

# Comparative economics and the mainstream<sup>1</sup>

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**Abstract:** This essay reviews the complex love-hate relationship between comparative economics, as represented by its most outstanding representative, János Kornai, and mainstream economics, based on rational expectations and general equilibrium theorizing, as represented by Kenneth Arrow and his disciples Paul Samuelson, Olivier Blanchard and the New Keynesian line adopted by the IMF under his reign. The ultimate question is why the interaction has not been more productive and direct over the decades? Why has the post-communist era not brought about a rapprochement? The essay reviews major milestones presented in academic volumes in the oeuvre of Kornai through the decades. It highlights a special form of micro-founded macroeconomics, whose epistemological features are distinct from that of the neoclassical synthesis.

**Keywords:** system paradigm, neoclassical synthesis, institutional economics, socialist economy.

**JEL codes:** B15, B24, B41.

## Introduction

This paper is a tribute to the 90th birthday of János Kornai, the most accomplished economist from Central and Eastern Europe. Save for the Nobel Prize, which was granted to Leonid Kantorovich, a representative of the then famous (and by now almost forgotten) Soviet school of mathematical economics/programming/optimal planning. However, if we take just Google Scholar citations, his most cited co-authored work received 1,610 and the second most cited 1,110 quotes. By contrast, in the case of Kornai, *The Socialist system* counts 3,435 and the *Economics of shortage* 3,250 citations.<sup>3</sup> In all the impact is measurable and

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<sup>3</sup> Retrieved on 23 May, 2017. Certainly, unfiltered Google data are highly unreliable owing to duplications and other mistakes due to the electronic generation of data and the lack of quality checks. Still, as an illustrative first approximation these numbers tell history.

remarkable. It far exceeds many mainstream Nobel winners. For instance, it is more than that of Holmström, the winner of 2016 Prize, or of Robert Aumann, the winner in 2005, or of Alvin Roth, the winner of 2012. Note that cumulative citations of these authors are way below that of Kornai, even if we take the three or five most cited works. All of his works have appeared in his native Hungarian at the same time, and many of the works in several global and local languages, which is not the case with the Nobel winners mentioned.

One of the most intriguing analytical issues among the many historians of thought who have analysed the *oeuvre* of János Kornai has been the following. Given his unparalleled embeddedness in the Western academic world ever since the mid-1960s, i.e. for over half a century, his highly original and equally unusually influential ideas have had a limited, if any, impact on mainstream economics, as taught in global economics programmes at PhD level. And similarly, while in the Soviet period his academic output had been noticed and appreciated even by those who hardly bothered to read any of the bulky volumes, now the influence of the intellectual architecture seems to be waning.

In terms of substance, it is my strong conviction that Professor Kornai's academic output, its relevance and influence over the discipline and the neighbouring areas is yet to be appreciated in full, both in terms of width and in terms of depth.<sup>4</sup> As I shall try to document, even in a fragmentary fashion his being rooted in the study of reality, his commitment to the social implications of economic issues and also his constant tendency to provide empirical testing to any of his claims way beyond that which the mathematical formulation makes indispensable, *render his approach closer to the classical than to the neo-classical school of economic analysis*.

Especially the quest for socially relevant, rather than fashionable or well selling topics, is a feature which turned him into a lonely giant of academic reflection over the decades. This quest has always been combined with a similar quest for high methodological standards and impeccable logical clarity, irrespective of the style of analysis adopted in the individual books. Kornai himself aspired to be appreciated by the mainstream of each of the periods of his activity. His introduction to the collection of his writings on soft budget constraint (Kornai, 2014a, pp. 62-66) testifies for this legitimate dissatisfaction. He highlights the many overlaps with standard micro-economic concepts and those developed by himself through the study of socialist economic reality, firms and bureaucracy and their interaction.

In the following pages I shall present one book from each decade by Kornai in order to illustrate the broader points and place the development of comparative economics, as illustrated by its major representative author, in the context

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<sup>4</sup> A complete list of his publications, many downloadable papers, many discussions, especially in the past two decades are easily available on his personal homepage: [www.kornai-janos.hu](http://www.kornai-janos.hu)

of the global mainstream. Certainly, both discussion of what the mainstream is and how comparative economics developed as a sub discipline would require separate monographs. In the current piece I avoid replicating our recent reading of events (Csaba, 2016) and also the controversial self-reflection of comparative economists (Djankov, Glaser, LaPorta, Lopez-Silanes, & Shleifer, 2003; Dallago, 2004; Roesser & Roesser, 2008; Kornai, 2015). We just take it for granted, that mainstream economics has continued to revolve around mathematically constructed abstract models, while comparative economics has never allowed for itself to be detached from down-to-earth issues, institutional, political and country-specific peculiar features and the interpretation of same.

While appreciating arguments defending neoclassical mainstream (Galbács, 2017) from the conventional shallow criticisms of being alien to explaining anything in the real world, we simply observe that *the level of abstraction as well as the focus of attention of comparative economists has continued to be different across the decades*. If we take economics as a broad church rather than pure theory circumscribed by a certain vision of mathematical rigour (as e.g. in Lucas, 1995; Romer, 2015), we can stick to the line of classical accounts of the history of thought (most prominently by Backhouse 1994, 2014) allowing for diversity. In this reading, comparative economics, despite its peculiarities, has never strayed from the discipline. On the contrary, through its specific focus it has fostered knowledge accumulation, which has, on occasion, more than less penetrated mainstream interpretations and insights of the economy as a system.

## **1. The fifties: *Overcentralisation* and description of the command economy**

János Kornai has earned global fame and attention with his classical book, published in Hungarian in 1957 then in English in 1959 (Kornai, 1959) and reprinted in 1994. It was seen, by his contemporaries at the time as a watershed in understanding how the planned economy works on the ground.

In the economic thinking of the 1920-1960 period there has been an inherent element of a comparative systems' approach. Both the highly normative political economy approach of Marxism, the official creed in the Soviet bloc, Yugoslavia and China, and – less openly – in Samuelsonian economics, as well as the then still influential German *ordo-liberal* school contrasting the two systems was something fundamental. Not least under the overwhelming impression of the Soviet military victory in World War II the (often poorly comprehended and ideologically over-interpreted) idea that command economies can and do work received also academic respectability. It was perhaps the first Nobel prize winner, Jan Tinbergen (1964) who came out first with what has become received

wisdom by the 80s: the same economic results may, in theory, be attained by centralized and market methods alike.

It was under this *Zeitgeist* that the young self-made economist, János Kornai came out with his monograph detailing how the planned economy works, better said: does not work. It was not only the plethora of concrete examples brought from light industry, which made the book original, unlike most of the speculative works on command systems in vogue then in East and West alike. But it was the *systematic exposition of a real world arrangement, which is broken to the degree that it cannot be fixed in any way*. Little wonder that the PhD defence of the author that took place at the advent of the 1956 revolution in Hungary was turned into a major event of resistance to the Soviet Communist rule imposed on the country. Also little wonder that Kornai lost his job and was re-admitted to academia only after years of expulsion.

The book – which happened to be the first translation of any book published in post-war Hungary, including belletristic – was truly unique in more than one respect. First, it was a descriptive, analytical piece, rather than anything speculative-normative, as was customary for the time, both in Western and Eastern literature. In a way it was a pioneer to what later became known as ‘microfoundations of macroeconomics’, i.e. a broader view based on empirical observation. Second, it offered a systemic approach to the planned economy as it worked, highlighting the relevance of interdependence among various elements and subfields, something which the author later developed into the ‘system paradigm’ (Kornai 2000, 2016b).

In this approach everything depends on everything and *a holistic approach to the macroeconomy is a precondition for any partial analysis to make sense*. In short, contrary to the standard practice of comparative statics, ruling in the main stream, no individual element of the economy deserves meaningful scrutiny unless it is embedded in the structure which sets its workings in motion. This insight has remained formative for the sub-discipline across its functioning throughout the decades.

Third, the book offered fundamentally new and different insights into how the planned economy functioned. While the usual view was that of a military camp (reflected in the German terms *Zwangswirtschaft und Kommandowirtschaft* and the English “command economy”) Kornai was writing on the power of the subordinates. Theoretically powerless they were shown to be the masters of the game – owing to what later became the reason why Joseph Stiglitz was awarded the Nobel: *informational asymmetries*.

Fourth, the book stood out for its non-ideological and non-normative approach, quite in line with the standards set at the time by Samuelson, Solow and other school moulding personalities of the main stream. Economics no longer served any ideological purpose – of justifying or undermining communist ideas and party rule – but was a means to comprehend empirical realities.

## 2. The sixties: *Mathematical planning of structural decisions*

Kornai's *Mathematical Planning of Structural Decisions*, published first in 1967, revised and extended in 1975, is a hallmark of the 1960s (Kornai, 1967). In this book Kornai adopted a completely new approach, that of mathematical analysis.

In so doing two basic considerations acted in synergy. First, the 1960s were to a large degree the heyday of mathematical economics. Let us be clear: while the mathematical language applied for economic analysis was anything but new, the policy applications of this were becoming momentous.

As is commonly known the mathematical theory of economic decisions and the use of mathematics as a shorthand for economic analysis dates back to Alfred Marshall, who is generally seen as the founding father of modern economic theory. Without discussing the merits and de-merits of this line of thought let me note: the mathematical school tended to be one among the many competing theoretical lines of thought available for analytical purposes.

Let me also note that neoclassical economists dating back to William Stanley Jevons, Léon Walras and Francis Ysidoro Edgeworth tended to be theorists rather than 'practical men', as Keynes would mock policy-makers. They never took the central stage in the political economy discussions of their time and had limited success as practising economists. Jevons, for one, is known to have lost his entire fortune on a miscalculated speculation on the stock exchange. In a way these persons were typical *antecedents of modern theoretical economists who do not aspire, as their prime concern, to become politically relevant*. Also in the famous and extensive socialist calculation debate, a deeply philosophical but also practical exchange over if and how a collectivist economy may work efficiently, the debate has been largely abstract and theoretical, mathematical, rather than policy-inspired (Levy & Peart, 2008 ).

This debate gained new policy relevance by the 1960s across the globe. First, the seemingly undeniable success of the Soviet postwar reconstruction, supported by contemporary overblown official output statistics, but also used and amplified by a tight web of academic and propaganda machinery had gained respectability for the Soviet command economy. This was also the period of de-colonisation, when the non-aligned movement aimed at combining the advantages of democracy and national self-determination with the advantages of macroeconomic planning.

But also in the West, as in another influential book by Jan Tinbergen (1966) illustrated, there emerged a deep distrust in the efficiency and even more in the socially equitable outcomes of the market interplay. The contemporary wisdom called for the mixed economy model. This presupposed that while command economies are going to become more marketised, via top-down reforms initiated by reform socialist initiatives, market economies are going to become more centralised, more planned. Planning has lost its previous nega-

tive flavour, its association with totalitarian rule and has gained respectability in Western societies.

Kornai's book is a reflection of these times. It is a thinly veiled attack on the arbitrary investment decisions taken by the uncultivated Communist Party leaders, taken on merely military considerations or on plainly ideological grounds. Reviving the arguments of Oskar Lange and Abba Lerner, also in line with the then flourishing Soviet mathematical school, the call for the 'scientific foundations for planned economy' implied the integration of contemporary modern analytical techniques for attaining optimal outcomes. In other words, such obviously rational and hardly disputable objectives such as lowering costs without diminishing quality, finding a way to allocate resources in an optimal fashion across sectors and firms received a sophisticated backing.

One may argue with hindsight that this was a step back from the radical views of 1956. But the revolution was crushed, Kornai survived in the shadows and the conviction that the Soviet economy would be with us for ever gained universal acceptance. Also western economic thinking moved in similar directions. In Samuelson's view belief in unfettered markets is wrong, and as his biography on *nobelprize.org* notes,<sup>5</sup> he firmly believed that high employment is a governmental duty. Resource allocation may either follow market or governmental channels but they may yield the same. This was the time when Samuelson wrote his book on the broad economic uses of linear programming (Samuelson, 1958).

In short, Kornai found himself in a good company, both intellectually and physically. Typical of the "Goulash Communism" in Hungary, authorities encouraged the critical thinker to be absent from his homeland as long as possible, especially at highbrow Western universities with no contact with the defence sector or the intelligence community (a fear to Sovietologists and a general practice of officials travelling to the Western world). Kornai, being discarded as a pure theorist, was seen to be in an environment which fitted both him and the Hungarian authorities.

When it comes to assessing the book's impact, it has been twofold. Academically seen, it is a success, a book that was cited 4-5 times as often as those of the most accomplished and academically highly rated contemporary Hungarian fellow economists (e.g. András Bródy, Béla Csikós-Nagy, József Bognár, to name but a few).<sup>6</sup> Kornai was repeatedly invited to conferences and fellowships and soon has become the best appreciated Hungarian economist in the Western world, among those living in the country.<sup>7</sup>

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<sup>5</sup> Last retrieved on 13 June, 2017.

<sup>6</sup> Note again that databases available electronically are notoriously nose-heavy, with partial and limited coverage of the pre-1990 period. Still, the comparison holds even if numbers may be quite inaccurate.

<sup>7</sup> Emigré luminaries included William Fellner, Tibor Scitovsky, Nicholas Kaldor, Béla Balassa and many others.

From the point of view of practical adoption the impact of this book was limited at best. In the Western countries the rule of private property limits any possibility to plan structural decisions. In planned economies, whose advantage was seen by contemporaries in its ability to do that, vested interests related to sustaining bureaucratic bargains and behind the closed door influencing has prevailed in all the Communist countries (actually to date, including China and Vietnam). A somewhat later produced exhaustive description of the actual planning system of reform socialism in Hungary (Balassa, 1979) has demonstrated the continued pre-eminence of the use of material balances and iterative bargains over the then already widely available mathematical methods of optimal planning. In the international arena, Comecon, the trading bloc of Communist countries, would have allowed for using advanced quantitative methods of *ex ante* co-ordination of structural decisions. However, the contemporary description of practices (Csaba, 1983) has been indicative of the prevalence of rude, traditional bilateral bargains coupled with a 'might is right' type of political influencing.

### 3. The seventies: *Anti-equilibrium* – a frontrunner rejected

As we read in his half-autobiographic, half history of thought book (Kornai, 2007) it was no other than Kenneth Arrow, the *spiritus rector* of neoclassical mainstream, who was encouraged the by then well-known economist from the Eastern Bloc to write up a systematic critique of the now current triumphant general equilibrium theory (Kornai, 1971).<sup>8</sup>

Looking from today's perspective this must have been a heroic enterprise. It required personal and professional integrity, it required a detailed knowledge of a technically sophisticated field he could never master in regular doctoral courses, it required epistemological insights and knowledge of the history of thought.

In more than one way it has been a gargantuan task, but also one making 'the best use of resources' available in East and West alike. It was a remarkable venture in more than one way. First, it attempted to describe the economy – including the socialist economy – in technical terms, without historic or ideological prejudices or axioms, quite in line with Samuelson and Arrow. Second, it confronted the highly abstract discourse of the general equilibrium school. Third, it developed a series of categories derived from empirically observed real world situations, which were meant to capture realities on the ground more adequately than those rooted in the evolution of the neoclassical school ever since Jevons. As the sub-title suggests, it does take up the job

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<sup>8</sup> Further editions are available in Romanian, Hungarian, Croatian, German, Japanese and Polish.

of identifying the intriguing question: What is to be done, how best to proceed in the discipline?

The fundamental claim of the book was much in line with the traditional tenets of the profession, as formulated by Schumpeter, Keynes and also von Mises, about the economy being a complex system rather than a carbon copy of an engine. The nature of economy is social and indeterminate, thus not liable to rules mimicking Newtonian physics. Any real world economy thus is bound to gravitate to equilibrium only under exceptional circumstances. *In turn, it can and should not be conceptualized as if it were something what it is not: a well-designed engine.* Many examples and detailed argumentation support this basic claim.

*Perhaps the most innovative and progressive component of the book was its description of the socialist economy as a sub-part of broader economic analysis.* This was truly novel and in a way a logical sequence to the book on mathematical planning, which was already a step towards general economic theorizing.

In a way, *Anti-Equilibrium* was a sincere and heroic attempt to create a *synthesis between mainstream economics and comparative economic systems' approaches.* The new, integrated framework would have required concessions on both sides. From the neoclassicals it would have demanded giving up their exclusive focus on 'elegance' understood as mathematical beauty. It also called for giving up of ideological and historical postulates as well as circumstantial evidence from the side of comparativists. The level of abstraction could have been also medium-range: more abstract in some and less abstract in other analyses. In a way a return to the pre-Samuelsonian period could have been mastered had those innovations been welcomed by the strongholds and high priests of the profession. Giving up the unconditional US dominance in terms of methods and fields of interests, integrating second and third world issues, usually outside the scope of attention of neoclassicals, could have followed.

Coming out with such a project pre-supposed a large degree of naivety and excessive trust in the universal observance of impartiality and merit-based appreciation against the conventional standards of authority, power, positions, networks and fashions, all discernible in academia just as much as in the arts and public life, especially in the media. While the former have long been proclaimed features of US academe, reality is known to have been more complex all across the globe.

In the given case one could observe a proverbial division of roles. On the one hand, reception by Arrow himself was encouraging, forthcoming and open minded but it did not take long for the second rank, starting with the UK economist Frank Hahn, to start a scornful campaign exorcising the 'amateurish', 'non-academic' approach adopted by an outsider (Móczár, 2008, pp. 325-354).

With hindsight it is hardly questionable that it was the time of the fight for the soul of academic economics if and to what degree the neoclassical formalism and general equilibrium approach remains the only game in town, at least

in the top journals and universities. It was a time for settling accounts, not for trials and errors. Too bad, since the latter is known to be the only way leading to incremental but solid improvement in any of the sciences.

All in all the basic counter-position of this volume is valid, namely that the mainstream has opted for 'elegance' understood in terms of mathematical formalization, thereby consciously foregoing social 'relevance'. *Anti-Equilibrium* was perhaps the last attempt to re-integrate various brands of economic analysis into a single entity, overcoming the *Methodenstreit* (Levy & Peart, 2008), which took place already about eight decades ago.

#### 4. *Economics of shortage: a breakthrough in the 1980s*

The 1970s saw a frosty period in Communist Europe. Marketising and democratising reforms of the second half of the 1960s (themselves built on preliminaries in the 1920s) were giving way to recentralisation in economic administration across the board. It was coupled with Marxist orthodoxy, limiting the scope for tolerable levels of decentralisation, political and economic, particularly following the Soviet invasion of Czechoslovakia on 21 August, 1968.

While the previous decade experienced colourful and diverse experimentation over how plan and market should be combined in various Communist economies, in the 1970s return to Marxism-Leninism became the creed. Interestingly, Yugoslavia too was backtracking on its marketising reforms following the showdown against the reformist Croatian wing of the League of Communists in 1971.

Under these circumstances the by then nearly forgotten fundamentals came to the fore. As formulated first by Ludwig von Mises (1921) how long can an economy function with a blatant disregard for the need to allocate scarce resources through finance and the capital market? And why could it survive for several decades, contrary to the experiences of the 1918-1920 period when all such social experiments ended in a sheer catastrophe in months from war communism in Russia to the Republic of the Councils in Hungary?

The long winter of the 1970s did allow for a detailed and comprehensive account of what is functioning, how and under what conditions. Kornai (1980) continued his non-ideological, impartial line of presentation.<sup>9</sup> And still: *the message was crystal clear: the system is not to be improved, neither through partial nor more radical restructuring*. It is a coherent entity geared towards reproducing shortages and their micro-management. While this book was a continuation of the previous attempts, it was digging much deeper into the anatomy of the system, explaining in meticulous detail how the various, seemingly ad-hoc shortcomings, add up to a coherent set of interdependences which are bound

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<sup>9</sup> Further editions are available in Polish, Russian, Czech, Chinese and French.

to reproduce themselves under any amount of goodwill. The very sobering message was to those broad segments of the profession, both in east and west, who truly believed in the possibilities to improve the system of economic management. It was deemed feasible even under single party rule, through technocratic innovations, both in planning and by introducing managerial incentives borrowed from Western corporate culture.

*Economics of Shortage* has perhaps been the hallmark of *approximating comparative and mainstream economics*. Both in terms of attention to detail and in terms of providing the *micro-foundations for macroeconomic analysis* the book has produced something of lasting value.<sup>10</sup> Not only the large number of translations, including Russian, Chinese, Vietnamese has shown how deeply his ideas have penetrated global economic thinking and reformers' visions in the socialist countries, but some of the terms and concepts elaborated there have also become cited extensively in academe. What is more, in a perhaps even deeper form of imprinting such technical terms as the soft budget constraint of firms and the shortage/surplus economy *have become so much part and parcel of the standard vocabulary of economic analysis that they do not even require referencing*.

Soft budget constraint denotes a set of arrangements where corporations are not required to cover their costs and losses but can engage in utilising their capital without dire consequences, that is, without facing the threat of bankruptcy and liquidation. Unsurprisingly but importantly, this phenomenon is not peculiar to Communist economies. In real world situations many Western public firms (and sometimes well connected private firms in places like Italy or South Korea) can and do afford running regular losses at the cost of the taxpayer. The crux of the matter is that well-connected management can realistically expect the authorities to bail them out in case of difficulties, and not only once, but recurrently.

Likewise, shortage economy and surplus economy are all-embracing concepts of the microeconomic brand. What made the book so voluminous is the attention to detail in explaining why a system based on public property is inevitably one leading to shortages as a general and ubiquitous phenomenon. In contrast, why is a market economy inevitably one of surpluses and slacks. In other words, some unemployment, some underutilisation of resources, some overproduction is inherent in a capitalist economy. In turn, reproduction of shortage, disregard for quality and choice, suppression of individual diversity in production and consumption, disregard for services (the driving force of any modern economy since the 1940s) is inherent in any socialist system. Both features are shown to be *systemic rather than circumstantial*.

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<sup>10</sup> Certainly, this micro is a long way from the speculative and normative microeconomics à la Hal Varian. But it has been a lasting analytical approach in economics in general.

These insights should not be interpreted in an ideological fashion, as condoning unemployment under capitalism, or approval of sustaining the poor choice of services under Communism. However, this truly comparative economics book has gone perhaps the farthest in applying the approaches of modern economic analysis to different systems with a similar rigour. The approach has yielded lastingly valid insights for academic analyses and global fame for the author.

## 5. The 1990s: triumphant march of the 'socialist system'

The period between 1990 and 2010 witnessed Kornai's activity stretched in two distinct directions. One is the *more abstract academic focus*, culminating the volume under scrutiny (Kornai, 1992).<sup>11</sup> And there was a no less relevant, no less extensive, but separate line focusing on the *ups and downs of post-communist systemic change*. Given that the latter is more applied and policy-oriented, we would perhaps not do any justice to our subject in comparing like with the like, mainstream economics with comparative, neoclassical orthodoxy with institutional schools if we were to plunge into this latter, broad, applied and highly specific topic. This is not to belittle the fundamental contribution of János Kornai to those debates but in all probability that would require at least a separate survey if not a monograph.

For this reason we single out the best-known and most analysed book of Kornai by far as the milestone for the decade. Subtitled *The Political Economy of Communism* the book offers a real autopsy. It is often said that a person or any living organism can only be fairly assessed if already passed away. This book has been the final and conclusive analysis of Soviet Communism immediately upon its collapse. While economic history has always further areas and subjects for its investigation and nothing can be said to be 'finally settled' in any of the academic disciplines, this *opus magnum* does offer a comprehensive, balanced account of a historical era. While add-ons and partial information, based on archival materials and oral history may and will add to our knowledge in detail the big picture seems to have been set. With the hindsight of a quarter of a century this assessment is unlikely to suffer major blows even among those who may adopt a less empathetic approach to the *oeuvre* of Kornai.

The book received 3,440 citations until the time of writing,<sup>12</sup> way exceeding any author not residing and teaching full time in the United States. The echo is particularly remarkable for a monograph, as in economic literature the fashion has moved fundamentally away from books and towards articles published in journals. It was published in German, French, Russian Chinese and

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<sup>11</sup> Further editions are available in German, French, Bulgarian, Russian, Chinese and Vietnamese.

<sup>12</sup> Google Scholar, unfiltered, retrieved on 29 May, 2017.

Vietnamese as well. One can hardly find an article or book on transition without a reference to this formidable intellectual accomplishment. Most contemporaries, especially, but by no means exclusively from the post-Communist region, would have seen it as a perfect fit for a classical Nobel Prize. But, as we know, the Nobel Committee of distinguished scholars under the Swedish *Riksbank* is also a forum for political fights and fights of tastes, no less that of the Literary Prize or Peace Prize. Furthermore, the tendency to over-rate journal articles and mimic natural sciences in appreciating minor, thus uncontroversial, technical improvements over – always divisive – grand theories of one kind or another, have also become formative since the late 1980s.

How could one summarize a book of 650 pages (large format, hardcover), which is, in essence, an encyclopedia of all knowledge available on the Soviet-style economic system? The book consists of three main parts: antecedents; description of the classical system; and the anatomy of reforms, explaining the reasons for their inadequacy and inevitable failure. The book stands out also by its coverage of a wide range of country experiences. Thus unlike most books on the Soviet system and also on transition economics, it avoids the trap of overgeneralizing experiences of one country, one period or one particular line of thought.

What is peculiar about this monumental book over and above its size and attention to detail, including statistics and competing explanations provided by various trends of scholarship? The broad echo cited above is indicative that various authors find various aspects of the treatise to be of relevance. For us this book was an eye-opener exactly for the reason why it has also led to the exclusion of its author from the temple of the mainstream and 'relegating' him back to institutionalism, which had not been in vogue until the Great Recession of 2008-2009. Namely: owing to its return to the genre of the classical political economy, an all-encompassing exercise in the social sciences, which is open also to sister-disciplines.

If we merely peep into the list of contents we see a turn against *Anti-Equilibrium* and *Economics of Shortage*. In the methods section, at the very outset, the author argues convincingly for the historically unique nature of Soviet socialism. For this reason, it is a waste of time to interpret the system while disregarding its formative features, such as ideology, single party system, vertical subordination, the role of oppression and institutional seclusion, the exclusion of any societal or especially politically organized feedback. There had been no possibility for 'industrial conflicts', no possibility for the consumers to switch to imported commodities or services, or switch from local to foreign service providers. The success indicator for managers is not return on equity, not improvement of asset value, but meeting plan targets and oftentimes direct political assignments, irrespective of cost (financial, material or even in terms of human lives). *It is not an economic indicator, which is to be maximized, but political power as interpreted single-handedly by the self-selected vanguard.*

In a way, the return to the radicalism of the 1957 book was deeply justified if one looks at it through the requirement of economics confronting reality and attempting to decipher whatever is happening on the ground. If seen through the contemporary standards of academic purism this is clearly a step back from the meticulous attention to the detailed and the impartial, formal analysis of politically neutral economic events, forms, interactions and institutions, as practised in the previous three books I surveyed above.

Having lived through the period it is not in doubt that this 'regress' happened under the direct impact of the historic earthquake, which took all of us by surprise. It was impossible to withstand the liberating air of the new era. Also, it was time to give up the practice of being content with half-truth, with the need to employ self-censorship in order to get our ideas in print, even if sometimes in a somewhat Byzantine language.

The account of the period was devastating, especially in Part Three, which explains in no uncertain terms why and how each and every of the market socialist reforms – celebrated in their time in much of the Western literature – have proven to be a dead alley. *Not that those initiating them would be ignorant or under-informed, but because of the coherence of the macro-system.* Whenever a reform turned real, moving away from the vertical dependencies, there was bound to be a backlash – and how it happened under highly dissimilar circumstances is richly documented in the book.

The big question then is whether this particular insight has, or has not, been made obsolete by the Vietnamese and particularly by the Chinese experience. China is often celebrated as a pragmatic alternative to Soviet-style socialism and its reforms, allowing for a slow but steady outgrowth from Communism to capitalism. In one powerful reading of events (Naughton, 2017) China has already left behind the constraints of Communism despite remaining a one-party system, but spared the unnecessary disruption that followed Soviet collapse. Without entering in this broad and complex debate we may observe that *The Socialist System* is devoted to the experience of Soviet-type economies. China has always been something different owing to its historic and economic peculiarities. Whatever we think of China in 2017 it is not directly comparable to what we or anyone knew and would have had to say on the collapse of the Soviet Empire in 1992. In my view, the account of Kornai is still valid and the Chinese experience tends to be overrated on the grounds of superficial interpretation of official statistics and disregarding the flip-side of development. Kornai (2014b) himself in a recent paper sounded quite sceptical as to whether the Chinese experience indeed can be generalized.

In short, if we stick to academic standards, a theory should be measured against the time and empirics in which it has been developed. Under this *there is no reason – either theoretical or empirical – to revise the sobering judgement on the reforms in central and eastern Europe of the Soviet period, Yugoslavia included.* The insights on the systemic totality, that is, the dominance of the

political sub-system over other parts has never been refuted by any analytical piece. On the contrary intimate knowledge of Chinese contemporary history (Pantsov & Levine, 2015, pp. 407-417) highlights the conscious choice by Deng to set limits to radicalizing political reforms and retaining Party control. In turn, these were setting clear limits to market decentralisation and especially privatisation. And indeed: *ex post* accounts of the stagnation of reforms in the 2000s, over 15 years (Zhang, 2014) has been supportive of the continued validity of the insight of the Chinese circumstances as well. In the case of Vietnam, the grip of the Party over the economy is indeed uncontested and nobody with empirical insights of the country would venture to talk about any political democratisation and economic liberalisation being on the cards now or in the foreseeable future, least as long as Communists rule.

## 6. The first decade in 2000s: *By force of thought*

This monograph (Kornai, 2007), published by yet another leading American publisher, is also best described by its sub-title: *irregular memoirs of an intellectual journey*.<sup>13</sup> The book may well disenchant those who would favour a very personal account, leading into the secrets of the private life of a very well-known, but also highly seclusive person. While the introductory part does carry a lot of classical memoir style, with recapitulations on survival during the war, activism as a member of the Communist Party and its leading newspaper, intellectual preparation and participation in the Revolution of 1956, the latter parts of the book become less and less personal. While never leaving the position of the narrator, the unfolding story is gradually becoming *an intellectual history of the discipline of global economics* and of course that of comparative economics over half a century.

This is an intriguing story where the author avoids the customary self-justification of memoir writers, who have a tendency of having known and having said 'all that before'. In a way it is a thought-provoking, deep and self-reflective evaluation where the echo has been one of the weakest among all his writings (we find it only on page 6 on Google Scholar).

How to explain this paradox? First, self-reflection is not among the strengths of academics in general and in economics in particular. The injection of mathematical formalism has perhaps even heightened the traditional bent towards omniscient, undisputable claims among many top representatives of the field. Related to this mathematical formalism has a disregard for time and also of many substantive features, favouring formal elegance. Third, taking a quibble attributed to Samuelson, economists do not tend to engage with the history

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<sup>13</sup> Further editions are available in German, French, Russian, Chinese, Japanese, Slovak and Polish.

of their own discipline.<sup>14</sup> 'Economists do not read books, and definitely none which are older than ten years' – so the maxim goes.

The historic nature of this line has led to severe policy blunders all across the transition from plan to market. Kornai has been diligently producing accounts of the latter (ones we have deliberately omitted from this *tour d'horizon* devoted to more abstract academic works of his). But this critical stance reminding colleagues of the de-merits of their approach and being justified by the facts on the ground, does not make one very much liked among the peers who cultivate the main stream and firmly believe in the power of a single method.

Fifth, we may admit that this monograph is far from being an easy read, not one would wish before bedtime. It presupposes a lot of prior knowledge, both about the countries and especially about the profession, including the books we have already summarised. *This is not the customary, standard pool of knowledge an average economist has in his command.* This holds especially for the younger generation trained already in the 'global economics programme' of MAs and PhDs built around the US curricula and with an exclusive focus on formal methods. History of thought courses were excluded from the curricula first in the USA during the 80s, later followed in Western Europe in the 90s and in post-Communist countries in the 2000s.

Despite all these difficulties *By Force of Thought* is a highly important book, *one of the unquestionable milestones of the oeuvre*, without which no proper appreciation of the meaning of Kornai can be conceived, let alone taught to the new generations of economists. Readers may receive a nuanced set of information on how certain ideas, formulations and insights evolved, how they were received and why so. This helps in explaining who took which positions and why.

It is also highly illuminating to learn about the role of political and professional constraints which surrounded the birth of each of the preceding books. With the collapse of dictatorship one tends not even to think about censorship, open and self-controlled, about political risks of pronouncing the obvious, or even sustaining relationships with colleagues abroad. Pronouncements, especially made in writing, have had a long history and could imminently influence life chances of the authors.

For the present author it was perhaps the most illuminating to read about the split reception of *Anti-Equilibrium* and of the paramount need to exert self-control over, and not to be explicit on the relevance of political constraints on reforms in *Economics of Shortage*. It was also instructive to read about the disenchantment over the negligence and positive rejection of Kornai's numerous micro-economic insights that were published decades before current Western textbooks were written. Furthermore, it was reassuring to read about *his incessant quest for integrating global economics*, mainstream and institutional, in

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<sup>14</sup> Despite the strong and still valid, ironic piece by Mark Blaug (2001) warning of the dangers in this approach.

a broad comparative analytical frame that would allow everyone *to comprehend and better interpret real world situations*, at corporate and macro-economic and policy-making levels alike.

All in all, an essential Kornai reader in the future, if such a person ever emerges, can surely not escape a thorough confrontation of this highly interesting, relevant and deeply investigative monograph, digging into the personal, historic and professional planes which are jointly discussed in an intriguing fashion.

## 7. The 2010s: what is *capitalism, liberalism and democracy*?

Surveying the output of the current decade we revolve around the book on Capitalism (Kornai, 2013) and two related articles, a critique of Piketty (Kornai, 2015) and an essay on authoritarianism, *The System Paradigm Revisited* (Kornai, 2016a). In these pieces, which should be read together as a single account, we learn the fundamental insights of the author on what is good and what is bad about capitalism and why illiberalism has emerged as a global trend in the place of 'end of history' à la Fukuyama (1992).

This book<sup>15</sup> is both philosophical and very practical in assessing *what capitalism has delivered and what makes it a dynamic system*. The core insight is that it is not about accumulation of capital, investment or its allocation, as in neo-classical theories. Rather, it is all about innovation and the ensuing acceleration of technological progress, which tends to be systematically underestimated in people's minds. The second part of the book relates this to earlier insights about the surplus economy as well as on the mechanisms needed for, and allowing for, the reproduction of those surpluses, on markets for both goods and services.

The true relevance of those insights could be assessed in hindsight. The popularity of the book by Thomas Piketty (2014), the 21st century equivalent of Karl Marx's *Das Kapital* has triggered broad international controversies over the real nature of and future trends in advanced capitalist economies. Piketty has always been a researcher of inequalities. In this bulky volume of his he builds on a re-hash of the Marxian theses: growing inequalities result not from differences in productivity, attainment or other performance indicators, but basically from rents which are being institutionalised through a series of legal and political arrangements.

In a sophisticated long article Kornai (2016b) offers a sweeping criticism of the basic tenets by Piketty on both theoretical and methodological grounds. He calls attention to the fact that *rents may only be created for a temporary period in most markets*, since innovation helps in overcoming man-made and natural barriers alike in most areas. While say Rembrandt paintings or Manhattan flats cannot be multiplied at will, in most markets *neither technological nor*

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<sup>15</sup> Further editions are available in Russian and Vietnamese.

*man-erected obstacles to entry are God given thus also not sustainable for eternity.* Excluding the component of innovation that leads to an unprecedented degree of multiplication in terms of quality and choice ever since the onset of the industrial revolutions<sup>16</sup> creates a false impression as if it were a given sized cake whose redistribution is the name of the game. This is obviously at odds with the realities and the statistics we know of the modern world.

Yet another challenge for the free economy and society comes from the rising trend of illiberalism across the globe. Reflecting on those disquieting trends that lead from populist turns like Brexit and the Trump Presidency to the marching on of China and other market models without democracy, Kornai (2016a) comes back to his earlier fundamental insight about the nature of interdependence between political and economic systems. As we have seen even in our rudimentary documentary, this has been a real thread throughout his oeuvre.

Sticking to his earlier insight on the natural interdependence between market and democracy versus dictatorship and public property, he refines the claim. Analysing the post-1990 period he comes to the conclusion that capitalism can, and indeed oftentimes does, co-exist with non-democratic forms of control, a model he calls authoritarianism. On the other hand, public property and one-party rule are not conducive to democracy, but may well co-exist with a large extent of market co-ordination, to a much larger degree than was postulated on the ground of experiences with the Soviet-type economy. Therefore, capitalism is a much more flexible and vibrant creature than it was postulated in traditional research on comparative systems.

## **Concluding remarks: limits to integration**

As we have tried to document, János Kornai's *oeuvre* has been formative in the evolution of comparative economics as a sub-discipline of the broad church of economics across the past sixty years or so. Even leaving out important books and research avenues we could see the development of a heroic research project with remarkable accomplishments, which have moulded the twists and turns of global economic thinking.

One of the recurring currents of research by János Kornai has been the attempt to act as a bridge between Eastern and Western mind sets, approaches and research paradigms. Thus it is compelling to ask the formidable question: Why have these bridge-building intentions and efforts remained only limited in success? Why has not the decades-long presence of the author on global markets, at the best universities and in the top academic publications' channels, not yielded more acceptance across the practitioners of the mainstream?

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<sup>16</sup> Currently we live in the 4th revolution of virtualisation and media-led platforms.

We may accept the detailed explanation provided more recently by one of Kornai's early disciples, the mathematical economist József Móczár (2017). In a long article he provides a detailed explanation of how and why the epistemological and the ensuing methodological differences in the architecture of dynamic general equilibrium theories and those, basically institutional and historically informed insights, that shape the thinking and the academic profile of János Kornai, have been fundamentally irreconcilable in academe.

So far, so good, we may add. But why *should paradigmatic difference exclude a more fertile interchange?* As we know, Paul Samuelson by creating his neoclassical synthesis has integrated all fundamental Keynesian insights into neoclassical analysis and in turn, New Keynesians<sup>17</sup> could introduce features which used to be anathema to the neoclassicals in their analysis. The latter include imperfect competition, market rigidities, changes in the fiscal multiplier and impact of money on output. In so doing, they too, were sticking to the Samuelsonian ideal and focused on the formal interpretation of their respective insights. The latter allowed for fertile interchanges between the schools.

For this reason it has become possible that fundamentally dissimilar world-views could communicate by using the same mathematical language, often out-competing one another in terms of mathematical beauty. *By contrast, Kornai has remained much too concerned with realities*, especially in the Communist and Post-Communist world. In the latter the idea that institutions could and should be abstracted away, or that path-dependence and non-economic rationality may never rule, seemed such farfetched assumptions that they invalidate the academic value of any interpretative attempt.

*So it has been the subject of analysis as well as the conditions under which the author formulated his academic interests that kept him within the confines of institutional economics*, more precisely under the comparative economics banner. Following the sobering effect of the post-2008 period institutionalism counts no longer as a four-letter word in English.<sup>18</sup>

In all János Kornai has proven that coming from a backward country, working under less than ideal conditions, facing misinterpretation, and on occasion even official silencing, does not have to constrain the accomplishment of an economist. His seminal contributions to the global understanding of the working of economic systems, capitalist and communist, developed and developing, will remain a testimony of the hurricanes of the 20th and 21st centuries for many decades to come.

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<sup>17</sup> See Dixon (2008) for more on this.

<sup>18</sup> I recall exchanges with colleagues from the US on the turn of 70s/80s describing Oliver Williamson as a poet. My objection on his widely being cited was brushed aside by saying 'once this poet receives a Nobel, we shall read him'. It happened in 2012. But also if one thinks of E. Oström, J.E. Stiglitz or D. North, we may become perhaps less rigid in defining what is 'academic'.

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