

FOR THE BIRTHDAY OF JÁNOS KORNAI

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Nineteen twenty-eight was the last “year of peace” before the Great Depression, the year that brought penicillin and the Geiger counter into the world. This was the year when the internationally most known Hungarian economist, János Kornai was born on January 21, into a well-to-do family, as the fourth child of a Budapest lawyer. His works have exerted an elemental force in Hungary and abroad as well – including and above all *The Economics of Shortage*. This work in its time made the logic and “planned confusion” of a planned economy known to the countries of “existing socialism” – from Czechoslovakia to Vietnam – as well as to Western economists. However, that would not have been enough to bring János Kornai world-wide success. Although this has tended to be emphasized to a lesser extent, *Shortage* and Kornai’s other works describing states of disequilibrium also made a significant contribution to the self-knowledge of developed 20th century market economies.

The unusual career path of Kornai, from journalism in *Szabad Nép*, the ruling communist-party daily, to a professorship at Harvard University, can hardly be called straight. Paradoxically, however, few careers have been more consistently structured than his has been. To illustrate the coherence of his life’s work perhaps it is enough to make two short quotations from his first major work, which appeared in 1957, and from his 1993 work:

What needed investigation was the way in which annual and quarterly plans are prepared *in practice* (irrespectively of what the relevant decrees enjoin), the manner in which negotiations between manufacturing industry and distribution are carried on *in real life*, and so on. For this reason, particularly important roles were accorded in the present inquiry to *direct*

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observation, to a manifold process of *discussion* with experts and persons in leading positions in the practical conduct of economic life, and to the summing up of their experience.¹

In many cases the conclusive “evidence” supporting a proposition is provided by those who live in a socialist country. Do they recognize the situation described in the book? Does what is written coincide with *what they experience day after day* as consumers or producers, managers or employees, buyers or sellers? I also see myself as a “witness” of this kind. Moreover, I have *spoken over several decades with many other “witnesses”* and read many case studies, accounts, minutes and written reports, interviews, and sociographical studies that can be taken as pieces of “evidence”.²

It is not generally known, but even the very first statement of evidence was addressed to an international public. *Overcentralization in Economic Administration*, which I have just quoted, went on to be published in an English version in 1959, by Oxford University Press. Already in that first book of his, Kornai had broken through the constraints of language and those deriving from the system under which he lived. Knowing the conditions at the time, it is hard to overestimate the importance to the international economists’ profession of his authentic report from a world on which Western readers had only rumours to go on for information, while scientific “objectivity” was largely a prejudiced product of some representatives of Sovietology. The fate of his first, 1957 book³ foreshadowed the duality in Kornai’s career. His works address both the people of the Central and Eastern European region – the “Austro-Hungarian” subspecies of *Homo sovieticus* (including the succeeding generation, which bears that heavy burden) – and the attentive readers of Western academia.

Despite the unfamiliar biographical details and the episodes of adventure in them, the Hungarian poet⁴ Milán Füst’s description of himself fits János Kornai as well: “I have no life story, only a work story.”⁵ Though that work story is still

¹ *A gazdasági vezetés túlzott központosítása*. Budapest: Közgazdasági és Jogi Könyvkiadó, 1957, p. 4. (*Overcentralization in Economic Administration*. Oxford: Oxford University Press, 1959, p. 4.)

² *A szocialista rendszer. Kritikai politikai gazdaságtan*. Budapest: HVG Kiadó, 1993, p. 45. (*The Socialist System. The Political Economy of Communism*. Princeton, NY: Princeton University Press, 1992, p. 13.)

³ *Overcentralization...* was written before the revolution of October 1956. It emerges from a yet-to-be-published interview with Kornai that the manuscript was smuggled out of Hungary to Oxford, England. There it attracted the attention of John Hicks, who seems to have recommended it to the Oxford University Press. The book attracted considerable attention in the Western press, with appreciative reviews appearing in the *Manchester Guardian* and *The Times*. It also received lengthy positive peer reviews in many Western academic journals. The reception at home was quite different, in line with the times. The “tribute” to the work was dismissal of its author from the Institute of Economics.

⁴ Milán Füst (1888–1967) poet and writer, representative of “West”, the modern intellectual movement between the two world wars.

⁵ Füst, Milán (1998): *Szellemek utcája* (Street of Spirits). Budapest: Nap Kiadó, p. 7.

being written every day of the 21st century, it forms a closed entity, a classic oeuvre, trimmed of outward trappings, whose creator has assembled it with the same care he expends on everything that comes out of his workshop, even the shortest of conference contributions.

A big contribution to the refinement of János Kornai's works has come from his mathematical language and affinity for abstract models. These have accompanied his work, from his 1965 study *Mathematical Programming as a Tool in Drawing Up the Five Year Economic Plan*, published abroad, through his famous article *Pressure and Suction on the Market*, to his latest writings. To him, however, modelling and mathematical methods are never an end in themselves. The abstract models he constructs are intended to explain facts, and produced in constant interaction with the facts through continual testing. This approach was already apparent in one of his earliest studies (written together with Tamás Lipták⁶), on two-tier planning.⁷

A forthcoming interview with Kornai confirms this:

In all of my writing I took the view that my point of departure was that we have a plan anyway – that is given, at least for now. So is there anything we can do to make the plan somewhat more consistent and improve some of the indicators? But in fact I considered this work much more a learning process than an undertaking to improve planning. In retrospect I think it proved to be a good education for those participating in the project. Ultimately my experience with mathematical modelling also taught me that planning does not, and cannot meet its targets. I learned the hard way about the vital importance of having good information and incentives. I learned that from my research for the *Overcentralization* book and again from my work on mathematical planning. So I learned my Hayek from the real world rather than from a book.

Kornai at that time wanted only to assist with the problems of reality through modelling, but he found that modelling shed an entirely new light on reality. Merciless mathematical logic forced him to realize that the reality was unsustainable. The importance of consistent theory in his later career was not to show that

⁶ Tamás Lipták (1930–1998) was an outstanding representative of Hungarian mathematical economics. He started his career as a mathematician, later on he worked together with János Kornai on the modelling of two-tier planning. He was a pioneer of game theory, applied for the problems of the planned economy. As a consequence of his political role after the suppression of the 1956 revolution, he was sentenced to 2.5 years' imprisonment. Later he emigrated to Great Britain where he lived until his early pass due to a fatal accident.

⁷ With hindsight, even the title of the paper is revealing: "Kétszintű tervezés: Játékelméleti modell és iteratív számítási eljárás népgazdasági távlati tervezési feladatok megoldására" (Two-Level Planning: A Game-Theoretical Model and Iterative Computing Procedure for Solving Long-Term Planning Problems of National Economy). At the time it appeared, most Eastern European economists had not even heard of game theory, let alone applied it actively (*Közgazdasági Szemle*, Vol. 9, No. 12, 1962, pp. 1429–1443).

it took precedence over facts, but its ability to shed light on the dim set of facts. János Kornai's insistence on facts luckily differs from the customary behaviour in the profession, summed up so graphically by Vernon Smith, who pointed out, "Economics as currently learned and taught in graduate school and practised afterward is more theory-intensive and less observation-intensive than perhaps any other science. I think the statement that 'No mere fact ever was a match in economics for a consistent theory'⁸ accurately describes the prevailing attitude in the profession."⁹ In Kornai's case, his efforts to create a consistent theory and strong inclination towards generalisation do not conflict with his healthy scepticism about theories and inner urge to test them. On the other hand, modelling also became a kind of asylum for him in the 1960s and 1970s. The mathematical mode of expression was the capsule, which could be filled with bitter truths without forcing their author to "refine" or falsify them. For who would have thought of searching for rebellious ideas in a study of game-theory modelling of two-tier planning or in *Anti-Equilibrium*? Yet these plainly contained the ideas that would seal the destiny of the system, although they still awaited readers who could understand them. The long period of maturation that they underwent did them good, not damage. To a pair of expressions from Kornai, "postponement" in this case did not mean "omission". His ideas exploded among scholarly public opinion at just the time when they could exert the strongest influence.

Kornai's success was increased by its occurring at "just the right moment". It was just the right time for abstract description of the absence of equilibrium to give way to the graphic, clear-cut, sharp description of *The Economics of Shortage*. While he had been ripening his ideas in his study, time had been ripening the opportunity for expressing them. But that, perhaps, may apply to all great perceptions. Kornai's consistent intellectual construction work, which reached a climax in the book, became fulfilled just at the time when it appeared, just when the situation was ripe for its reception. It is misleading to imagine that reception and acceptance of the truths presented in *Shortage* were prevented for ten or twenty years only by the oppressive intellectual climate or the censorship in Hungary. Not even the Western public was prepared before 1980 to accept the fatal diagnosis for socialism that the book gave. (It is enough here to mention the extreme fallacies about socialism – opposite in sign, but equally damaging: the uncritical enthusiasm of the left-wing intelligentsia and the ignorant prejudices of some Kremlinologists.) *Shortage* appeared at the right time for everybody. It sobered

⁸ Milgrom, P. and J. Roberts: Information asymmetries, strategic behavior, and industrial organization. *The American Economic Review*, Vol. 77, No. 1, p. 185.

⁹ Smith, V. L. (1989): Theory, experiment and economics. *The Journal of Economic Perspectives*, Vol. 3, No. 1, p. 151.

all the well-intentioned reformers, who had thought that the system could be changed. The final and irrevocable settlement of accounts with these illusions can be dated from the appearance of Kornai's book.

Not only *The Economics of Shortage*, but other works of Kornai's have appeared "just at the right time". This applies especially to *The Road to a Free Economy* of 1989,¹⁰ which was a unique undertaking of its kind. By exploring the most urgent tasks of transformation, Kornai really put his hand in the fire. It seemed almost rash to point out clearly the main lines of action at a time of dislocation in times of uncertainty, arguments were confused and the familiar opportunities were closed. Yet that is what he did in his *The Road to a Free Economy*. The times caused even so objective a scholar as Kornai to forsake his accustomed paths of analysis.¹¹ The distant researcher began to go beyond diagnosis to give advice, undertaking to navigate the ship that had slipped its anchor and begun to drift, intervening in economic policy, after being so concerned not to do so hitherto. Kornai recommended radical stabilization surgery. However, even the work's resounding success at home and abroad was not enough to spur the decision-makers to action, as a pamphlet should.

It is worth toying with the idea of what would have happened if... What would have happened if the first freely elected Hungarian government had adopted his proposals? What would have happened if the decision-makers had centred their activities on setting the economy to rights and accomplishing a swift and radical transformation, instead of on political struggles and "settlement" of the past? Hardly anything was implemented of Kornai's uncompromizing programme of transformation towards the market. People say that history sweeps the hesitant before it, but it seems to do so very hesitantly in this country. Otherwise, how come most of the 1989 solutions in the pamphlet (*The Road to a Free Economy*) remain timely, indeed ever more timely today? In that work Kornai recommended that the tax system should be simplified. Recent measures have simplified it to some extent, but on the eve of the EU entry, it is still full with countless exceptions. The passions over the budget deficit are as timely today as they were when *The Road to a Free Economy* was written. Restoring the balance of the budget, which the author of the above work noted was just a matter of government will and determination, remains the most urgent of tasks in 2003.

¹⁰ *The Road to a Free Economy. Shifting from a Socialist System: The Example of Hungary*. New York: W.W. Norton, 1990.

¹¹ Kornai had last taken a direct part in events on October 23, 1956, when he (along with Ferenc Donáth) co-operated in devising Imre Nagy's programme, as a member of an expert committee.

Pamphlets are not generally expected to last forever. A pamphlet is the child of a moment, quickly overtaken by events and soon forgotten. János Kornai was able to give the genre a new content, and in doing so, he was not only helped by the hesitant ambiguity of economic-policy practice. His *The Road to a Free Economy* might just as easily have borne the epithet “sober and considered” as “passionate”. Going beyond the pamphlet, his whole life’s work seems to have embodied the rebellion of common sense.

The synthesis and framework of that rebellion appears in his great anatomy of the socialist system, which in Hungarian bears the subtitle *A Critical Political Economy*. This refers to the essence of political economy. The work is not simply a summary of his life’s work. It shows through a new prism what we (largely thanks to János Kornai) know about socialism. *The Socialist System* presents shortage, forced growth, labour shortage, the soft budget constraint, i.e. all that has been presented in Kornai’s earlier works, as refracted by political relations. But how well do we really know the socialist system? Can we really get to know it without considering its power structure, the key to its comprehension? János Kornai says not. “The key to an understanding of the socialist system,” he says, “is to examine the *structure of power*... In my opinion, the characteristics of the power structure are precisely the source from which the chief regularities of the system can be deduced.”¹²

The domestic reception of this work, which created a big stir internationally, was tempered by the false impression that it concerned a period of history that had been concluded and left behind, no analysis of which, however deeply considered, was going to help us here and now. However, in spite of its subject, this work is about the present day. The power structure that Kornai takes as his starting point is in the past only in the specific form in which it appeared. The strong path dependence, which seems perhaps stronger than usual in this region, explains many things about the incomplete and ambiguous aspects of the transition. The past still casts its shadows over the present and still lives with us and within us. As Grzegorz Kolodko put it, “It is not worth looking back, because that is not where the past is to be found.”¹³

The great synthesis, *The Socialist System*, was not followed by any means by satisfaction and rest, and that says much about János Kornai the man. Kornai is

¹² *A szocialista rendszer. Kritikai politikai gazdaságtan*. Budapest: HVG Kiadó, 1993, p. 65. (*The Socialist System. The Political Economy of Communism*. Princeton, NY: Princeton University Press, 1992, p. 33.)

¹³ Kolodko, G. W.: *Globalizáció és a volt szocialista országok fejlődési tendenciái*. Budapest: Kossuth Könyvkiadó, 2002, p. 12. (*Globalization and Catching-Up in Transition Economies*. Rochester: University of Rochester Press, 2002.)

constantly writing a single book which can be called *The Book of Dissatisfaction*. Even in his most recent works, he has been touching delicate issues poking into real hornets' nests. His 1998 book on health-care reform argues as passionately for breaking up this reserve of bureaucratic co-ordination as he did for pushing it back and freeing market forces in *The Road to a Free Economy*. This work, just like his first piece of writing, is still presenting the untenable consequences of "over-centralization". The subject is still the same: lack of competition, declining efficiency, squandering of resources, dismissal of consumer demands. In other words, it is about the socialism that still lives among us, in a sector where overcoming it is not just a matter of life and death in a figurative sense. No less cardinal is the basic question behind the research that he is directing in conjunction with Susan Rose-Ackerman of Yale University. In this programme, bearing the title "Honesty and Trust: Theory and Experience in the Light of the Post-Socialist Transition", he is leading a big team of researchers in examining one of the most sensitive problems at the turn of the millennium.

János Kornai is the most successful and the most influential Hungarian economist. That can be deduced not only from the countless prizes and marks of international recognition he has received – from the French Legion of Honour to honorary membership of the Swedish Academy of Sciences – or simply from the thousands of reviews and still more citations of his works. It was a mark of respect for him personally, and through him, for all Hungarian economics (and an opportunity), when the International Economics Society, at its meeting in Lisbon in 2002, elected him president. The importance of this is apparent from the fact that Kornai follows Robert Solow in the chair. Furthermore, he is the first economist from Eastern Europe to head the organization. Perhaps more important than external recognition and the impression outward measures of his success is that the author of *Shortage* and *The Socialist System* has fundamentally influenced the thinking of us all. He has radically changed how we see the world and thereby changed the world itself, the world of those who consider themselves his pupils, and of those on whom his writings have left an eternal mark. We all have to relate ourselves to János Kornai in some way. His life's work is an immovable triangulation point on our intellectual map.

