

From “actually existing socialism” to actually existing post-socialism: János Kornai and the importance of language reform in political economy

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ABSTRACT

This paper discusses the contributions of János Kornai to the “language reform” of socialism and post-socialism, meaning the creation of new conceptual frameworks to replace the mainstream interpretation of the system with a more realistic, critical description. We show that, in the three waves of language reform under the Kádár regime – economics, sociology, and law – Kornai was a trailblazer by introducing concepts like “soft budget constraint,” “plan bargaining,” and “shortage,” which became key concepts for reform economists and dissident intellectuals in Eastern Europe. We discuss Kornai’s work on post-socialism as well, particularly his paper “The System Paradigm Revisited,” and point out its merits and shortcomings in the description of the regimes of the region. Presenting our offer for a new language reform, based on Kornai, we underline the importance of proper words for understanding “actually existing post-socialism,” and the task of political economists to revise the current mainstream and analyse the phenomena of post-communist “relational economies.”

KEYWORDS

Kornai, socialism, post-socialism, patronalism, relational economy

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1. INTRODUCTION

János Kornai's reputation is based primarily on his groundbreaking description of the political economy of the socialist system. From his PhD thesis criticizing the "overcentralization of economic administration" in Hungary as early as the 1950s (Kornai 1959), he wrote a number of works that described the flaws of socialism with revelatory power, not only for Western but also for Eastern European readers. For the latter, he helped them understand the system where they live: to reject the interpretative framework of the system that the official dogma proclaimed under the title of political economy, based on the doctrines of Marxism-Leninism, and to show what "actually existing socialism" meant. As Kornai puts it in the first chapter of *The Socialist System*:

"The official textbooks used for decades in the socialist countries themselves to teach the political economy of socialism have usually mixed reality with desires, the real attributes of the system that actually exists with the desirable attributes of a fancied socialist system that operates efficiently and fairly. [In contrast, my work] aims to depict what experience presents. It seeks to describe what is usual and characteristic in this system, and not what might happen if the system should operate as its apologists wish." (Kornai 1992: 12)

In practical terms, what Kornai had to reject was the *language* with which the system referred to itself and through which it legitimized itself. By "language," we mean two things: on the one hand, the "vocabulary," i.e., the multiplicity of categories by which we "name" and identify the phenomena of reality around us; and on the other hand, the "grammar," i.e., the theoretical relations that link the categories and by which the individual concepts are assembled into a *descriptive model*. As Hawking and Mlodinow write in *The Grand Design*, "there is no picture- or theory-independent concept of reality. Instead, we will adopt a view that we will call model-dependent realism." At another point they state that "an independently verifiable model of reality does not exist. Consequently, a well-constructed model creates its own reality. [...] Model-dependent realism applies not only to scientific models but also to the conscious and subconscious mental models we all create in order to interpret and understand the everyday world" (Hawking – Mlodinow 2010: 42–46).

Although the work of Hawking and Mlodinow is rooted in nature, their insight is equally valid for society. When we look at something, it is the cognitive mechanisms of our mind that give it meaning. In other words, the existence of a model is inescapable, its use is necessary to understand the reality around us. The question is what the dominant model for reality is.

The socialist system, by imposing the ideology of Marxism-Leninism and expecting its vocabulary from social scientists, sought to trap scholars in a politically determined paradigm. By forcing its language, the regime also attempted to make the assumptions carried by its categories generally accepted, even though the reality of the system became increasingly difficult to fit into the ideological framework. Indeed, the need to reject the official "red categories" is already evident in the notion of "actually existing socialism." The widespread use of the term by people forced to live under communist dictatorship was a mirror to the system: a rejection of its self-designation and, by adding an adjective to the term "socialism," a pointing out of its falsehood. The term, which captured the perverted nature of the system, was a simple step towards a language independent of the official party line and, as a result, towards a potentially critical line of thinking.



It was Kornai who initiated and systematically carried out the work of “language reform” in the field of political economy in Hungary. He not only broke with the self-legitimizing categories of the system but identified and named such phenomena that the official ideology ignored or even denied their existence. Concepts like “soft budget constraint,” “plan bargaining,” and “shortage” should be mentioned here. In this way, a coherent, positive descriptive language of political economy was created. Existing literature recognizes that Kornai, inspired by various schools of economic thought (Boettke – Candela 2021; Ellman 2021) and following the “system paradigm” as a methodological principle (Kornai 2000) was able to capture the systemic and inevitable flaws of the socialist system. This is a significant contribution to the academic discipline of political economy (Csaba 2023). Yet Kornai’s contribution was also significant in enabling the development of a critical language, which was indispensable for political dissidents opposed to one-party dictatorship. In his works, Kornai continually stressed that his science was “positive” and not “normative”: that his findings were descriptive rather than prescriptive.¹ But his accurate description of reality revealed the economic distortions that were concealed by official propaganda, and therefore it provided the basis for criticizing the system and formulating its alternative.

The first aim of this paper is to look at Kornai through this lens: to show how his work was part of the process by which the intellectuals of the anti-communist dissident movement developed their own language and became intellectually independent and able to confront the communist² regime. We will focus on the dissident movement in Hungary, Kornai’s immediate environment, but we will also mention its impact on the intellectuals of other countries in the region.

The second aim of the paper is to examine Kornai’s later works through this lens. Kornai, who actively published until his death in 2021, sought to analyse not only “actually existing socialism” but also “actually existing post-socialism,” the political-economic systems that emerged on the ruins of communist dictatorship. In the second part of the paper, we summarize Kornai’s most important contribution on this topic, “The System Paradigm Revisited” (2016). We present the descriptive language it offers for examining the post-socialist world, and analyse how Kornai’s approach brings us closer to understanding the specificities of post-communism, and in what respects it seems insufficient.

Finally, we present our own experiment in language reform, which we have previously explained in two books, *The Anatomy of Post-Communist Regimes* and *A Concise Field Guide to Post-Communist Regimes* (Magyar – Madlovics 2020; 2022). These books provide detailed definitions for the categories we introduced as well as our methodological principles, drawing among others on Kornai, who is among the most cited authors in our books (Magyar – Madlovics 2020: 21–22). However, the current paper does not simply reiterate what we have already wrote. Rather, it presents our findings in terms of language reform and as a refinement of Kornai’s work. In doing so, we seek to underscore the need for a language reform in the political economy of the contemporary post-communist world.

¹Exceptions were when he wanted to give a program, as in *The Road to a Free Economy* (1991).

²Previously, we have used “communist dictatorship” and “post-communist regimes” instead of “socialist” and “post-socialist” regimes, in order to avoid confusion with modern socialist movements. In this study, “socialist” and “post-socialist” are used synonymously with “communist” and “post-communist,” respectively.



2. LANGUAGE REFORM BEFORE THE REGIME CHANGE: JÁNOS KORNAI AND THE ANTI-COMMUNIST DISSIDENT MOVEMENT

2.1. Three waves of the development of a critical language against socialism

Intellectuals played a prominent role in the Hungarian anti-communist movement. Their starting point was the claim that the overthrow of the communist system in Eastern Europe was not only based on political conditions, but also on the development of a language that adequately described the system to be overthrown and its alternative. András Bozóki (2022) provides a detailed analysis of the debates in which dissident intellectuals in Hungary achieved a way of thinking independent of official Marxism-Leninism. The work of such members of the anti-communist movement as György Bence and János Kis (publishing jointly under the pseudonym Marc Rakovski) was essential in this process, and created the liberal, rational and secular discourse that eventually became the language of regime change itself (Kis 2016).

János Kornai's name does not appear once in Bozóki's book. The main reason for this is probably that Kornai did not take an active political role and did not become a member of the democratic opposition. Even though his writings had a great influence on dissidents in Eastern Europe, and he mentions in his memoirs that he gave lectures to many of the future leaders of the Hungarian democratic opposition at Rajk László College in the 1970s (Kornai 2008a: 210).

To put Kornai's work in context, it is worth briefly outlining the process that led to the emergence of the critical language of the dissidents in the Kádár regime. Three waves can be distinguished, which followed each other historically and logically. Each wave involved the "language reform" of a particular branch of social science, and each wave saw the emergence of positive description and the normative, system-critical stance based on it.

1. With the introduction of the planned economy and the forced industrialization, it was *economics* that was confronted for the first time with the problem that, under the political conditions of a communist dictatorship, the state-owned economic system was unsustainable. The doctrines of political economy canonized by the system, as can be read in the early official textbooks, proclaimed the superiority of socialism, "socialized" state ownership and central planning over capitalism and "market anarchy" (Gedeon 2018). Kornai's pioneering works, starting with *Overcentralization in Economic Administration* (published first in 1957 in Hungary, just one year after the Hungarian revolution of 1956) and continuing with *Anti-Equilibrium* (1971) and *Economics of Shortage* (1980) brought the language describing the socialist economy closer to the observed reality. Research with similar aims was carried out in Hungary, focusing on specific aspects of actually existing socialism such as investment cycles (Bauer 1981), economic campaigns (Soós 1986), holdings (Tardos 1980), and the phenomenon of "forced innovation" amongst the bottlenecks of the shortage economy (Laki 1984). These studies have also answered the question that had long preoccupied reform economists in Eastern Europe: namely, whether it is possible to imitate the market while maintaining the political boundary conditions of the dictatorship of the Communist Party. It became clear that this could only result in an economically unviable system as it contradicted three economic boundary conditions: consumer autonomy, the dominance of private property, and market coordination (Bokros 2021).



For the dissident movement, these findings meant that they could confront *the illusion of the economic superiority* of the system, its competitiveness and even its viability *vis-à-vis* capitalism. On this basis, and along the three aforementioned boundary conditions, they were able to formulate an alternative to socialism. This was the free market economy, for the full introduction of which Kornai also advocated in his “passionate pamphlet” in 1989 (Boettke 1991).

2. From the 1960s onwards, *sociologists* in Hungary began to confront the ideology of the system with social realities. They rejected the promise of a “classless society” and the Stalinist “two-class model” (industrial workers and the farming peasantry) and sought replaced it with their own descriptive language, as in the empirical structural research of “work characteristic groups” by Zsuzsa Ferge (1969). The work of Iván Szelényi – whose importance in Hungarian sociology is comparable to Kornai’s importance in economics – attacked the socialist system from different angles. Based on Polanyi (1992), he spoke about a “redistributive” system in which, unlike in Western welfare societies, it was not the market but state social policy that created inequalities, and it was the limited market mechanisms allowed after 1968 that helped to reduce them (Szelényi 1978). In their joint work with György Konrád, they identified intellectuals as a new class of “teleological redistributors” in socialist society (Konrád – Szelényi 1979).

In addition to these macro-sociological findings, various micro-sociological studies played an important role in the development of the dissidents’ system-critical language. Among these, the poverty studies of Otilia Solt and István Kemény, the descriptions of socialist labour relations by Miklós Haraszti, Lajos Héthy and Csaba Makó and the analysis of the first, second and third economy by István Gábor R. and Pál Juhász should be highlighted.³

For the dissident movement, the results of the sociologists meant that, after the supremacy of the economy, they could destroy another illusion: *the promise of a more equal society*, free of poverty and exploitation. The results and concepts offered by the sociologists made it possible to shake one of the main legitimating bases of the Kádár regime.

3. Finally, the 1980s saw the beginning of a critique of the existing legal-institutional framework and the outlining of alternatives in the field of *law*. “By the end of the 1980s,” writes Bozóki (2022: 226), “the circle of legal scholars, mainly constitutional lawyers [...] also often criticized the various bills incompatible with the rule of law; provided legal advice to the representatives of the newly forming parties and initiatives; or worked on a new constitution.” This included lawyers such as Gábor Halmai, István Kukorelli, András Sajó and László Sólyom. Others, such as Tamás Sárközy or Imre Vörös, expressed theoretical and practical views against socialist legal institutions and advocated the introduction or modernization of institutions such as company law, the system of administrative organization or competition law. For the dissident intellectuals this was not just the rejection of another socialist illusion but *a way of establishing a road map* at the dawn of regime change.

The transformation of economic, sociological and legal thinking as three interdependent elements provided the framework for the Hungarian anti-communist dissident movement to describe “actually existing socialism,” i.e., communist dictatorship in critical terms. In parallel with the intellectual achievements of the three successive waves, which were mostly legally

³Of course, the list of names is not exhaustive. For details on the reform intellectuals, see Bozóki (2022: 217–226).



published, the ideological dismantling of Marxism and the creation of a liberal, human rights-based language took place in political science, which had been completely relegated to the sphere of samizdat. The three language-creating works of this parallel wave in Hungary were György Bence and János Kis' writing on the "Soviet-type society"; Szélényi and Konrád's above-mentioned work on the intellectuals' "road to class power"; and Miklós Szabó's importation of the mainstream language of Western Kremlinology into the dissident discourse of the Hungarian public, with which he analysed the history of the Soviet and Hungarian communist party.

As we have seen, János Kornai was one of the first in this process to begin, in the first wave of the language reform, to discuss the socialist system in a new interpretative framework. In the following, we will describe in more detail Kornai's contribution to this new descriptive language, and how the conceptual construction he offered related to the research and thinking of other economists and dissidents.

2.2. Kornai's linguistic innovations: five key concepts of "actually existing socialism"

In his memoirs, Kornai writes that in the 1950s he began to confront the categories of the socialist system for self-legitimation because they "failed to match reality," and their followers "did not feel the primary intellectual duty to apply the elementary criterion of scholarship: testing their ideas against reality" (Kornai 2008a: 79). Thus, the need to bring theory closer to reality emerged in Kornai's thinking, giving rise to several new categories. These have since become basic concepts for the study of the political economy of the socialist system. Without claiming to be exhaustive, we discuss five basic concepts which Kornai has identified as the mutually reinforcing features of the "classical" system.⁴

The first is the concept of *state and quasi-state ownership*, which in itself dismantles the official term "socialized property," which did not distinguish between the various forms of socialist property (Gedeon 2018: 217). As Kornai puts it, to identify socialism with public ownership is "basically true," but the description of the system requires a "somewhat subtler system of concepts" (62). As part of this, he analyses the "variety of configurations of property rights" that exist in a socialist system, from the "state-owned firm" to the "regional state organization" and "budgetary institution" to the "cooperative." As he puts it, private property "exists [under the socialist system], but its scope is extremely restricted. The predominant property forms are the various kinds of bureaucratic public ownership" (87).

The second notion is *bureaucratic coordination*, by which Kornai put "central planning" in a comparative framework with market and other types of economic mechanisms. Kornai summarized the essence of bureaucratic coordination as follows: "Relations of superiority-subordination obtain between the individual or organization coordinating and the individuals or organizations being coordinated. Such relations are called *vertical linkages*. [...] The vertical flow of information consists of several kinds of communication, the most typical [...] being the command, the order from the superior that the subordinate is required to obey" (91). Elsewhere he added that in the classical socialist system "bureaucratic coordination takes the main part, and all other mechanisms play supporting roles at most or wither away. [...] Once the political

⁴In this section, we draw on the exposition in *The Socialist System*. Page numbers in parentheses refer to this work, unless otherwise noted.



structure, official ideology, and dominant role of state ownership are provided, they produce the dominance of the mechanism of bureaucratic control” (361).

Kornai’s third category is *plan bargaining*, first described in his Candidate of Sciences thesis⁵ (Kornai 1959). State enterprise leaders want to receive, as Kornai puts it, “as easy a production assignment as possible and as plentiful a supply of materials and labour as possible to carry it out” (122). In the first step, this leads to under-planning as state enterprise leaders report a smaller capacity and a larger input requirement than the reality. However, plan bargaining perpetuates as central planners realize this tendency and start to prescribe a plan 10 or 20 percent tighter than they consider realistic. The plan bargaining begins to achieve a looser plan, whereas the planners want to squeeze out the maximum of the firms and make them produce at least as much as they did in the previous year (“planning in”). As Kornai explains, under-planning and plan bargaining are two basic mechanisms that permeate all levels of operated by bureaucratic coordination (123–24).

The fourth concept is the *soft budget constraint* (SBC). With this, Kornai captured a phenomenon that the official ideology offered no word for – nor could it, since it highlights one of the reasons for the inefficiency of the system. From state ownership and the fact that the state makes up for the losses of (state-owned) enterprises, the incentive not to have losses is removed from the firm. Kornai mentions that in communist dictatorships “[it] is customary [...] to employ incentive schemes that could give the top executives of state-owned firms a measure of interest in raising profits, and the interest may even extend to the firm’s whole workforce. But it is normally a loose and weak interest. [It is] an incentive of the [artificial] kind [...], and not a type of a property right under which the whole residual income belongs to the owner” (74).

Finally, the fifth concept widely popularized by Kornai in the context of the socialist system is *shortage*. This concept, which is also in the title of his influential book, summarizes the chronic consequence of the neutralization of the price mechanism and the (mis)allocation of resources by the central planners. In Kornai’s concise formulation, “the shortage phenomena under the classical socialist system are general, frequent, intensive, and chronic; the system is a shortage economy” (233).

Other concepts, such as *quantity drive*, *paternalism*, *investment hunger* or *forced growth*, are also part of the conceptual framework that Kornai summarized in the most complete and coherent form in *The Socialist System*. However, it was the earlier books, and especially *Economics of Shortage*, that had the greatest influence on the thinking of Eastern European economists and the Hungarian dissidents. Attila Chikán (2004) summarized the impact of Kornai’s work in the intellectual preparation of regime change in Hungary in 8 points: (1) it put the explanation of empirical facts and phenomena into a framework, presenting new causal relations; (2) pointed out that the socialist system as we know it cannot be reformed in any meaningful way without transforming property relations; (3) showed that the system is unviable in historical perspective, it will necessarily collapse; (4) demonstrated that the effects described in the *Economics of Shortage* occur by force of law, necessarily overriding the aspirations of current economic policy; (5) provided a credible analytical framework (through its methodological clarity) for other economic studies; (6) served as a “stake” for theoretical and economic policy debates; (7) its effect abroad was reaffirming; and (8) it radicalized young economists.

⁵A pre-1989, Soviet-type scientific qualification degree before the introduction of Ph.D. degree in 1993.



The ninth point to be added is *the renewal of the vocabulary of political economy*, the introduction of a new conceptual system to describe socialism. Since Kornai described the socialist system comprehensively and developed a political economy of its basic, system-constituting elements, the language he offered was the “bonding agent” between the work of Hungarian economists who dealt with specific subsystems of socialism. Kornai’s analysis of the socialist system became indispensable, and his concepts – particularly shortage and the soft budget constraint – created a great response in the academic world (Kornai, Maskin, and Roland 2003).

Kornai’s work inspired not only Hungarian researchers but also those in other countries of the Soviet empire. Sociologist Alena Ledeneva, who in the 1980s worked in Tatyana Zaslavskaya’s department exploring the actual economic sociology of the Soviet Union, recalls the influence of Hungarian researchers, including Kornai, as follows:

“... Siberian sociologists had been influenced by their Hungarian colleagues, already working on ideologically marginal subjects of inequality and social stratification under communism, income distribution and privilege systems. I remember the samizdat translations being circulated and discussed, tested and applied. Iván Szelényi’s research on social inequalities, elitism and hidden marketization within the communist system and János Kornai’s conclusion of the systemic nature of its flaws – soft-budget constraints, state ownership, and ideological decision-making – were particularly subversive. [These analyses] also drew attention to the inner logic and complexity of socialist systems, as well as controversies in the communist governance.” (Ledeneva 2020, xxi)

This is another indication of the fertile ground on which Kornai’s insights fell between the late 1950s and the fall of the Soviet empire. Under the communist dictatorship, a fundamentally ideology-driven system that sought to impose its own language on all arenas of scientific thought, Kornai’s work was a breath of fresh air for the research community. By providing the scholars and dissidents of the time with a conceptual framework for grasping the bottlenecks of the political-economic system around them, Kornai was part of the process by which Eastern European social scientists “fought their way out” of Marxism and found their way to the market economy through a critique of the existing system.

3. KORNAI AND THE DESCRIPTION OF “ACTUALLY EXISTING POST-SOCIALISM”

3.1. The socialism-capitalism dichotomy and its further development: “The System Paradigm Revisited” (2016)

The socialist system was replaced in Hungary in 1989, and political and economic liberalization transformed the single-pyramid system of the communist dictatorship into a plural, multi-pyramid system. Kornai was a leading theorist of the process of transformation and the resulting economic difficulties, the “transformational recession” (Kornai 1994) and stabilization and reform (Kornai 1996, 1997). In his writings, he stated that the transition did happen and, focusing on Hungary, a capitalist system emerged after socialism (Kornai 2008b). Accordingly, he analysed “actually existing post-socialism,” i.e., the systems that emerged on the ruins of dictatorship, as capitalism, and his theoretical interest turned to the phenomena, and often the ugly face, of “actually existing capitalism.” If we review Kornai’s monographs, essays and edited volumes published in Hungarian and English after 1990, most of them deal with socialism or the



transformation from socialism to capitalism.⁶ However, his two collections of essays published in English in 2008 and 2013, *From Socialism to Capitalism* and *Dynamism, Rivalry and the Surplus Economy*, have a distinct focus on the political economy of capitalism. In his essay on the “soft budget constraint syndrome,” he applied his categorical innovation invented for socialism to the context of capitalism and private enterprise (Kornai 2014).

However, to identify “actually existing post-socialism” as merely “actually existing capitalism” is not sufficient, because it ignores the significant differences between the systems that have developed in the different countries of the region. Russia has a different system from Poland, and Romania has a different system from Hungary. Kornai, of course, saw this and faced the consequent need to further develop the descriptive language and interpretive framework for this part of the world. In 2016, he published his seminal paper “The System Paradigm Revisited” in this journal (Kornai 2016).

The paper summarizes the methodological principles of Kornai’s system paradigm, while it also continues Kornai’s research by applying that paradigm to the post-communist world. In other words, this paper went beyond the research program of analysing socialism and its transformation, and provided an analytical framework for the political and economic characteristics of post-socialist systems. Yet, as Kornai explained in the paper’s introduction, he considers these contributions to be mere “side-product” as they serve as illustration to the system paradigm method. Hence, the paper is not divided into a methodological part and a research/analysis part: the two are closely intertwined, and the analysis is carried out with Kornai explaining each step also from a methodological point of view.⁷

Kornai offers a two-tier typology of systems in which “several lesser parts form a coherent whole,” “interact,” and “there are comprehensible relations among them organizing them into a structure” (549). The first tier of the typology consists of the two “great systems” which Kornai analysed in his previous works: capitalism and socialism. Kornai creates ideal types in the Weberian sense by “pick[ing] out the various characteristics in which each type differs markedly from the others. The aim [...] is to grasp the relatively few, highly characteristic [...] features [...] necessary and sufficient for differentiation” (552). He identifies “primary” and “secondary” characteristics, which are in a hierarchical as well as causal relationship with each other. As he explains,

“primary characteristics determine the system as a whole, including secondary characteristics. The joint presence of the primary characteristics is a necessary and sufficient condition for the appearance of the secondary ones. [...] A sensible first stage when beginning to study a country is to concentrate on these primary characteristics. The results of doing so will then have predictive force. However, the primary characteristics do not generate all the secondary ones in a deterministic way. The effect is stochastic. There is a very good chance of finding the secondary characteristics in a country examined if the primary characteristics have already been identified.” (554)

Table 1 summarizes the primary characteristics, or the “minimum conditions,” of the capitalist and the socialist system, as identified by Kornai. Among the two systems’ secondary characteristics, Kornai lists the surplus and the shortage economy, the dominance of labour surplus and labour shortage, and fast and slow technical progress, respectively (553). These features underline the relevance of the dichotomy, which explains a great deal of divergence in the economic and welfare outcomes of the two types of systems.

⁶For a full list of Kornai’s publications see <https://www.kornai-janos.hu/full%20publist.html>.

⁷In the following, page numbers in parentheses refer to “The System Paradigm Revisited,” unless otherwise noted.



Table 1. Primary features of the capitalist and the socialist system

Capitalist system	Socialist system
The ruling political group ensures the dominance of private property and market coordination	The ruling political group, i.e., the Communist Party, enforces the dominance of public property and bureaucratic coordination
Dominant form of property: private ownership	Dominant form of property: state ownership
Dominant form of coordination mechanism: market coordination	Dominant form of coordination mechanism: bureaucratic coordination

Source: Kornai (2016: 553).

This is where Kornai turns to the post-communist region. In line with the above, he reiterates that virtually every country which was socialist in 1987 had become capitalist in the three decades that followed (555–558). However, precisely because of this homogeneity, a comparative analysis of these countries requires a second tier to the analytical framework: a sub-typology of capitalist systems. Kornai shows that this can be achieved by introducing an organizing criterion, by which different capitalist systems can be distinguished. The criterion he selects is the “politico-governmental form” (563).

Based on a comparative enumeration of political institutions, Kornai distinguishes three ideal types of political systems: democracy, autocracy, and dictatorship by four primary and six secondary features (Table 2). Kornai shows that capitalist systems can be either democracies, autocracies, or dictatorships but a socialist system cannot be democratic. “Capitalism is a necessary but not sufficient condition for democracy,” as Kornai points it out (569).

The introduction of this second tier allows Kornai to break up the homogeneity of post-communist countries (in terms of their capitalist nature) and analyse their heterogeneity (in terms of their political systems). As he finds, 68.4% of the post-communist population still lives in dictatorship; 14.8%, in autocracy; and only 10.3%, in democracy, mainly in Central and Eastern Europe (576). Kornai concludes that the “third wave of democratization” is in decline, and even democratizing countries can make a “U-turn.”

Kornai devotes the last third of his paper to analyse such a U-turn, namely that of Hungary after 2010. His conclusion is that Hungary is not a “hybrid” of capitalism and socialism, nor of democracy and dictatorship: it is a *capitalist autocracy* (587). It has some further peculiarities but those are only *tertiary feature*: they change neither the primary nor the secondary features of capitalism and autocracy (589). This is to further underline the usefulness of the system paradigm, which allows for a comparative analysis where the various characteristics of each system are not just listed but ordered, with each feature put in its right place according to its position in the anatomy of the system.

3.2. The inadequacy of the second tier focusing on political institutions: the primary feature of patronalism

The language of regime classification offered by Kornai to describe post-communist regimes is based on a conceptual dichotomy (capitalism–socialism) and a conceptual triad (democracy–autocracy–



Table 2. Primary features of democracy, autocracy, and dictatorship

Democracy	Autocracy	Dictatorship
The government can be removed through a peaceful and civilized procedure	The government cannot be removed through a peaceful and civilized procedure	The government cannot be removed through a peaceful and civilized procedure
Institutions which concertedly guarantee accountability are well-established	Institutions which could concertedly guarantee accountability are either formal or weak	Institutions which could allow/ guarantee accountability do not exist
Legal parliamentary opposition exists; multiple parties run for elections	Legal parliamentary opposition exists; multiple parties run for elections	No legal parliamentary opposition; only one party runs for elections
No terror (large-scale detention in forced-labour camps and executions)	No terror (large-scale detention in forced-labour camps and executions), but various means of coercion are occasionally used against political adversaries (imprisonment with false allegation, or even politically motivated murder)	Terror (large-scale detention in forced-labour camps and executions)

Source: Kornai (2016: 565).

dictatorship), and it uses the distinction of “primary” and “secondary” features to organize the characteristics of the regimes under study. Using Kornai’s regime types, we can classify post-communist countries, based on which ideal typical political system their regimes are the closest to. Table 3 shows the list resulting from this exercise.

Yet in perusing the lists of the countries, in spite of the clear-cut criteria, a sense of uncertainty nevertheless is bound to prevail. For though the Western post-communist countries may be called “democracies” when compared to the post-communist autocratic regimes, if they are pitted against the Western liberal democracies, it becomes palpably clear that the natures of the democracies in question are dissimilar. Indeed, sorting the countries into the three clusters of democracy, autocracy and dictatorship provides neat and homogeneous categorization *according to the political sphere*, as defined by Kornai’s triad. But if we look at the countries *by their*

Table 3. Post-communist countries of Eurasia sorted by Kornai’s categories (as of 2023)

Capitalist democracies	Capitalist autocracies	Capitalist dictatorships
Albania, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Kyrgyzstan, Latvia, Lithuania, North Macedonia, Moldova, Poland, Romania, Serbia, Slovakia, Slovenia, Ukraine	Armenia, Azerbaijan, Belarus, Hungary, Kazakhstan, Russia, Tajikistan, Turkmenistan, Uzbekistan	China, Vietnam



sociological and economic structures, countries in the same cluster still show a great deal of heterogeneity. Indeed, distinct regime types can be noticed, which are divided not by the apparent formal political institutional setup but “stubborn” socio-economic structures (cf. Magyar 2019).

Ironically, Kornai, an economist, approached the post-communist regimes more as a political scientist when he found the criterion for their separation in the political institutional setting. Since the 2000s, political science itself has tried to come up with different typologies of “hybrid regimes” in order to somehow map the “grey zone” between the two ends of the democracy-dictatorship axis.⁸ In Magyar – Madlovics (2022), we have identified three hidden axioms that this literature does not take into account and that need to be dissolved to be able to subject the reality of post-communism to comparative analysis:

1. The separation of spheres of social action (political, economic, and communal) is complete, and the connections between the spheres are formal, regulated, and transparent;
2. The *de jure* position of persons and institutions coincide with their *de facto* position;
3. The state is an actor pursuing the common good, and public policy mistakes or corruption cases are not system-constituting elements but simple deviances.

It would be beyond the scope of this paper to discuss the three axioms in detail (which we have done in our aforementioned book and in other works, e.g. Madlovics – Magyar 2023a,b). However, to shed light on their relation to the Kornaian post-communism framework, it is sufficient to highlight the phenomenon that emerges because the three axioms do not hold in the post-communist regimes: *informal patronalism*. The separation of the political and economic spheres with formalized, regulated cooperation is eliminated when (a) formal relations are replaced by informal ones, and the people operating the institutions act by certain unwritten norms and interests rather than the expectations of the formal, constitutional order (Klíma 2019); and (b) horizontal relationships are replaced by vertical, patron-client relations, and therefore one party (the client) loses, in part or completely, its autonomy to the other party (their patron) (Hale 2015). This is the typical situation in post-communist *patronal regimes*, which can be distinguished from non-patronal regimes by four analytical aspects (Table 4).

By saying above that the people operating formal institutions act by “certain” unwritten norms, we meant that, in the post-communist context, they act by the norms and interests of *an*

Table 4. Contrasting relations in non-patronal and patronal regimes

	Non-patronal	Patronal
Institutions	Formal	Informal
Regulations	Normative	Discretionary
Authorization	Collective (Authorization)	Personal (Authorization)
Command	Bureaucratic/Institutional Chains	Clientelist/Personal Chains

⁸For an overview, see Cassani (2014).



informal patronal network. Such networks exist not by virtue of bureaucratic, legally defined dependence (like in the case of state ownership and bureaucratic coordination, as described by Kornai) but by the *de facto* power a patron disposes over and can use to extort their client. This is made possible by the second feature listed in Table 4, namely the discretionary nature of regulations. While non-patronal relations involve normative rules and impersonally provided benefits or punishments to certain groups, patrons in informal patronal networks select between actors on a personal and discretionary basis. Rewards as well as punishments are meted out with the exclusive, personal authorization of the patron and by targeting the client, a person or an organization, directly.

Patronal systems place decision-making power into the hands of a single actor, the patron, and therefore authorization held or given in these systems is personal. This is in contrast to Western-type liberal democracies, which are characterized by collective authorization (i.e., bodies decide instead of particular people) precisely to uphold impersonality and avoid arbitrary decision-making. Finally, in non-patronal regimes private or public organizations develop through bureaucratic, institutional chains with several levels of formally defined actors and corresponding procedures. In patronal regimes, the organizations characterized by informal patronal relations depend on clientelist, personal chains. Unlike the formal networks of horizontal, lobbying-type relations, an informal patronal network is a pyramid-like, centralized hierarchy of several layers of patrons and clients with clearly (though informally) defined competences and prerogatives (Baez-Camargo – Ledeneva 2017).

Informal patronalism contradicts the separation of spheres of social action, as it allows actors who are formally confined to one (e.g., the political) sphere to act beyond their formal competences, and exercise power in another (e.g., the economic) sphere where their clients are located. This situation is prevalent in most of the post-communist region, particularly the post-Soviet countries outside the gravitational pull of the EU and the West (Hale 2015). While the communist power structure collapsed in 1991, the regime change was not followed in the European post-Soviet republics by the consistent development of liberal democratic institutions but rather a presidential system that gave only limited rein to democratic institutions. Even the development of such presidentialism was in some instances pre-empted – or accompanied during various crises-by the weakening of statehood and the appearance of a sort of “oligarchic anarchy” in the wake of massive privatization (Dubrovskiy 2023). Rather than importing Western non-patronal values along with Western institutions, the reality was that local forces, conditioned by civilizational attachments and the communist past, occupied and populated the newly created political institutions. The result was systemic duality: on the level of impersonal institutions, democratic republics with separated powers and competitive multi-party elections emerged (democratic transformation); while on the level of personal networks, informal patronalism prevailed as the main factor of political regime dynamics (no anti-patronal transformation).

This means that – to use Kornai’s terms – patronalism is a *primary feature* in these systems. This greatly nuances the picture offered by Kornai. The conceptual framework he offered is a good starting point for describing post-communism, but the concept of patronalism must be integrated into its economic and political dimensions. In other words, another “language reform” is needed.



4. INTEGRATING PATRONALISM INTO KORNAI'S CATEGORIES: A NEW DESCRIPTIVE LANGUAGE OF POST-COMMUNIST POLITICAL AND ECONOMIC SYSTEMS

By dissolving the three axioms, and specifically by recognizing patronalism as a system-constituting primary feature, we can build on – and necessarily go beyond – the typology that Kornai provided for post-communism. We can double the triad he has developed for the political system, distinguishing two democracies, two autocracies, and two dictatorships (Magyar – Madlovics 2022: 193–251):

1. *Liberal democracy*, which is based on pluralist power and the dominance of formal institutions (e.g., Estonia);
2. *Patronal democracy*, which is based on pluralistic competition but of patron-client networks (e.g., Romania, Ukraine);
3. *Patronal autocracy*, which is dominated by a single-pyramid patronal network that breaks pluralism and embodies the unconstrained informal power of a chief patron in the political and economic spheres (e.g., Hungary, Russia);
4. *Conservative autocracy*, where the political sphere is patronalised but the economic sphere and the society are not (e.g., Poland);
5. *Communist dictatorship*, which merged politics and the economy in the manner described by Kornai (e.g., the Soviet Union before 1989);
6. *Market-exploiting dictatorship*, which maintains a one-party system but operates the private economy in various forms (e.g., China).

With the help of the six ideal types, we can create a triangular framework, in which the countries of the region can be placed (Figure 1). In the triangle, the three *polar types* are liberal democracy, patronal autocracy, and communist dictatorship, while the three *intermediate types*

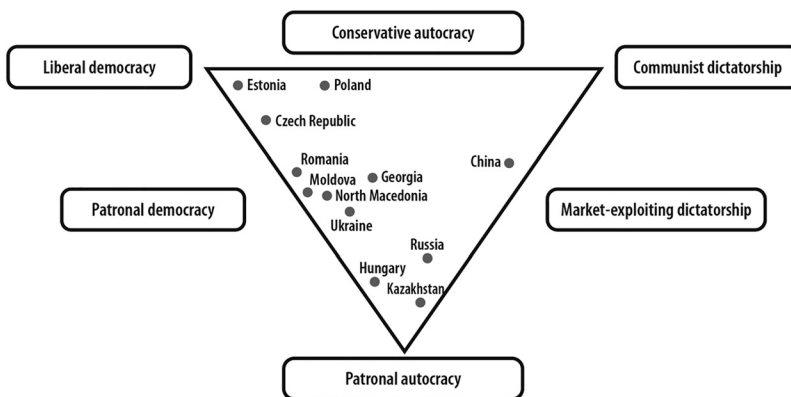


Fig. 1. The conceptual space of regimes, with 6 ideal-types and 12 post-communist examples (as of 2023)



bisect the sides between the polar types (in much the same way as autocracy does between democracy and dictatorship in Kornai’s understanding).

In the field of economics, we must perform a similar exercise of refinement with Kornai’s capitalism–socialism dichotomy. However, there is no need to duplicate the dichotomy. Kornai’s description of socialism needs no refining; only the category of capitalism needs to be disaggregated because, as Kornai underlined, post-communist regimes are all capitalist.⁹ However, the variety of post-communist capitalisms cannot be seen in Kornai’s framework because he identifies all the features beyond the primary and secondary ones as “tertiary features” that do not change the system. In this regard, his treatment of corruption is telling. When Kornai (1992: 252–255) distinguishes between “sellers’ corruption” and “buyers’ corruption” in capitalist and socialist systems, respectively, he notices the regime-specific difference between the two, but interprets corruption as a purely economic phenomenon. In fact, corruption becomes a systemic element through the prevalence of patronalism. This is what distinguishes two economic settings within capitalism: the *market economy* and the *relational economy* (Table 5).

As we have seen, for Kornai the fundamental difference between capitalist and socialist systems was the specificity of the coordination mechanism. First, the dominant mechanism of a market economy is *regulated market coordination*. In the words of Kornai (1992: 92), market coordination is “a lateral, horizontal linkage” where individuals “rank equally in legal

Table 5. Market economy, relational economy, planned economy

Capitalism		Socialism
Market economy	Relational economy	Planned economy
Politically disembedded economy	Patronally embedded economy	Bureaucratically embedded economy
Regulated market coordination	Relational market-redistribution	Bureaucratic resource-redistribution
<ul style="list-style-type: none"> • regulated • impersonal • normative • dominance of competitive markets 	<ul style="list-style-type: none"> • non-formalized • personal • discretionary • dominance of relational markets 	<ul style="list-style-type: none"> • formalized • impersonal • normative • dominance of administrative markets
<i>Invisible hand</i> of the impersonal market forces	<i>Visible hand</i> of the patron interfering with market forces	<i>Central planning</i> of the nomenklatura bypassing market forces
Horizontal	Vertical	Vertical

⁹Indeed, there were “varieties of socialism” before the regime change, as Kornai (2015) pointed out.



terms,” and take on the role of sellers and buyers. Their voluntary decisions of buying and selling constitute profits and losses, providing a scheme of incentives for the coordination of the activities of enterprising people. However, when describing economies of the modern day we cannot disregard the fact that they are “regulated” by a central authority, and liberal democracies today feature mixed economies as a norm – hence, regulated market coordination.

The dominant mechanisms in the two other types of economies are types of redistribution in the Polányian sense (1992). In a planned economy, the dominant mechanism is *bureaucratic resource-redistribution*. In the socialist system, the whole sphere of market action is merged with the sphere of political action in a single bureaucratic entity, coordinated through central planning. In this formalized and normative system, the nomenklatura determines both the ownership structure and the production structure with physical targets (meaning, in the central plan, production targets are expressed in exact numbers of natural units and quantities). In contrast, patronal autocracies only determine the ownership structure: the chief patron is not the planner and manager of production, but the redistributor of markets and rent-seeking opportunities to his clients. Accordingly, we speak about *relational market-redistribution*, whereas the economy is not a planned economy but a relational economy. In other words, while staying capitalist in the sense of the dominance of *de jure* private property, the chief patron makes the system patronally embedded: economically patronalised and subordinated to the interests of his informal patronal network.

Finally, Table 6 presents some basic “mainstream” and “reformed” categories. The categories are paired according to the level of the economic system to which they refer, and their parallel definitions shows how *the logic of patronalism as a primary feature*, defining the system’s logic of operation, *gives rise to secondary features* in the relational economy that are different from those of the Western-type market economy.

Political economists analysing the post-communist region often use the vocabulary of capitalism. This is in line with Kornai’s finding that all post-communist countries are capitalist and that, as Djankov et al. (2003) famously put forth, the research program of new comparative economics after socialism is the analysis of the various forms of capitalism. The mainstream categories, however, were developed to describe Western capitalisms and its “varieties,” and they are suitable for that purpose.¹⁰ As the definitions in Table 6 show, the relational economy differs from the market economy in the way its specific actors, institutions and processes function. To use the same words for them as for their counterparts in the market economy is to conflate the two systems and to see patronalism and relational phenomena associated with it as mere “deviances” instead of primary and secondary features, respectively. Just as the reformed language of the dissident movement moved them closer to the reality of socialism, it is a reformed conceptual framework in which the reality of post-socialism can be revealed. Using this typology, features such as the hierarchical and illegitimate forms of informality can be analysed in their rightful place – as features which define the system, and not as some “tertiary” side effects in a fundamentally Western-type capitalism.

¹⁰Analyses of the post-communist region in the “varieties of capitalism” paradigm include Lane (2007) and Bohle – Greskovits (2012).



Table 6. Categories applicable to market and relational economies (with definitions)

	Mainstream categories (Applicable to Western-type market economies)	“Reformed” categories (Applicable to post-communist relational economies)
System	<u>Market economy</u> : a system with the dominance of regulated market coordination	<u>Relational economy</u> : a system with the dominance of relational market-redistribution
Actor	<u>Entrepreneur</u> : an actor whose success depends on market performance and normative regulations	<u>Oligarch/front man</u> : an actor whose success depends on patronal privileges and discretionary favours
Asset transactions	<u>Hostile takeover</u> : an asset transaction that circumvents the will of the owners but is legal (even if immoral)	<u>Centrally-led corporate raiding (reiderstvo)</u> : an asset transaction that involves illegal state coercion
Process of transactions	<u>Market transaction</u> : a process that is based on a voluntary transaction between buyer and seller	<u>Predation</u> : a process that is based on the coercive transaction between predator and prey
Market failures	<u>Market bubble</u> : a market failure based on excessive market expectations (during bailout, saviour ≠ saved)	<u>Corruption bubble</u> : a market failure based on excessive corruption expectations (during bailout, saviour = saved)
Corruption	<u>Free-market corruption</u> : a type of corruption that involves occasional transactions of informal favours between low-level actors (no dependency between corruption supply and demand)	<u>Criminal state</u> : a type of corruption that involves regular transactions of informal favours between high-level actors (patronal dependency between corruption supply and demand)
State	<u>Constitutional state</u> : a democratic state based on the rule of a governing party following the societal interest defined in the process of public deliberation	<u>Mafia state</u> : an autocratic state based on the rule of a single-pyramid patronal network following the twin motives of power concentration and personal-wealth accumulation
Political capitalism	<u>Crony capitalism</u> : a type of political capitalism based on the regular transactions of “cronies” (client-client relations, no subordination of economic actors to political ones)	<u>Mafia capitalism</u> : a type of political capitalism based on the regular transactions of patrons and clients (patron-client relations, “oligarch capture” by the chief patron disposing over the means of public authority)

5. CONCLUSION

The contribution of János Kornai as a language reformer of the socialist system forms a bridge between his contribution to political economy and the anti-communist dissident movement. His concepts like “soft budget constraint” and “shortage” became the keywords for the critical analysis of socialism. Reform economists were all “speaking Kornai,” consciously or



unconsciously: they used his concepts and/or theoretical framework and arguments to reform, analyse and finally reject “actually existing socialism” as an unviable alternative of capitalism. After *Economics of Shortage*, the official model of reality was irreparably damaged, and Kornai’s model of reality became the paradigm of economists.

Today, the political economy of post-communism is in the pre-Kornai phase in the sense that it is dominated by a mainstream that does not match reality. Towards the end of his life, Kornai set the course for a new language reform by nuancing the capitalism–socialism dichotomy with a triad of political settings. In this paper, we tried to argue that, by developing Kornai’s work further, a new language can be created that opens the way to an analysis of post-communist relational economies that would be inconceivable in the traditional conceptual framework of the market economy.

Of course, in a short paper we could only summarize our attempt at language reform in keywords (for a more detailed explanation, see Magyar – Madlovics 2020). We also concede that it is a primarily theoretical construct, and the empirical studies based on them are still mostly in outline. However, the abundantly documented presence of the phenomena in question, especially patronalism, highlights the task of economists to investigate them – either relational phenomena per se or how the presence of relational markets, actors and institutions distorts the functioning of sectors that are still market based. However, this, like the critical political economy of socialism, can only be done using an appropriate language. Without an adequate linguistic and conceptual framework, we will become captives of our own prejudices; without consciously attempting to capture reality in proper conceptual terms, we will inevitably be stuck in our preexisting frame, forcing us unconsciously to try and apply its assumptions everywhere. Like wearing invisible glasses that focus our perception in specific ways, not being aware of the implicit axioms carried by our words ultimately distorts both interpretation and understanding of reality. János Kornai has come to this realization – it is up to us to follow him.

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