

## **AN EARLY MAINSTREAM ECONOMIST FROM HUNGARY: ISTVÁN VARGA (1897–1962)**

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The study introduces a Hungarian economic thinker, István Varga\*, whose valuable activity has remained unexplored up to now. He became an economic thinker during the 1920s, in a country that had not long before become independent of Austria. The role played by Austria in the modern economic thinking of that time was a form of competition with the thought adhered to by the UK and the USA. Hungarian economists mainly interpreted and commented on German and Austrian theories, reasons for this being that, for example, the majority of Hungarian economists had studied at German and Austrian universities, while at Hungarian universities principally German and Austrian economic theories were taught.

István Varga was familiar not only with contemporary German economics but with the new ideas of Anglo-Saxon economics as well – and he introduced these ideas into Hungarian economic thinking. He lived and worked in turbulent times, and historians have only been able to appreciate his activity in a limited manner. The work of this excellent economist has all but been forgotten, although he was of international stature.

After a brief summary of Varga's profile the study will demonstrate the lasting influence he has had in four areas – namely, business cycle research and national income estimations, the 1946 Hungarian stabilisation program, corporate profit, and consumption economics – and will go on to summarise his most important achievements.

**Keywords:** István Varga, Hungarian economics, business cycle, national income estimation, statistics, stabilisation, corporate profit, consumption economics

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István Varga's work in economics extended from the mid-1920s to the 1960s. He had a wide-ranging and voluminous amount of research activity, and he wrote about 900 books and studies.

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\* István Varga should not be confused with his contemporary, Jenő (Eugene, Yevgeny) Varga (1879–1964), an economist of international fame who was also Hungarian. Jenő Varga was a leading Marxist scholar, who started his career in Hungary and continued it after 1920 in the Soviet Russia, where he lived until his death.

He lived and worked in an environment that was seeing rapid changes both politically and economically. His academic vocation and talent overcame the historical changes (even if his mere existence was indeed sometimes threatened). He believed that theoretical economists had a dual responsibility: on the one hand, they are responsible for their theoretical views and theses, but, on the other, they are responsible for the decisions and mechanisms existing in real business life.

In Hungary the German approach to economics predominated, being idealistic and normative; Varga introduced into Hungarian economic thought the Anglo-Saxon way of thinking, which was much more open, empirical and pragmatic – and for which theory and practice were closely interconnected.

The activity of Varga gives us an example of how theory is not a mere rationalisation and not an end in itself but is, instead, a tool to better understand economic realities.

### 1. A BIOGRAPHY OF ISTVÁN VARGA<sup>1</sup>

István Varga was born in Budapest on 5 July 1897.<sup>2</sup> He went to high school in Budapest. Still during his high school studies, in 1915 – as an 18-year-old – he had to join the army. In the war he was seriously wounded, so on 1 May 1919 he was put on the retired list as a disabled person. In July 1918 he enrolled in the Faculty of Law at the Pázmány University in Budapest, and at the same time he attended Economics lectures at the Budapest University of Technology. In December 1919 he obtained a Degree in Economics; then, in July 1920, he got a D.Sc. degree in Political Sciences.

After finishing his academic studies he started lecturing at both universities. In the 1922/23 academic year he continued studies in Berlin and London with the support of the Ministry of Religion and Education, and during the 1926/27 academic year he did teaching work and research at the University of Pittsburgh in the USA. He became a professor in the Faculty of Law at the Pázmány University in Budapest in 1933.

<sup>1</sup> This section partly based on Schmidt (1971), *Életrajzi Lexikon* (1969, p. 958) and interviews made by the author with Erzsébet Raffai, Varga's widow (1995), with Tibor Forgács, Varga's colleague at the Karl Marx University of Economics (1997), with Mrs. Ferenczy, Varga's secretarin at the Institute of Economic Research (1998), and with Tamás Bácskai, who met Varga on several occasions (2000).

<sup>2</sup> His father, Emil Varga, was a well-to-do shopkeeper, who died young, in 1902. After his father's death, his mother supported the family by sewing. (István Varga had one brother and one sister.)

In 1929, Varga established and directed the Hungarian Institute of Economic Research (MGI), where research into business trends was begun in Hungary, and he also became a member of committees and boards in a handful of (Hungarian) economics, financial, and social institutes.<sup>3</sup> He was the head of the above institute until 1949. In 1939, he became the editor of the *Südost Economist*, a German language economics weekly paper published in Hungary, in which he published studies looking at tendencies in the field of economics. In 1944, during the time when Hungary was under Nazi occupation, the weekly paper had to stop appearing.

Because of his mainstream-oriented economic planning and anti-German behaviour he was arrested by the Gestapo in 1944, and was not released until May 1945. After this, in 1945 Varga worked as a Head of Department and then as Under-secretary of State in the Ministry of Reconstruction. One year later he became President of the Materials and Prices Office. He took a very active part in shaping the industrialisation/reconstruction policy taken on board by Hungary, and he also helped in preparations for the country's stabilisation program. Besides his work in business life, he continued to actively teach.<sup>4</sup> In appreciation of his science-based activities, Varga was additionally elected Member of the Hungarian Academy of Sciences (HAS).

After the Communist take-over of the country in January 1948 he had to resign and leave all of his business posts. Then, on 1 February 1951 he was forced to give up his professorship – so he retired, at the age of 54. Owing to the political changes, in 1951 his HAS membership was also terminated.<sup>5</sup> Between 1951 and 1957 some hard and painful years came into Varga's life: he was not allowed to have a full-time job, so he had no choice but to do menial intellectual works.

After the 1956 Revolution, in February 1957 the Communist government offered him presidential post of the Committee of Economic Experts. There are a number of references in Hungarian (e.g. Berend 1974; Szamuely 1986; Szamuely and Csaba 1998) and also in English (e.g. Berend 1981; Szamuely 1982; Antal 1982, 1999) about the activities of this Committee, so we just stress a few important facts here only. Varga was a mainstream – not a Marxian – economist, as

<sup>3</sup> Among academic associations, he was a Member of the Board of Directors of the Hungarian Economic Association, a Member of the Hungarian Statistical Society and a Correspondent Member of the Ignác Darányi Academy of Agricultural Sciences. In 1943 he was rewarded by the Hungarian Academy of Sciences for his activities in the MGI.

<sup>4</sup> He was taken in by the Pázmány University's Faculty of Law, and was given a professorship in the Economics and Financial Department. For one year he was also the Head of the Statistical Department. At the university he lectured on Economics, Statistics and also Demography.

<sup>5</sup> After his death, together with other members of the HAS, he was posthumously rehabilitated at the beginning of 1990. In March 1990, he was granted the Széchenyi Award.

he clearly declared in an article when accepting the position.<sup>6</sup> The task of this committee was to elaborate plans and recommendations within the framework of a comprehensive and all-inclusive economic program aimed at solving all economic problems in just a short period of time (i.e. four months). Several hundred economists were invited to work in the different subcommittees. In the end, a program containing three proposals was produced.<sup>7</sup> However, because of the changes in the political and ideological situation during the year 1957, there was no official government organisation actually *handling* the program. A heated debate thus emerged concerning the recommendations, and Varga also articulated his opinions in an article.<sup>8</sup>

Although only a few of the 1957 committee's recommendations were brought to fruition at the time, the work had not been undertaken in vain. It was the first time in Hungarian history – and probably also in the history of socialist countries – that a government commission with about 200 experts from *all areas* of economic, political and intellectual life had worked together, and had systematically developed an overall economic plan – and had done this via a process of arguing in an open, critical, unprejudiced and constructive way.

The 1957 reform conception arrived at by the Varga committee came again into the centre of interest in connection with the 1968 economic reform in Hungary. János Kornai, in dealing with the Hungarian reform process (1986), articulated his opinion that “Hungarian reform has some global relevance” (1986, p. 1687). He gives his own appraisal of the reform process, its intellectual background and actual development; and he points out the significant characteristics of the reform and critically writes about the group of economists who were the pioneers in this reform process. Kornai gives these economic thinkers – among them Varga – the name of “naïve reformers” (1986, p. 1728). The group was heterogeneous, but there were a few characteristics its members had in common,

<sup>6</sup> Egy nem marxista közgazda számadása (Confessions of a Non-Marxian Economist). *Gazdasági Figyelő*, 7 March 1957.

<sup>7</sup> A Közgazdasági Bizottság előterjesztése a Forradalmi Munkás Paraszt Kormány gazdasági programja számára, I. fejezet. A népgazdaság egyensúlya (First Proposal. Section I. The Balancing of the National Economy). 30 April 1957. *UMKL*. XIX-A-60; A Közgazdasági Bizottság második előterjesztése a Forradalmi Munkás Paraszt Kormány gazdasági programja számára, II. fejezet. A népgazdasági tervezés, valamint a tervteljesítés tényezői és módszerei. A gazdasági irányítás szervei, módszerei és eszközei (Second Proposal. Plan for the National Economy. Section II. Factors and Methods of National Planning. Institutions, Methods and Tools giving the Economic Direction). 29 May 1957. *UMKL*. XIX-A-60.; A Közgazdasági Bizottság összefoglaló javaslata a Kormány gazdasági kormány-nyilatkozatához (Summary Proposal). 1 June 1957. *UMKL*. XIX-A-60.

<sup>8</sup> Az “Egyesek” és a “Kettesek” (Some People and the Others). *Gazdasági Figyelő*, 6 June 1957.

e.g. they did not see any conflicts arising between indirect bureaucratic control and the market. “The faith placed in the harmonious, mutually correcting duality of ‘plan’ (i.e. the bureaucracy) and ‘market’ is centre-stage in the pioneers’ naïveté” (1986, p. 1729).

Varga’s reform ideas had a lasting influence, and he became known internationally through the Hungarian reform conception and reform process. For example, he is mentioned several times by Wagener (1998), and at the end of Wagener’s book there is a biographical note on him.

From 1957, Varga’s life went back to his normal path, and he again became a well-known authority with regard to economic thinking in Hungary. In October, he was given a post of professor at the Karl Marx University of Economics in Budapest; and he worked there at the Department of Domestic Trade Economics, headed by József Bognár, and lectured on Consumption Economics. His writings were once more able to be published in Hungarian and in foreign language (e.g. Polish, German (in West Germany), French, Italian, English) professional papers; in addition, his membership of a number of scientific associations was renewed.

István Varga died on 30 December 1962, at the age of 65.

## 2. VARGA AND ECONOMIC POLICY

István Varga holds an important place in the history of Hungarian economic thought. His studies and reviews on books and periodicals were published in domestic<sup>9,10</sup> and international<sup>11</sup> professional journals. His works were referred to even within international economic literature; so, for example, one article,<sup>12</sup> pub-

<sup>9</sup> He wrote reviews for *Közgazdasági Szemle* on American periodicals like *The American Economic Review* and *The American Journal of Sociology*, and also about publications in English periodicals like *The Quarterly Journal of Economics* and *The Economic Journal* (with the latter’s editor being, from 1911, J. M. Keynes). He also wrote reviews of studies appearing in German-language papers and books.

<sup>10</sup> *Figyelő, Kereskedelmi Szemle, Közgazdasági Szemle, Külügyi Szemle, Magyar Statisztikai Szemle, Társadalomtudomány, Pesti Tőzsde, Pénzügy és Számvitel, Szövetkezeti Szemle, Világgazdasági Szemle*, etc.

<sup>11</sup> *Economia Internazionale, Économie Appliquée, International Economic Papers, Jahrbücher für Nationalökonomie und Statistik, Journal de la Société Hongroise de Statistique, Ost-Kurier, Der Österreichische Volkswirt, Pester Lloyd, Schmollers Jahrbuch, Weltwirtschaftliches Archiv, Zeitschrift für Nationalökonomie*, etc.

<sup>12</sup> Bemerkungen zu den Problemen von Aufbringung und Transfer. *Economic Essays in Honour of Gustav Cassel*. London, 1933. pp. 649–663.

lished in 1933 in the book entitled *Economic Essays in Honour of Gustav Cassel*, was given attention 16 years later, after World War II, in an influential American book (*Readings...*, p. 587) dealing with theoretical issues in international economics.

Varga was connected to international economic thought not only through his writings in foreign journals and periodicals but also via his correspondence with foreign economists. For example, he corresponded with Colin Clark on estimations of national income – A. C. Pigou also joined in on this exchange. According to A. Mátyás he also corresponded with Oscar Morgenstern, Gottfried Haberler, William Fellner and Jan Tinbergen (Mátyás 1997). He was a member of many foreign academic societies (e.g. The International Association for Research into Income and Wealth, The Econometrics Society, The European Society for Opinion and Marketing Research). On numerous occasions he gave lectures at universities and academic institutes in the United States, Germany, Austria, and Poland.

Varga's activities in the areas of *business cycles and economic research*, which he carried out primarily within the MGI, are of immense importance and could well be the best known. He established the institute on the basis of his international experiences – and the MGI professionally and reliably served different government offices, research institutes and the business sphere when there was a need for information. In the report given at the MGI's annual general assembly of 1939, the direct, most practical goals of the institute were laid out by him as follows: "Our institute has always considered it its duty primarily to provide analyses of the foreign and local situations in its economic progress reports. We do not consider forecasting our duty..." Varga emphasised the importance of economic analysis and explanation rather than prediction. His view of methodology shows similarities with the so-called pattern modelling, for the explanation aspect emphasises "understanding" rather than "predictions" (e.g. Blaug 1990, p. 126).

Varga thought that *the primary purpose of economics* was to make *empirical economic analysis* within an ever-widening field so as to be able to come to correct theoretical conclusions. He was one of the earliest economists from the region to put an exceptional amount of importance on statistical measurement. Generally, he did not see his primary task as being one of working out new theories – instead, one should make a statistical analysis of the factors influencing the variety of basic economic phenomena, which were forever expanding and were thus becoming more and more precise. This methodology into – or way of understanding – economic processes was able to act as a foundation through which to obtain new theoretical insights.

*With the start-up of a quantitative and institutional research work* (considered the most modern method of analysis at that time) he not only expanded and systematised all available information on changes in the economic situation, thus helping Hungarian economic practice and requirements but *he also connected Hungarian economic thinking and thinkers more fully to the international economic thinking.*

The MGI built and maintained connections with similar institutes abroad. The institute constantly produced information on changes experienced in Hungarian economic development for foreign institutes doing business cycle research; on numerous occasions there were requests from both Hungarian and also other countries for Hungarian data or analyses.

Varga's systematic data-gathering and analytical activity had some influence on the international community in this profession. One of this most outstanding achievements here was in the field of ***national income estimation***. Varga's work entitled *The National Income of Hungary 1924/25–1935/36*, co-authored by Mátyás Matolcsy, was published in Hungarian in 1936, and then in English, in 1938, by P. S. King & Son Ltd. This impressive work first of all displays the fact that there was now a concept going *beyond* the approach taken with regard to national income as previously used in Hungary; secondly, the mathematical determination of national income was now open to being defined in a new way. Along with these new conceptions, *economics terminology was additionally provided with important definitions, i.e. which gave practitioners instructions as regards the elaboration of new, more effective statistical methodologies.*

Varga studied the German and English/American literature on questions of the calculability of national income. He saw that the English and American authors valued the concept of national income more than did the Germans; the former also stressed the possibility and significance of its statistical determination. The development and rapid spread of economic statistics opened up new possibilities for researchers in the areas of both business cycle analysis and national income estimation.<sup>13</sup>

The significance of Varga and Matolcsy's conception was that they recognised the increasing role of *immaterial goods* and held that, beside the production of material goods, the value of the production of immaterial goods should also be considered national income. Their experiments in the calculation of national income contain singular features in many respects. For example, with the use of the so-called *combined method* they solved numerous problems and brought many

<sup>13</sup> In Hungary, the first national income estimation was made by Fellner (1903), who considered national income to be the value of material production. The following calculations made by economists were based on his methodology.

other unsolved problems to the attention of statistical practice. Varga and Matolcsy, referring to Hungary's heavy dependence on agriculture, used the agricultural year rather than the calendar year in their national income calculations, which was also seen as novel in Hungarian customs.

Varga's writings on financial questions also attracted attention. During his early activities he joined the economic debate<sup>14</sup> on high prices, i.e. which was a central problem for Hungarian economics at that time. As one of the key lecturers, he took part in a conference<sup>15</sup> entitled *Getting the labour force and the value of money* that had been organised, in 1933, by the Association of the Hungarian Economists, the aim of which was to find means of dealing with and ending the economic recession and the resultant growing unemployment. His views that government intervention is necessary to solve these problems led to debates. Later on, he dealt again with the problem of procurement and transfer (his thoughts here being recognised internationally).<sup>16</sup>

The most important result of his in-depth research into inflation processes following World Wars I and II – in which he looked at the preliminaries and reasons and also delved into questions of stabilisation – played a strategic role in the preparation of the *1946 stabilisation program in Hungary*. In a comparison (made by the author from archival sources) of his original recommendation<sup>17</sup> *vis-à-vis* price and wage revisions, and the programme<sup>18</sup> that was undertaken by the Hungarian Communist Party (MKP), it is obvious that numerous areas of the MKP program had parallels with what Varga recommended in his writings and notes concerning their main principles and measures. This shows us that *István*

<sup>14</sup> Associated writings by him e.g.: A drágaság elméletéről (About the Theory of High Prices). *Politikai Szemle*, 21 January 1922; A drágaságról (About High Prices). *Világgazdasági Szemle*, 1936. No. 2 and No. 10; A drágaság kérdéséről (About the Question of High Prices). In: *Ünnepi dolgozatok Balás Károly és Heller Farkas születésének 60. évfordulója alkalmából* (Special Papers on the 60<sup>th</sup> Birthday of Károly Balás and Farkas Heller). Eds: Dezső Laky and Tivadar Surányi-Unger. Budapest: Gergely R. Könyvkereskedése, 1937. pp. 457–476.

<sup>15</sup> *Munkaszervezés és pénzérték* (Getting the Labour Force and the Value of Money). Workshop of the Association of the Hungarian Economists. Ed.: István Varga. Budapest: Gergely R. Könyvkereskedése, 1933.

<sup>16</sup> His article (Bemerkungen zu den Problemen von Aufbringung und Transfer. In: *Economic Essays in Honour of Gustav Cassel*. London: 1933. pp. 649–663) – as mentioned earlier – appears later, as a reference, in an American publication (*Readings in the Theory of International Trade*. Philadelphia–Toronto: The Blakiston Company, 1949. p. 587).

<sup>17</sup> Feljegyzés a stabilizálással összefüggő ár- és valutaproblémák megoldása előkészítésének munkamenetéről (Notes on the Preparation Process Associated with the Solution to Price and Currency Problems in the Stabilisation). 16 June 1946. *PIL*. 283/f/32. 22. ö.e. pp. 62–66, and *UMKL*. XIX-A-10. Box 35. pp. 1–8.

<sup>18</sup> A magyar valutacsoda (The Hungarian Currency Miracle). *A Magyar Gazdaságkutató Intézet Közleményei*, Vol. 1. 10 October 1946.



*Varga had discovered a dependable way of solving Hungarian price/wage alterations on clear theoretical grounds, which gave a real chance of successfully eradicating the very serious hyperinflation of 1945–1946. He created a new theoretical scheme, one that was until then unknown to experts concerned with stabilisation theory, and which departed from all previously accepted basic principles in this area. The implementation of the stabilisation program by means of Varga's ideas thus had within it a new professional content and substance.*

One opinion emanating from the international economic community's thinking was that of Kaldor, who said: "if the Hungarian experiment succeeds – and, so far, indications are that it will – many of the accepted ideas about the causes and cures for inflation will need revising..." (Kaldor 1946).

The new currency system created in 1946 was not a recurrent joining of currencies in the Knappian sense,<sup>19</sup> i.e. which was conventional at that time; what gave the Hungarian currency reform its unique characteristics was that a general and recurrent joining was located in the *background*, as the exchange rate was only applied to small sums of cash and monetary debts.

Among Varga's writings dealing with the terminology pertaining to monetary theory,<sup>20</sup> his activity regarding the clarification of financial concepts, which was influenced by the events of the year 1946, is of great importance. He saw as noteworthy the introduction of the Hungarian Forint (HUF) and the economic reconstruction process – even though some excellent Hungarian economists did not agree with him. For example, Béla Csikós-Nagy thought<sup>21</sup> that the corrective actions of 1946 did not lead to currency stability as the price level continued to change for a long period of time. Varga, on the other hand, held that the fact that many price corrections were needed after the stabilisation process had begun did *not* detract from the significance of the event, and one cannot doubt the success of the economic reconstruction that took place in 1946.

*István Varga considered the introduction of the HUF on 1 August 1946 and the simultaneous process of economic reconstruction extremely important for Hungary. Due to this, he redrafted the conceptions of currency reform, currency stability and reconstruction on the basis of the features of this particular economic reconstruction, i.e. that he saw it as exceptional; and of great merit was*

<sup>19</sup> Recurrent joining in the Knappian sense: introducing a new monetary unit in such a way that the government determines the exchange rate of the old and the new monetary units.

<sup>20</sup> For example: Devalváció és depreciáció (Devaluation and Depreciation). *Világgazdasági Szemle*, November 1936; Valuta-reform, valuta-stabilizálás, valuta-szanálás és újabb magyar pénztörténet néhány eseménye (Currency-reform, Currency-stabilisation, Currency-reconstruction and a Few other Events of the Newer Hungarian History of Money.) *Pénzügy és Számvitel*, March 1958.

<sup>21</sup> See: Ausch Sándor kandidátusi értekezésének vitájáról szóló beszámoló (Report of the Open Debate on Sándor Ausch's PhD Thesis). *Közgazdasági Szemle*, December 1957.

*the fact that he did this not through abstract speculation but rather on the basis of an analysis of real economic processes and the lessons learned from them.*

He insisted that, among other things, the use of the word “stabilisation” to describe the process contributed to the inaccurate economic assessments of the events of 1946. On the basis of comparisons made on Hungarian hyperinflation occurring between 1924 and 1946, Varga formed the opinion that it would have been more fitting to refer to the system of measures introduced on 27 July 1946 as a “reconstruction”, due to its comprehensive nature – and to the measures which had taken place in 1924 as “stabilisation”. In 1924, decision-makers entrusted resolution of macroeconomic disequilibrium to, in Varga’s words, “the spontaneous play of economic forces” (with the exception of some government measures). In contrast, the most characteristic feature of the 1946 reconstruction was that decision-makers attempted to *regulate everything centrally*. He held that the introduction of the HUF and the reconstruction of 1946 could *not* be placed in the same category as the previous currency reforms or currency stabilisation processes – and economists who did not consider this event unique did not recognise the importance and novelty of the creation of the HUF from the point of view of economics and economic policy.

He was also very interested in the history of money and the shaping of the monetary situation in different countries. He even investigated the role played by money in socialism and published studies in different languages.<sup>22</sup> His most comprehensive work regarding monetary theory was published under the title *Az újabb magyar pénztörténet és egyes elméleti tanulságai* (The Recent Hungarian History of Money and some of its Theoretical Lessons). Because of his premature death in 1962, he did not see the publication of this work in 1964. One year earlier, in 1963, M. Friedman and A. J. Schwartz published the book *A Monetary History of the United States 1867–1960*. It is highly unlikely that they did not know about each other’s work, so the parallel research activity and publication on the same field can be seen as being worthy of attention.

In his economic activities Varga investigated the *category of profit* several times<sup>23</sup> – and always from a perspective regarded as uncommon then. Previously,

<sup>22</sup> For example: Money in Socialism. *International Economic Papers*, Vol. 8, New York: The Macmillan Co., 1958; Das Geld im Sozialismus. *Weltwirtschaftliches Archiv*, 1957. Vol. 78, No. 2; Wesen und Funktionen des Geldes im Sozialismus. *Südosteuropa-Studien*, München, 1962. No. 3; *Offene Welt*, No. 76, June 1962 (in German).

<sup>23</sup> For example: Tőke és infláció (Capital and Inflation). *Közgazdasági Szemle*, September – October 1926; A vállalati nyereség. Adalékok a vagyonmegoszlás elméletéhez (Corporate Profit. Comments to the Theory of Wealth Distribution). *Közgazdasági Szemle*, March 1930; Profitráta és tőkés üzletpolitika (The Profit Rate and Capitalist Business Policy). In: *Marx Károly Közgazdaságtudományi Egyetem 1958. évi évkönyve*, Budapest, 1959.

different economic schools divided income into four categories: wages, land rent, interest on capital, and entrepreneurial profit. Profit was examined primarily for its role within the distribution of income. Varga withdrew the profit term from among the main categories of income – and, examining it under the category of the distribution of wealth, considered its macroeconomic significance in this way.

Schumpeter has shown in his theory of profits that wages are a permanent type of income, while profits are not. Varga also *treated profit as a non-income category* and made a step forward when he analysed it as a category of the *distribution of wealth*. He arrived at a determination of the market value of an enterprise through changed assessments of the market, emphasising the dynamic role played by profit in determining wealth. Varga believed that differences in the fluctuating values of the wealth of a company represented the real corporate profit or loss. On the one hand, changes in corporate profit affect the value of corporate wealth – and, on the other, changes in the value of such wealth determines the formation of this profit; i.e. they have reciprocal effects. Usage of the distribution of wealth category gave Varga an opportunity to explain *long-term changes and shifts in wealth*. The analysis of profit as a category for the distribution of wealth is important because an ability to make profit has an influence over changes in wealth and also because changes in corporate wealth influence formation of the nation's wealth. This again brings us to Varga's basically macroeconomic approach.

As early as in the 1920s, Varga pinpointed the necessity of creating technical terminology for use in economics, i.e. to make its development more secure. He *recognised the lack of a technical economics language* and illustrated the problem using the example of the English word "wealth". Wealth is a very complex, and specifically English expression, which it is very difficult to translate into another language without losing some of the word's meaning; for example, Adam Smith's *Wealth of Nations* has been translated three times into Hungarian, and each edition uses a different Hungarian equivalent of the word *wealth* in the title (*vagyonosság* – *personal wealth*, *jólét* – *welfare*, *gazdagság* – *being rich*).

According to Varga, one of the barriers to a correct exploration of theoretical assumptions and connections is a restricting of the content of the word occurring in any translation. *The Distribution of Wealth* was translated into Hungarian as *jövedelemmegoszlás* (lit. *The Distribution of Income*) which, according to Varga, also had an effect on the interpretation of profit as a category in wealth distribution. The English expression in its wider sense also has connotations that economists had not exploited. Varga, in his analyses of 1930, wished to solve this problem by treating profit as a category of the division of *wealth* rather than of the division of income – which at this time was considered a major initiative.

For the above reasons, Varga thought it justified to use the term “corporate profit” instead of “entrepreneurial profit”. He drafted thus his position on corporate profit, in opposition to the view of an American economist (Knight 1921). Since the corporation, as an organisational form, had historically become a determining factor in economic life, the social and economic role played by a firm (as a changing economic and legal institution) could then be seen in a new light via the new conception of profit.

Varga also dealt with questions of *consumption economics and advertising*. His theoretical work in these areas bears unparalleled significance in the history of Hungarian economics. In the socialist countries in the second half of the 1950s consumption economics and advertising were taught only at the Karl Marx University of Economic Sciences, Budapest. At that time, there was an overemphasis on the so-called “objective” laws in economics. Varga, however, although his research activities were forcefully restricted, stressed the role of *subjective* factors in economic processes and decisions. In his various analyses, he always sought to deal with individual, exceptional factors. He also applied this unique approach when it came to his teaching. Even today, reference is made to the “market research school”, i.e. which considers Varga a founding father of the profession. Anybody reading any one of his works concerned with this theme – in particular his book entitled *A reklám* (Advertising)<sup>24</sup> – will find a store of knowledge there. *Varga’s thorough examinations in the areas of consumption economics and advertising are pioneering in Hungarian economic thought. There was no previous Hungarian economist who dealt with this subject with such a voluminous and broad background of literature, and who used such a new or novel approach.*

Varga introduced into Hungarian economic thought the categories and achievements of consumption economics and advertising referring himself to contemporary mainstream economics (e.g. public relations, the role of market research in influencing consumption). He saw the connection between economics and psychology as being of fundamental importance in the areas of consumption economics and advertising (which, again, was an individual, daring approach at that time).

He, in addition, explored in detail the concept and problems surrounding the elasticity of demand in Hungarian economic thought. He considered examination of the elasticity of demand as a macroeconomic, dynamic, and empirical approach, one serving as an objective starting point for research into, and the influence of, consumer demand. Varga tied any assessment of the usefulness of instruments used to influence consumer behaviour, i.e. that of advertising, to *scientific criteria* and then examined the results coming from an examination of

<sup>24</sup> *A reklám* (Advertising). Budapest: Közgazdasági és Jogi Könyvkiadó, 1960.

demand elasticity. His research activity in this regard and also his consumption economics measurements also portray his dynamic approach – and he pointed to the clear-cut need for such a dynamic approach.<sup>25</sup>

Varga not only synthesised the theoretical approaches that he knew – he was first in the history of Hungarian economic thought to work out a methodology and an exemplary system for effective advertising activity, something based on deep theoretical knowledge, and which then could be used in practice for improving the influence of advertisements. He recognised that profit maximisation, which is the final goal of advertising, was significantly influenced by both objective and subjective factors. This novel, double approach basically determines his theoretical conclusions.

Varga's accomplishments in a grouping and listing of advertising media were unique in so far as they highlighted the psychological effects of certain media on consumers. He provided advice and direction to professionals dealing with advertising on a practical level (which deserve consideration in many respects). At the same time, during his assessment of the effectiveness of different advertising media, he showed how important it is to have factual and professional market research.

He introduced objective and subjective market research procedures which could be used in a wide range of areas, and which constituted the basis for practical methodology. He considered, for example, examination of the elasticity of demand in this area to be an objective methodology, while he used the (then modern) accomplishments of the psychology of the time as a subjective one.

He also had major research successes in other areas, one of which could be his work regarding the nature of free and economic goods.<sup>26</sup>

Naturally, also, he examined the problems of socialism and of the planned economy – and was able to come up with noteworthy recommendations.<sup>27</sup>

<sup>25</sup> Economic and Market Research in East and West. *ESOMAR Newsletter*, Supplement, December 1961.

<sup>26</sup> Szabad és gazdasági javak (Free and Economic Goods). *Közgazdasági Szemle*, February 1960. Also in German: Freie und wirtschaftliche Güter. *Jahrbücher für Nationalökonomie und Statistik*, July 1960.

<sup>27</sup> For example: Néhány gondolat a népgazdasági tervezés módszereinek megjavításáról (A Few Thoughts on the Improvement of National Economic Planning Methods). *Közgazdasági Szemle*, February 1958; A tervezési feladatok fáziskülönbségeit figyelembe vevő tervezési rendszer (A Planning System that Takes the Time-lags of Planning Tasks into Consideration). *Közgazdasági Szemle*, July 1961; Benthamtól a szocializmusig (From Bentham to Socialism). *Figyelő*, April 1962.

### 3. VARGA AND THE METHODOLOGY OF ECONOMICS

István Varga began his research activities in the 1920s, at a time when the economic mainstream – with its mainly microeconomic, basically static approach and formal means of analysis – was becoming ever more deeply besought by contradictions. Nevertheless, he perceived clearly the problems in economics that were showing themselves at this time – and he went on to become well acquainted with approaches (then seen as being very novel) that were basically macroeconomic, historical in outlook, and also dynamic.

*What lies behind Varga's academic merit is that he unambiguously committed himself to the new trend in economics that was appearing during the 1920s. He recognised the legitimacy of an independent macroeconomic approach in any description of the real economy, he made an examination of economic processes and phenomena with their own dynamics, he stressed the importance of institutional preconditions for economic activity, and he studied economic questions in a wider (e.g. social/political) context. Such an approach became a defining feature of Varga's work in economics.*

The areas of study that he was involved in (research into business cycles, national income, money etc.) generally dealt with *macroeconomic questions*. In explaining economic phenomena and interconnections, he always saw *macroeconomic* explanations as being the main ones – and *microeconomic* explanations came in second. He did not, however, reject the importance of microeconomic research, as his economic investigations on consumption demonstrate.

In the course of his activities, Varga strove to broaden the *dynamic approach*. This is demonstrated by his use of mathematical statistical methods in his research into business cycles; such an approach is also apparent in his study of consumption economics.

In describing economic events, he stressed the significant role played by different types of *institution*. The institutionalist school, as represented by the American economist T. Veblen, had great influence over him. He more highly appreciated the Veblen institutionalists over the equivalent German historical school (W. Roscher, G. Schmoller and others) – firstly, these institutionalists always traced the historical developments of economic phenomena and institutions all the way to the present; secondly, they considered only the economic behaviour that is *psychologically understandable* to be their main subject of study. Nonetheless, other institutionalists (e.g. Mitchell, Commons) also had an effect on Varga as regards his work.

Varga's research and analyses went beyond the borders of economics, and he became open to *other fields of science* (e.g. psychology, sociology). Thus, when looking into certain types of economic phenomena, he also did research – using

his own terminology – into the roles played by both objective and subjective factors. He considered the traditional categories of economic inquiry to be the *objective* factors of economic phenomena, and those outside economics were *subjective* ones – so, for example, in his research on business cycles, national income data served as an objective base for an assessment of business cycles; yet subjective aspects also played a role (among which the psychology of complaints should first of all be mentioned).

In his analysis of what factors influence the formation of profit size, he pointed to the so-called (by him) “subjective effects”: e.g. convention/habit, profit expectations, the propensity to take risks, intuition, experience and routinely-made decisions.

He and P. Harkai-Schiller (with whom he wrote essays on economic psychology during the 1930’s) did research<sup>28</sup> into consumer demand and consumer behaviour within the framework of the Hungarian Institute for Economic Research, using these so-called “subjective” market research methods. This research was considered unparalleled in Hungary at the time. The *wider context* seen here is also continually present in Varga’s work on consumption economics and advertising.

To summarise, István Varga’s views on many points in the world of economics might be seen as resembling the post-Keynesian approach.<sup>29</sup> The post-Keynesian economists were a heterogeneous group who considered the views of Keynes and Kalecki their starting points. The most important personalities of the group (e.g. J. Robinson) emphasised – among other things – the *dynamic* characteristics of an economy. Post-Keynesian economists stress the institutional nature of the economy and the role played by social relationships within such (an) institution(s).

In the post-Keynesian school, great importance is given to the wide-ranging knowledge of economic theories and to the so-called “horses for courses” perspective. In this view, every existing problem for an economy needs a special, specific model that is suitable for a resolution of such a problem. Varga always emphasised that there is no one, “true” theory. Instead, we need to know *all* theories – and, with full knowledge of the actual problem, we can then adopt *the*

<sup>28</sup> For example: Gyümölcsfogyasztási szokások Budapesten (Fruit Consumption Habits in Budapest). *Magyar Gazdaságkutató Intézet, Special Issue No. 9*. Budapest, 1935; Dohányzási szokások Budapesten (Smoking Habits in Budapest). *Magyar Gazdaságkutató Intézet, Special Issue No. 14*. Budapest, 1938; Borfogyasztási szokások (Wine Consumption Habits). *Magyar Gazdaságkutató Intézet, Special Issue No. 19*. Budapest, 1940.

<sup>29</sup> About the post-Keynesian approach the author also made an interview with G. C. Harcourt (Faculty of Economics, Cambridge University) who is a specialist in this field.

*right one*. In our opinion, therefore, Varga's eclectic viewpoints do look exactly like the post-Keynesian "horses for courses" view of economic theory.

This survey of Varga's contribution to economics and policymaking might have been helpful in "rediscovering" a Central-European economist of the pre-war period whose views certainly contributed to the development of modern economics in several ways.

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