially for the poor.

With regard to financial nationalist governments, it has been argued that they are keen on reducing the level of indebtedness of vulnerable citizens. In Hungary, a financial nationalist intervention into household debt was provoked by the instability of high levels of indebtedness, the volatility of instalment payments caused by foreign currency denomination of these debts, and the greediness of foreign banks imposing these vulnerabilities on uninformed citizens. This argument was most prominently made by Bohle in 2014 with regards the forced swap agreement on banks that was designed in a way to make them take losses through the conversion of foreign currency denominated loans to HUF denominated loans, which sheltered indebted households from exchange rate risk (Bohle 2014). In addition, the Hungarian central bank introduced a number of cap measures, such as Loan-to-Value and Debt-to-Income caps, which effectively prevented consumers with insufficient income to take on excessive debt when purchasing homes (Piroska et al. 2020). As such, macroprudential policy, in the hand of the financial nationalist central bank, effectively became a tool of definancialization of daily life. As Figure 2 shows, the household debt to GDP ratio has indeed declined in Hungary since 2010, while the same tendency is not seen for regional neighbors.

Figure 2: Household debt-to-GDP ratio (%) between 2004 and 2018



Source: Hungarian Central Bank (2019), European Central Bank (2019)

While this observation is valid with respect to the Hungarian middle class, it should also be noted that for lower social classes, the financial nationalist intervention did not present any significant debt relief (Makszin and Bohle 2020; Kiraly 2020). More generally, it is argued here, that financial nationalists are not interested in protecting the most vulnerable citizens from the negative consequences of what the penetration of finance may represent in their daily lives. It is true, the restructuring of family allowances and the conservative social policy of work-based entitlements have resulted in an overall increase in social spending on families in Hungary since 2010 (Szikra 2014). However, this increase benefitted mainly the better-off families (Szikra 2014). Thus, poor families in Hungary since 2010 are increasingly substituting lost family allowance with monetary sources from informal lending which exacerbates social inequality through the creation of hierarchies within rural communities (Drust 2015, 2016).

Moreover, the financialization of daily life of the Hungarian poor goes hand in hand with establishing hierarchies that, on the on hand, sustain debt-based dependence of vulnerable citizens, on the other hand constrain democracy at the local level. To see the latter, consider the actual realization of the public work program, which has reached around 230,000 people or 4.9 percent of the employed in 2017. In many villages deprived of social income, the mayor, being responsible for public employment, allocates work to those villagers whom he judges as "deserving poor." At the same time, according to the research of Drust (2016) and also Berlinger et al. (2020), the mayor works in close alliance with informal money lenders, most often being the chief money lender in the village. Thus, the overlapping structures of informal money lending and political privileges reinforce social hierarchies within villages that diminish the political options of debt-dependent citizens at mayoral elections.

Moreover, the sustained financialization of the everyday life of the poor is happening amidst a massive curtailing of democratic institutions at the local level. Jakli and Stenberg (2021), in their article titled "Everyday illiberalism", argue that the Orbán government erected numerous institutional barriers that constrain a viable political opposition at the local level by limiting opportunities for political contestation and reducing political oversight of the governing coalition (Jakli and Stenberg 2021). Also looking at municipal-level politics, Mares and Young document four types of clientelism that further strengthen Fidesz: vote buying, the provision of public benefits in exchange for votes, coercion through threatening removal of benefits, and economic coercion involving threats from non-state actors, such as moneylenders and employers (Mares and Young 2019).

Thus, while the financial nationalist government reduced the debt dependence of the middle class, it built up and sustained financialized relation in lower classes that in the framework of the erosion of democratic institutions supports its continued electoral success at the not so free and certainly not fair elections.

6. Conclusions

This paper highlighted that financial nationalism's many unexpected triumphs in light of post-crisis theories of financial power should be evaluated together with its impact upon the quality of democratic institutions. For peripheral countries, financial nationalism, in principle, offers a set of constructive policy options to pursue economic development that favor local consumers and businesses and the option to break out of the neoliberal dogma of efficient liberal markets. The financial crisis created structural and ideational changes such as the weakening of banks' balance sheets, the macroprudential regulatory turn (Baker 2013), the investment need of SMEs, now enables governments to counter the power of finance and re-legitimate long-forgotten policies. Although financial nationalism is most visible in the periphery, we see similar tendencies in the core as well. In Europe, the emergence of the hidden investment state (Mertens and Thiemann 2018), the re-invention of development banking (Mertens et al. 2021), and a renewed political interest in publicly owned enterprises and banks testify to it. Globally, the increased activism of the state in the economy, the growing importance of sovereign wealth funds in Russia, and the revival of industrial policy in the United States as an instrument to mitigate the Covid-crisis point to the same direction.

Financial nationalism in Hungary, however, is a contemporary testimony to the findings of earlier generation of development scholars, that financial nationalist policies are often corollary to authoritarian politics (Gerschenkron 1962; Haggard et al. 1993; Wade 1990). The difference is that whereas in the 1960s and 1970s authoritarian leaders implemented financial nationalist policies to strengthen their rule, this time, financial nationalist policies undermine existing political arrangements. Today, the implementation of similar policies in more or less functioning democracies may weaken democratic institutions and thus enable and solidify the rule of authoritarian leaders. IPE scholars when studying the emergence of the many new ways in which financial nationalist policies seek to distribute the benefits of financial transactions more evenly among social actors should also examine the impact of these policies on the political contexts within which they are conceived and implemented.

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