

The Chinese connection*

The influence of János Kornai and the echo of his book *By Force of Thought*

Can China be considered a socialist country? The question is a good reason for contemplation, and János Kornai, a professor emeritus at Harvard University is actively occupied by it, which is not a surprise since a significant part of his works is about delving into the roots of the socialist system. In his most recent book he characterizes the status quo as the following: In China (and Vietnam) the Communist party has preserved its political monopoly during spectacular changes. The party-state holds unrestricted totalitarian power while the ownership structure “is far from a classical socialist system”. The official ideology has changed and put on a market-friendly face, though the openness towards capitalism is disguised by Marxist-Leninist slogans and faithful references to the thoughts of Mao Zedong.¹

Regardless of how differently the political relations of China developed compared to Hungary, regardless of the differences in the dimensions, not only in physical sense, but including the past and bygone eras and surly the future, the domestic and the Chinese reception of the system critical writings of János Kornai show some similarities. Their influence strengthened during the economic reforms, not at all independently from the actual change in the direction of the political leadership. Kornai’s works has been published in China since 1983, the breakthrough came with the publication of the *Economics of Shortage* – more than a half decade later than in Hungary. The *Economics of Shortage* was published in Hungary in 1980, and with its three editions it broke through the academic walls. Tens of thousands read it, perhaps even those who with simple elegance flip over the mathematical derivations, because the text itself could be easily followed - and more importantly it had the power of proof. In that year, the Hungarian party leadership just announced a new economic reform package meant to be comprehensive, which spread from accepting the prices of the world economy to the permission of small private enterprises. In this context The Economics of Shortage was inspirational and at the same time sobering, even though the style of writing, according to the characterization by Kornai a quarter century later, was led by self-censorship. “The book spoke important truths. I put down each word convinced I was writing the truth and nothing but the truth. But I also knew the book could not tell the whole truth.”²

The Economics of Shortage was published in English in the same year, and after that in French and in Polish. Then in 1986 the book was printed in China, where with its several hundred thousands of copies it became a best seller in the category of non-literary works. During this period the Chinese leadership was reform oriented, they wanted to learn from the Hungarian solutions, they seriously meant to introduce a market economy. The reform intellectuals regarded the book as a comprehensive criticism of the Stalinist socialism; they considered it as a reference. By that time, the Economics of Shortage suggested something else in Hungary, in the country that had departed from the system identified as “classical” by Kornai: that the reforms limited only to certain sectors of the economy cannot bring significant changes.

The criticism of the political system in China basically remained a taboo. In two years following the appearance of the *Economics of Shortage* his 1987 article “The Hungarian Reform Process: Visions, Hopes and Reality” was still allowed to be published, in which Kornai basically reckoned with the ideals of reforming the socialist system. They then also translated one of his earlier work from 1972, the *Rush versus Harmonic Growth*. However, the Chinese version of *The Road to a Free Economy: Shifting from a Socialist System: The Example of Hungary*, which again proved to be fiery in Hungary, in 1989, it could be only published in Taiwan, in 1993. His work on the basic dilemmas of the regime change, such as the modus operandi of stabilization, privatization or the chances of an interim coexistence of state run and private economy got halted by the censorship of the

* Translation of Zoltán Farkas: „A kínai kapcsolat.” *Mozgó Világ*, 2010/9: 29-43.

¹ János Kornai: From Socialism to Capitalism. Eight Essays. Budapest–New York, Central European University Press, 2008.

² *By Force of Thought. Irregular Memoirs of an Intellectual Journey.* In English. Cambridge, Massachusetts and London, England: The MIT Press. 2006. p.242

People's Republic of China. However, some years later his summarizing work *The Socialist System* was published by a Beijing based publisher following few years of a permission process. "The Communist party, amid the process of reform, wants to retain its monopoly of power, but in the meantime, it releases political forces that immediately demand the abandonment of this monopoly. (...) The Communists declare their willingness to renounce all the merciless methods of intimidating people, but as there becomes less to be afraid of, an elemental demand breaks forth from the people for full abolition of arbitrary rule and institutional guarantees of democracy. This places the power of the Communist party in danger, and in a strained situation in mortal danger."³

Kornai's works are even today often considered as a reference point in China for the radical reformers – among them his Harvard students – and those intellectuals who moved to Hong Kong in a voluntary exile inside the People's Republic. These latter ones did not settle for the economic reforms and opening that has brought enormous growth success, rather they wish to achieve "political reforms", in essence democracy. Perhaps, this also allows for drawing some parallels to the Hungarian domestic relations: during the 80s the Hungarian reform intellectuals had not settled only for the transformation of the economic mechanism, first, somewhat glossing over the point, they urged for a model change, then in 1986 and 1987 alongside the democratic opposition they demanded an increasingly open political reform, and at last a change of regimes. We can find examples for this in China as well, among those praising Kornai; on the Internet under the alias of Old Tao the author commented on *The Socialist System* as follows: "There are several books that criticize the current system, but none of them is able to do it so logically and sensibly as Kornai's piece. This is the only one, which goes against the party and socialism."

In China the party leadership does not tolerate the undermining of its political power. In this situation they did not permit the publishing of Kornai's biography called *By Force of Thought* either, the volume – following the British, the Japanese, the Russian, the Vietnamese and the Polish language versions – was published last year by the Chinese University Press in Hong Kong. However, its influence can be felt in the People's Republic of China, the analysts and his devotees mostly resonated to conscious building up of a scientific career, to the necessary self-censorship, to system criticism and to the pursuit of liberty; in the People's Republic of China more carefully, outside of that more radically. Our compilation documents this, based on the Chinese language press of last year – with reviews, critiques, memoirs apropos of the publishing of János Kornai's biography.

Zoltán Farkas

I. On a high shelf

"When on September 23rd of 2009, the Chinese national radio aired an interview with Zhou Xiaochuan, Chinese national bank chairman since 2002, and also the chair of the committee responsible for the monetary policy since 2003, the interviewing reporter said the followings: »...On the table in the middle of the bank chairman's not too large office there were piles of paper, on the top was Kornai's biography, which seemed quite worn out: one can see that its pages have been turned by many.«"⁴

II. Silencing

When the *Economics of Shortage* was published, China has not been a member of the group of countries which signed the international agreement on copyrights. They did not ask for a permission to publish it, and they did not pay any royalties for it. The English language version of the *Economics of Shortage* cost 100 dollars, the Chinese version 1 dollar. The English version became a widely popular

³ *The Socialist System. The Political Economy of Communism*. Princeton: Princeton University Press and Oxford: Oxford University Press, 1992. p.571.

⁴ In Xu Chenggang's review titled: The book called *By Force of Thought* and the path of thought. *The Economic Observer*, October 5th, 2009. Thanks to Hu Shenshen for all the help and for the translation of some parts of the published documents.

in the international economics profession, it is often cited, but it had not become a commercial success: but the Chinese version had become, yet it has not brought even one Yuan for the author.

However, it has brought fame all the more. And even though *By Force of Thought in China*, using the one-time Hungarian phrasing, most probably falls into the category of tolerated, the Institute of Economics at the Chinese Academy of Social Sciences held a half-day long conference about the book on September 8th, 2009. The keynote lecture was delivered by the one-time vice-president of the institute, Mao Tianqi⁵. Excerpts from the lecture:

“In an environment where there is no freedom, great minds cannot be born. This is why it is difficult to imagine that in China a similar autonomous and independent thinker would emerge as Kornai. (...) The works of Kornai primarily criticize the authoritarian socialist planned economy; and this, taking into consideration the environment, where the author was born, must have put great pressure on him. (...) Kornai’s criticism of socialism and Marxism hints some sort of acknowledgement of Marx.⁶ He especially admired the strict logic of the *Capital*. However, after rethinking the first and the third parts of the *Capital*, especially the theory of value, he broke ranks with Marxism. Such step would not be lightly and calmly taken over here. I agree with criticism by certain left-wing articles, according to which the »Chinese style socialism is equal to breaking away from Marxism«. I think that these articles in regards to their theoretical logic are correct. Why do I say this? In the current, so called »Chinese style« socialism we cannot mention the most important questions: one is the class struggle, the other is the abolishment of private property. (...)

The so called Chinese socialism has nothing to do with Marxism. If we speak of the original term, we must mention the theory of class struggle, and the revolution and the dictatorship of the proletariat stemming from this, and so we need to mention the abolishment of private property as well. Chinese socialism does not discuss these issues, is that right? Because of this, the »Chinese type« is only a very important experimental stage of our country’s transformation. (...) Kornai’s works consistently deal with post-socialism, and only seldom with the specific goals of the transformation. He believes that in the countries going through the transition it is difficult to establish an ideal market economy (...). Exactly because of this, we should not have high expectations. After reading Kornai’s book, I feel that that we should not demand too much. We should face the problems following the change with rationality, tolerance and analytically, since it is quite uncertain if it is possible to develop a country with an ideal market economy.”

III. Slow waters

Kornai met Wu Jinglian during the summer of 1981. He is one of the builders of the Chinese reform, the most consistent reform-oriented Chinese economist, so he is nicknamed Market-Wu. The friendship of Kornai and Wu – based on one of the episodes in *By Force of Thought* - began at the conference of the International Economic Society in Athens, where Sir John Hicks, one of the great figures of economics in the 20th century, was the chairman, who one year later received the Nobel prize. At the conference, Kornai gave a lecture on shortage being a system-specific perversity of the socialist planned economy, and he got involved in a heated debate with V. R. Hatsaturov, chairman of the Soviet Economic Association. Wu however, similarly to Kornai, believed that shortage is not the result of occasional mistakes; rather it is the immanent ills of the centralized planned economy.

The relations between the Hungarian and Chinese communist parties and states survived the deterioration of the Soviet and Chinese relations, which began with a serious border incident in 1969, and almost turned into a war. The prestige of the Hungarian party leadership that demonstrated a moderate behavior during the conflict rose even higher in China with the 1968 economic reforms. They carefully studied the applicable aspects of those reforms. One of the confidential proofs of the cooperation is that after the declaration of the state of emergency in Poland, and after the invasion of Afghanistan by the Soviet Union, when the East- and Central-European countries could not get any western loans, the Chinese helped them out. As result of the debt-blockade, in the fall of 1981,

⁵ Mao Tianqi was the secretary of the reform economist Sun Yefung between 1978 and 1982. Currently he is the secretary-general of the Sun Yefung economics science foundation. Excerpts from the conference proceedings.

⁶ Cf. János Kornai: “Marx through the eyes of an Eastern European intellectual” *Social Research*, Fall 2009. Vol. 76/3:965-986.

Hungary applied for the membership in the International Monetary Fund, but in 1982 at the time of the accession it did not even had enough hard currency to meet the IMF quota, that is to say it did not have enough to pay in the necessary contribution in order to gain access to the funds. For this China provided a loan under the utmost secrecy, so that the Hungarian leadership would not anger even more the rulers in Moscow opposing the IMF accession. The Chinese Academy of Social Sciences invited Kornai and his wife during the summer of 1985 to spend four weeks in the country. The other organizer of the trip was the Beijing mission of the World Bank. The main event of the trip was a conference, which was held on a tourist boat. The *Bashan* was slowly drifting down the Yangtze River, and it occasionally stopped on some famous places. The Chinese consider this conference as a prominent event of the reform process. The seven renowned foreign guests – among them James Tobin, who later became a Nobel-laureate, Otmar Emminger, the one-time chairman of the German National Bank, Alexander Baj, Yugoslavian professor – and the Chinese economists were welcomed by the prime minister Zhao Ziyang before the boat conference. Later he has not only gained international recognition because of the reforms, but also because in the summer of 1989, he went down to Tiananmen Square to offer talks to the revolting students. After the crushing of the protests Zhao Ziyang was replaced, and until his death in 2005 he was held in house arrest.

One year later the *Economics of Shortage* was published. “The book served as theoretical background when the command economy was eliminated in China, and it has been used as a textbook wherever economics was taught” – writes Kornai in his biography. On the occasion of the publishing of *By Force of Thought*, *The Economic Observer* in Beijing reviewed the author’s Chinese “career”.⁷

“The 80s of the last century were characterized by the riddance of the ideological shackles, the turning away from the past and the urge for the development of novelties. People got tired of the old type of discourse, and they craved the new ideological and theoretical sources. So, when the Hungarian economist’s, János Kornai’s book the *Economics of Shortage* was published, the Chinese colleagues welcomed his analysis and conceptual system with enthusiasm (...) the media had already begun to become occupied with Kornai and his book in 1984. Moreover, they have already started distributing the printed version of the translated book. Although some western colleagues have criticized Kornai’s empirical work, objecting to its proofs, for the Chinese scholars, who were waiting the get rid of the didactic and empty talk, the Kornai-type method with its setting off from a real situation and the real exploration of the problem also meant a foundation of reference and learning. The Reorganizational Reforms Committee and the institution connected to it, which from February 11th of 1985, with the involvement of the Beijing Youth Economic Association, 21 ministries, research institutions and higher education institutions, conducted an extensive enquiry into the reform of the economic system and its effects. Almost 400 professional, university and college students carried out a survey in 23 chosen cities. The result is a 156 page report, one among the first empirical studies. In this report they use a so called Kornai-index in order to indicate the magnitude of the role of the market mechanism in the transition from a limited resource type, supply driven market to a demand driven market. The results show that the sovereign buyer status of enterprises increasingly grew, while the monopolistic position of the sellers declined. The results of the research were published in April of 1986 by the title *Reform: the challenges and opportunities ahead of us. (...)*

The so called *Bashan Lun* conference became a milestone in the history of the Chinese reform. Kornai introduced the various potential combinations of state governance and market coordination; basically he presented four types of the economic reform (...) he spent one month in China, which meant a small sensation at that time. The reform model presented by Kornai caught the attention of many. So much so, that they even invited Zhao Renwei⁸ to the institute connected to the Planning Committee to hold a lecture about this.

The *Economics of Shortage* was published in China in 1986, translated by several young individuals, and suddenly at the same time with this, the *Economics of Shortage* was in shortage. Kornai wrote the followings in the foreword of the Chinese edition: »The first step of the preparation for a change is always the understanding of reality. (...) China is hundred times larger than Hungary, but the subject of this book is not Hungary, rather the socialist model itself understood in a traditional or classic sense.« When Kornai visited China again, mayors, university professors and leaders told

⁷ Liu Hong: “Kornai-fever.” *The Economic Observer*, October 16th, 2009.

⁸ Zhao Renwei is the professor of the Academy, one of his primarily research areas is the analysis of the Chinese income inequality.

him that: »I'm your disciple.« Kornai was quite surprised by the veneration of this kind. Especially, since the Economics Publisher regarded his book as one of its most esteemed, and designated it as historical. And the chairman of the Planning Committee was chairing a session, where they specifically debated the questions pertaining to the *Economics of Shortage*. In other words, Kornai and his book had an unprecedented effect on the scientific and political life of China. It had such an effect that it shed light on many things and helped the culture of empirical research to take seed in economics.

Both the *Reading* magazine and the research by the *Economic Research* journal stated that between 1985 and 1989 the frequency of Kornai's name appearing in print had been significantly surpassing other economists'. (...) For his scientific work he has been nominated several times for the Nobel Prize in economics. After the fall of the Berlin Wall in 1989, following the disintegration of the Soviet Union and the eastern bloc, in the eyes of some, his research related to classical socialism did not prove to be significant enough.

If we consider countries as potential research subjects, it is evident that in terms of the classical socialist system, China could provide richer material than Hungary. However, China cannot show off any economists, who would have subjected the country to such analysis as Kornai had done with his own country. We can ask rightfully, why there is no Chinese Kornai. Well, for the same reason as why China did not have a 1956 revolution or Imre Nagy. China had a Chairman named Liu Shaoqi, who died due to persecution; however it did not have a Premier who would have sacrifice his life for his convictions and ideas. Whether in a given society what type of outstanding individuals may appear or perhaps these individuals would rise to view at all, significantly depends on the common soil they can »emerge« from. These outstanding individuals, even if they are far from each other, still influence one another in terms of awareness, ideas, bravery and wisdom. Kornai is familiar with the findings of both Marxism and modern economics; he experienced both the persecution of the Jews and the political terror of the Stalinist system; and he was the one whose thinking formed under the influence of the blood and fire of the revolutionary events of 1956. In ideological, cultural, political and also in social respect he has unswervingly stuck to his resolution, the essence of which is to present the true face of the classical socialist economic system through the help of modern economics. In 1990, Kornai and Jeffrey Sachs⁹ were devoting efforts to organize a scientific conference, where they invited the economists of the transition countries. The conference was still in session, when a Czech economist announced that he has to go home immediately. »Who is not at Wenceslas Square right now will not get into a minister's plush seat later.« He was able to make it home on time, and he did get his coveted position. Kornai quietly remarked that he is not in a hurry to go back to »Hungary's Wenceslas Square«. He characterized his position as – on the borders of science and politics.

Perhaps it is difficult having the people of today to understand the concept of shortage, since the classical socialist state has disappeared, and shortage does not exist anymore. However, during the long history of the 20th century, especially during the decades following of WWII, many hundreds of millions lived with everyday shortage. The number of famine victims cannot be estimate at all. In China, each individual over the age of forty has personal experience of the feelings associated with standing in line outside in the cold and shopping with ration tickets. Shortage is the indicator of poverty, but the system resulting in sustained shortages proclaimed itself as the most favorable system of all. Kornai greatness lies in that he has written all this down. Luckily or unluckily for him, the system described by him does not exist anymore. Any way it happened, Kornai's incomparable contribution to the development of economic theory in the 20th century is undeniable.

On one of the cover designs prepared for the *Economics of Shortage*, the story of the emperor's new clothes comes to life: a man stands naked in front of a mirror. The design remained a permanent ornament of the walls of Kornai's office.”

IV. Innovative ideas

⁹ During the early 90s Jeffrey Sachs was a professor at Harvard. His views on shock-therapy provided a theme for the economics debates of the transition countries for years.

In his biography Kornai carries out a special vivisection: When writing the *Economics of Shortage*, he did not openly state that the troubles of the socialist system have political roots. He explained his standpoint at the time (and made it acceptable for himself as well) that he was striving: to get his book legally to the readers in the socialist countries. The complications around the later editions show that this blend of withholding and suggesting was the only possible solution really in China. Since its author is sure that if the *Economics of Shortage* had contained a sharp political analysis, it could have been circulated only in a narrow circle, as a samizdat. However, it reached hundreds of thousands legally, and in 1999 it was published for the second time. On the occasion of this, Kornai held lectures in Beijing, Shanghai and Shenzhen. His biography free of self-censorship was reviewed in the local television in Hong Kong.¹⁰

“...Personally I like the title of the book very much, since thought has power indeed. Of course, here we are primarily speaking of thoughts that are significant, superb, true and deep. As a scientist, according to many, Kornai’s most significant accomplishment is that he defines the command economy and shortage economy. (...) His biography does not include theoretical dissections, so even the average reader can comprehend it, provided that he is interested in planned economy: in the question of why the system must change with time, or in why the system is deemed to failure (for instance the Soviet Union). But this masterpiece is also recommended for those, who are interested in philosophy.

We can read that in Hungary, in a small East-European country, how a scientist, an economist, amidst of difficulties fought for his truth and independent thoughts, how he carried out effective research. Here are some important details. Kornai was born in 1928, so he celebrated his 81th birthday this year. He grew up in Hungary. In the 50s, when his country implemented the soviet forced planned economy, he had already begun to doubt the system. But his knowledge about the western type economy was only based on books: he could not attain real experiences; he could not carry out comparisons. It was 1963, when he first visited London, and he was doing research at the London School of Economics. This opportunity had a great influence on him: he could experience that the people live in prosperity and in affluence, contrary to the society that was accustomed to, where everything was in shortage. This is not a unique experience: everybody has the same, who lives in a planned economic system and visits a capitalist state. (...) Those, who deal with the socialist planned economy and its failures, must see the example of the opposite system. Among others, Kornai’s book is about this.

Another pioneering concept originating from Kornai and critical of the socialist economic system is the soft budgetary constraint. A factory or a family also has a budget, which has a constraining force. If a family can spend only 1000 Yuan per month, but despite of this it spends 1500, it has to get the remaining part by borrowing or even from illegal sources. In other words, the 1000 Yuan is a strong budgetary constraint. The soft budgetary constraint is characteristic of the state owned firms of the socialist system. A simple example, in my interpretation: the budget of a factory is 10 thousand Yuan, but it produces 15 thousand Yuan of expenses. Thanks to the planned economic system it can still function, being 5 thousand over the budget will not have far reaching consequences. So the budget does not have any constraining effects on the factory, on the state owned firm, therefore it is >>soft<<.

They say that it is already outstanding if a scientist puts forward a single innovative idea. Kornai, a great economist of a small country, considered to be special just by the two pioneering concepts shortly presented in this show. Not to mention that time has validated these ideas. Kornai’s work has been acknowledged both in the west and in the east – for instance in China. (...) Those interested in economics and reforms, and the theories related to those – let them be scientist, or average readers – can learn a lot from the book called *By Force of Thought*. We could put it this way: for us it is a compulsory reading.”

V. At Harvard

¹⁰ Phoenix Tv, Hong Kong, "Eight minutes of leafing through pages", October 5th, 2009. The presenter was He Liangliang political journalist, who has written books on several political leaders - for instance on Jiang Zemin, who was the general secretary of the Communist Party of China between 1989 and 2002, and the President between 1993 and 2003.

Kornai had begun to teach at Harvard in 1984, where he had Chinese students as well. At American universities in the PhD programs each graduate student is individually mentored by two teachers. Kornai with one of his colleagues, Professor Eric Maskin, jointly mentored five Chinese students' PhD works. Later, all of them made a great career. Qian Yingyi for instance became the dean of Tsinghua, the most prestigious Chinese university, and two other of Kornai's previous students are heads of department there. Maskin a mathematician-economist, who was awarded the Nobel Prize in 2007, has contributed to the analysis of the soft budgetary constraint with theoretical writings. Most Chinese PhD students also dealt with this phenomenon in their dissertations, since in their domestic public sector and bank system there was quite a lot to be analyzed... On the occasion of the publication of *By Force of Thought*, Professor Xu Chenggang reminiscently wrote a review¹¹ about Kornai's teaching and his relationship to his Chinese students.

"I met János Kornai during the spring of 1986 in a course taught by him at Harvard. (...) it was quite unique. As he wrote in his biography, he had never had a western-type formal training in economics. He exclusively gained his knowledge from his experience. So his teaching methods were different from the ones accustomed in the west. The process of delivering the course was simultaneous with the process of writing *The Socialist System*.

For us Chinese students, the situations and topics discussed during the course were quite familiar. Besides the economic theory of the East-European economic system he was also speaking quite accurately and thoroughly about social reality. The other courses were primarily discussing the economic phenomena of the western world. Therefore, we, the students and researchers of China, which was just embarking on a course of economic reforms, could not put these ideas into their right place. Stock market, bonds market: these concepts were the central phenomena of western economics at the time, but in China they were not known. In those times in China, there was not even a developed banking system, not to mention monetary policy. So, during other courses we felt that we are missing the connecting points. On the contrary to this, when Kornai was speaking of the investment hunger and housing policy, also characteristic of China, we experienced a somewhat intimate feeling. (...)

The birth process of *The Socialist System* is also quite interesting. He wrote the outline and the material of the lecture in advance, and then he recorded the lecture on a tape-recorder. He asked a native speaker from the class to be his research assistant, who transcribed the voice material onto paper. Later, Kornai offered comments and editorial notes to the transcription. He also asked students from other countries to be his research assistants – for instance among the Chinese students he asked Qian Yingyi and me, but also there were German, Russian, etc. speakers as well. Our task was to collect material to the scores of questions discussed in the book, and then organize the sources according to the various languages, and based on that data create tables. And finally, we had to standardize them in terms of form, in the way asked by Kornai. (...)

In order to thoroughly analyze the socialist system, I decided to ask Professor Kornai to be one of my PhD supervisors. Because of this, during my years at Harvard, Kornai was not only my teacher, but he was also my mentor. At my doctoral dissertation defense he acted both as my thesis supervisor and a member of the committee, this is forever commemorated by his signature on my thesis. Although as a supervisor he was strict, as an older friend he was quite informal, what is more he was warm-hearted. For instance, he had often invited us for dinner to his home, in these occasions his wife cooked the dinners. During the years he had spent at Harvard, he lived in faculty housing, which was close to the Kennedy School. I remember when I first visited him there: the interior bore a witness to their Hungarian culture, and his wife gladdened us with Hungarian dishes. (...) I told him about my life, among others about that in the days back by father was labeled as a »rightist«, and I was considered as a »counterrevolutionary element«. Because of this, I had lived in a rural village for ten years, and I worked as an agricultural worker (including the forced labor imposed on me). He felt that these tragedies are familiar to him; there were also similar incidents in his country. When he wrote in the foreword of *The Socialist System* that one of his Chinese students went through ordeals, by that he was alluding to my experiences, which of course not only happened to me, but with a whole generation of Chinese youth.

The deepening of the relationship and understanding between us can be also attributed to numerous specific occasions. When I was writing my dissertation, there were important events taking

¹¹ Xu Chenggang: "By Force of Thought and the path of thought." *The Economic Observer*, October 5th, 2009.

place in Beijing. In those two weeks, he had not only invited me to his office, but to his home as well for deep conversations. Similarly to us, he was also following the news from China with concern. He was deeply affected by the events, since they brought up the memories of 1956. He felt that in China similar events are unfolding, as back in the days in his country. He was deeply concerned about the Chinese events; he could barely focus on anything else.

Similarly to many other Chinese students I was also stirred up by the events. I was very touchy, I devoted all my energies to the political activities organized by the students, and I neglected my studies. At that time, Kornai invited me to a quite serious conversation, and he shared with me his own resolution, which he had made as a result of the 1956 Hungarian events. He said that one must choose: you will be either a political activist or a scientist. You cannot be half this and half that, because then you cannot do either of them well. (...)

Nowadays, following of the eruption of the 2008 financial crisis, we have exchanged scores of emails. I have expanded the theory of the soft budgetary constraint also to the analysis of the basic questions underlying the American financial system. In my opinion, the problem stems from that the financial organizations of the United States that are working on a global scale, applied the practice of the soft budgetary constraint to entire countries, and by doing so, they upset the foundation of the financial order. The novel financial instrument utilized by us has systematical loosen the budgetary constraints of financial organizations and of the public.”

VI. Dissidents

Those reactions are especially interesting in which the dissidents appreciated *By Force of Thought*. Kornai’s Chinese friends drew his attention to the debate, which was carried out by Lu Yuegang and Liu Suli with the title of A Mirror for Intellectuals in the framework of the Classic Rereads series.

Out of the two conversationalists Liu Suli was the better known, who because of his role in the protest at Tiananmen Square was jailed for twenty months in 1989. Before that, he was a teacher at the faculty of political science and law department of the University of Beijing, and the student protest was led by one of his students. At the beginning, the teacher only participated in the events as an observer. He has shot several dozen rolls of film with his camera, at the end he joined the protesters, and he became their spokesperson. He got out of prison in 1991, following that he was dismissed from his position, and he was expelled from the communist party. Then, he opened a bookstore and a coffee shop near the university, which has become the regular haunt for intellectuals. Currently, he is engaged in outlining through illuminating talks the path, which can lead China back to the modern, democratic world. By his own account, the secret police is still monitoring him even today.

The writer Lu Yuegang was a journalist at the *China Youth Daily* for ten years. In his reports he revealed the social problems of China. He considers his goal to describe the changes objectively, accurately. He openly voices his concerns about the most repressed, and he strives to raise the consciousness of the public. At the same time, Lu is the vanguard advocate of freedom of speech and free press.

“This edition of Classic Reread makes an exception, (...) it is definitely the first time that we reread the classics of a great thinker who is alive.

(...) Kornai has exerted a substantial influence on a whole generation of Chinese economists, but he and his thought are in an awkward situation in the mainland China. To be specific, on the one hand, his influence is limited to the economist circle, and on the other hand, the younger generation barely hears about him. We believe that Kornai’s thought is more important for China than other fashionable new thoughts both in the West and East.

(...) Kornai is the teacher of several Chinese students. He might be the world-class thinker that educated the largest number of famous Chinese economists. There is one possible reason for this: China is of particular significance for his thought. Today, we are honored to invite Mr. Lu Yuegang to join us and review Kornai’s academic career, his masterpieces and his conclusions. What is more important that we hope to discover new inspirations from his books and thought.

LU YUEGANG: In the early 1980s, there were two people who exerted the greatest influence on Chinese economists and on the drafting of the reform policies. One is Professor Kornai, whose

representative work is *Economics of Shortage*, and the other is Ludwig Erhard, former minister of economics and premier of West Germany, whose representative work is Prosperity Through Competition.¹² China chose to learn from the Eastern Europe at the early stage of the reform simply because Hungary and the other Eastern European countries had undergone experiences similar to those of China. (...) Hungary launched its reform at the beginning of the 1950s. It was not until the 1980s that China began to discuss the same questions that Hungary had been facing two decades earlier, such as how to reform and eliminate the planned economy. This really surprised me. The overall political landscape at that time was that Hungary was the most liberal country in Eastern Europe, followed by Poland and Czechoslovakia. Yugoslavia was very liberal at the earlier stage when it clearly rejected the Stalinist system. Economics of Shortage and The Socialist System: The Political Economy of Communism record Kornai's evolution from an economist to a thinker and this occurred quite naturally. (...) After the 1956 Hungarian Revolution Kornai declared to his friends, of course in private, that he had decided to break with Marxism and its political economy. (...) The shortage syndrome, in essence, is the syndrome of the wholly planned economy as well as the Stalinist system. It refers not only to the shortage of consumer goods but to the stock-piling, waste, and poor quality. In addition, it covers both the economic shortages and, more deeply, the moral shortages. When Kornai wrote Economics of Shortage, he did not explore this topic to the core and omitted two-thirds of the contents that should have been included in the book. In addition, he introduced a large amount of econometric models into the remaining one-third of the book to illustrate his points. I believe he did this intentionally in order to present the most sensitive problem in a vague way.

LIU SULI: He adopted this type of special language to expound upon his ideas simply to avoid political persecution.

LU: Yes, this can be called "scientific language." Kornai is a brilliant Jew and is very good at survival. He has a long-term plan for his academic career and he holds a strong belief in the force of thought.

LIU SULI: It is of profound significance that Kornai called his autobiography By Force of Thought. Maybe we can refer to the situation in the Eastern European countries to understand why he did so. Dramatic changes in the Eastern European countries occurred after a long-term accumulation of contradictions. This period of time witnessed the force of pioneering thought. For example, many individuals broke with the Communist institutions and communism, which actually was not very rare within the Eastern European countries. However, Chinese scholars and thinkers have never smashed the shackles of communism. In other words, their thought has not reached the point of criticizing the original Communist system, thus they have not yet come up with any powerful thought.

LU: Kornai could succeed in creating his original thought simply because he held a belief. Why did Chinese scholars lack such originality? The Chinese enlightenment campaign since the 1980s is like half-cooked rice, which is not properly prepared at the outset. (...) The so-called "reform and opening-up" should reverse its sequence to "opening-up and reform" because "opening-up" preceded "reform." For China, which cut itself off from the outside world for several decades, "opening-up" was an inflexible goal whereas "reform" was a flexible goal. (...)

There are also many Chinese scholars who have been imprisoned for a long period of time and many Chinese scholars living affluent lives abroad. Some of them have stayed abroad for 20 or 25 years teaching in the universities. They also had a deep understanding of China before they left, but none of them have succeeded in establishing an ideological system to solve the Chinese problems. This allows us to realize how interesting Kornai's life has been. He left Hungary for America soon after Hungary began to open to the outside world, and then he stayed at Harvard University for over 20 years. There are two things worth noting during this period of time. When his homeland underwent dramatic change, he did not return immediately, but he did stop all his ongoing work.

LIU SULI: Just as we said before, he decided to stick to his academic research.

LU: Yes. He followed his duties as a scholar. He believed his power came from continuously advancing his academic research. He returned to Hungary later but for academic purposes instead of for political gains. To be exact, he went back to Hungary because that was his motherland.

LIU: Another reason is that he firmly believed in the force of thought."

¹² Ludwig Erhard: *Wohlstand für Alle*, edition 1.: 1957, in the U.S. it was published in 1958.

Liu and Lu gave their name to the Internet publication of their debate. But there were others, who chose aliases – for instance the one, who built his or her message around the quotes from the book, and tellingly he or she called himself or herself: *Zombie*.¹³

“I admit that I read the book, because I was interested in how life is in a country, which once had had a socialist system also. But it seems that Kornai had anticipated this intention of the reader, and he has already stated in the foreword that: >>My book does not take up the responsibility to do the job of a historian. Accordingly, I cannot even offer information to the reader about what other works should he or she study. (...) I’m only able to, and want to show as much from that era, as it relates to my life, the social-historical context in which the events of my own life took place. (...)<<

He insisted to publish his opinion officially, according to the rules set by the state, even if it meant self-censorship (for instance, in this sense *The Shortage* is not complete either). What was even more important is that he could publish in western scientific journals, meet colleagues living in the west, and to spend longer periods of time at the excellent educational institutions there. In short, he wished to become part of the western scientific circles, and to create an influence allowed by the laws of his country. (...)

The memoir quite often mentions emigration. In 1956, many Hungarians decided to leave the country, but Kornai was not among them. Since getting to Harvard in 1986, he has never applied for U.S. citizenship; even more, he had also declined the opportunity of receiving a green card. Kornai explained this as the following (...) >>The uniqueness of my works was provided by the fact that from my first book to my last article they were all written by a person, who himself lived there, saw with his own eyes and experienced those events himself, that took place over there. I have carried out numerous researches that had dealt with general topics, but through the Hungarian case.<<

VII. Two interpretations

Professor Wu Jinglian, who is considered the most significant and most influential economist in mainland China, was greeted on his 80th birthday by a two-day celebration conference in Beijing on January 26-27, 2010. The organizers invited János Kornai to participate at the celebration and to give a talk at the conference. Due to health reasons he could not go, but sent his celebrating greetings in a video message. His lecture entitled *Liberté, Egalité and Fraternité* was presented Professor Chenggang Xu.¹⁴

In his comments Yingyi Qian, dean of Tsinghua University, noted that in the early 1980s he Professor Kornai talked to him about the significance of the value of liberty in thinking about the reform in socialist countries. The Chinese economists regarded “liberty” only as an instrument serving the improvement of efficiency and the acceleration of growth.

The other discussant, Professor Masahiko Aoki from Stanford University, added: “The pursuit of *Liberté, Egalité and Fraternité* is a never-ending journey everywhere, and we are lucky in having both Professors Kornai and Wu leading this journey.”

The open toned voice of the conference is not at all general yet. The proof of this is the interview given to the newspaper *Caijing* by János Kornai, which asked for a reply this February about the current questions occupying China. Kornai has again made sure that he would not embarrass the editors; with raw phrasing he would not impede the publication of the article, but also he would not hide – just perhaps put a gloss on – his opinion about the political situation. The interview is the proof of how different the emphases of the same text are in China and in Hungary.

“CAIJING During systemic economic transitions, how to properly design different functions of the market and functions of the government? In China, there is too much marketization in some areas but in other areas there is too little. This is a very difficult question faced by China. In light of Hungary’s practices, what are your suggestions?

KORNAI You ask about Hungary’s experience, but there is no consensus in Hungary on this. It is one of the questions sharply debated in the political forums of democracy, in the press, and in

¹³ The text appeared on the Internet on October 10th, 2009.

¹⁴ János Kornai: “*Liberté, Égalité, Fraternité – Thoughts about the changes following the collapse of the socialist system.*” *European Review*, vol. 18/3: 379-397.

discussion among the intelligentsia. And it is a subject of discussion all over the world, of course, not just in Hungary, as one of the fundamental questions of our time, placed on the agenda of history in all regions of the world at almost the same juncture. Wherever the socialist system reigned with its characteristic extreme predominance of the state before 1989-1990, continuing attempts have been made to reduce the role of the state. However, the financial and economic crisis that struck the developed capitalist countries recently has awakened them to the need for more effective state regulation.

To me, one of the most attractive, exemplary features of the Chinese development is its experimentation. Hotheaded reformers in many countries, including Hungary, devise notions that they want introduce at a blow, universally over the whole country. I see that the customary course of events in China has been different. Any big change usually begins with the appearance of a local initiative. This is noticed by leaders higher up, supported, and if it really works, treated as an example for other parts of the country to follow. So if the initiative is viable it spreads, and the spread may even accelerate in the meantime.

There is no comprehensive, uniformly valid ratio to apply between statebureaucratic coordination and market coordination, such as 30:70, 50:50 or 70:30. Different proportions are desirable in banking or education than in health care or policing. There are spheres where the state must play the main role and others where the market must dominate. Above all it is important to be sober and clear-sighted in setting the ratios and forms of division of labor between state and market. The market is not a magic machine that works without fail, but nor is it an impenetrable jungle hunting ground for beasts of prey. The state is not a machine that works with perfect, omniscient objectivity and fairness, operated by incorruptible civil servants, but nor is it one in which the decisions depend solely on corrupt people hungry for power. Both mechanisms are far from being perfect. It is not even certain that the joint effect of the two will eliminate the imperfections of both. In fact the opposite may pertain: the interaction of the two mechanisms may destroy what under one or the other would have been advantageous.

There is no need for empty generalized slogans: “We need a stronger state to curb market excesses!” or “Away with bureaucratic interference—the market will solve the problems.” Instead let there be responsible, disinterested, unprejudiced analysis of specific areas of the problem, and a careful design of the necessary scale and limits of state influence.

CAIJING Some people think that China’s rapid economic growth will automatically lead us to systemic reforms. What do you think of this view? Will systemic reforms necessarily be a byproduct of economic growth?

KORNAI Study of several decades of the history of many countries leads to the conclusion that there is no automatic, deterministic link between economic development levels and political forms. Still less can any simple causal relation be seen between growth rate and level of political development. Production in the Soviet Union grew fastest under Stalin’s First Five-Year Plan, accompanied as it was by a wave of terror and appalling oppression. Germany was among the richest and most developed industrial countries when Hitler and the Nazi Party came to power and then the growth rate accelerated rapidly. And in reverse, the constitutional state and parliamentary democracy began to develop in a number of European countries while they were at a much lower level of development than they are now.

The spread of private ownership, free enterprise and market coordination provides favorable conditions for political reform, but it does not guarantee automatically that the reform will be accomplished.

CAIJING You went to China in 1986 to attend a conference about macroeconomic management. In that conference, you suggested four target models for economic reforms and you preferred market coordination with macro-management. Now 20 years have passed and China has gone a long way in market-oriented reforms, but its market reform goals have not been realized: the market system and private property have not been properly established; the government is still meddling with private enterprises’ affairs; administrative monopolies have not been crushed. Ironically, at the same time, macro-control by the government has been strengthened. In your view, what efforts should China make to achieve its market reform goals?

KORNAI I would like to refrain if I may from giving economic-policy advice to China from this distance, in Budapest. Your country has first-rate economists with a thorough knowledge of the

conditions and the economic and social situation. They are far better qualified than me to say what should be done. At most I can offer my observations on a few questions.

I have the impression there are big problems in the banking sector. Though many US and European banks are in a tough, even critical position at present, while China's banks seem firm, this does not mean all is in order. Chinese experts should analyze monetary policy, exchange-rate policy, loan structure, and especially treatment of poorly performing loans.

The danger with such a rapid rate of development is of disproportions and deficits arising in the economy, which can cause big problems later. Forty years ago, I wrote a book entitled *Rush versus Harmonic Growth*, and it was also translated into Chinese at the time, but I am afraid it will have disappeared from the bookstores long ago. I spoke in the book against the "fetish of the growth rate," drawing on experience in the Soviet Union and Eastern Europe. Economic politicians, in pressing for the fastest possible growth in GDP, were neglecting other important development tasks such as housing, environmental protection, urban transport, and so on. The book included a simile to illustrate this disharmony: a man in a smart new jacket, worn but still wearable trousers, and no shoes. Perhaps it would be worth reissuing this book in China.

The figures I have seen point to a marked widening of income differentials in China. This is economically detrimental, but in addition, it rightly offends people's sense of justice and may bring sooner or later some serious social tensions.

China should be prepared to see its export market decline. The more individual and social consumption grows in China, the narrower will be the difference in wage costs between China and the developed countries. Hitherto China has followed an economic policy of export and investment-led growth. Is it preparing for an alteration in this strategy?

A state governed by the rule of law is essential to the operation of a modern market economy. Major steps have already been taken to modernize the legal system, but I believe much remains to be done to protect private property and public property, and to ensure compliance with contracts.

This list of problems, concerns and tasks is far from complete. I sincerely hope that Chinese economic policy-makers will find appropriate ways to address these difficult questions.

CAIJING Chinese economists think that if China wants to carry on its reform, it will meet heavier costs. How do you view the prospects for China's reform? What lessons could we learn from the Eastern Europe?

KORNAI I would prefer to refrain from drawing universally valid conclusions from the transformation in Eastern Europe. The whole region has a population no bigger than a single Chinese province, yet how varied the experiences of these small and medium-sized countries have been! In any single year, one will be found to have produced great results while problems mounted for another. Successes and failures alternated in all of them. It is especially important for other countries to learn by the less-than-successful measures.

Populism does not pay in the longer term. The public eventually calls for fulfillment of popular, irresponsible promises and sweeps aside those who offered an easy-going economic policy.

Imposing reforms forcibly on the public does not pay. The reforms that prove lasting are preceded by thorough debate and enjoy widespread support.

It does not pay to throttle opposition criticism of government policy. This was attempted in several East European countries, where protests were beaten down and those voicing independent opinions were intimidated. The silencing worked for a short while, but sooner or later, scope had to be made for competing views and free expression.

Nationalist arrogance or boastfulness about success does not pay. The outside world shows more sympathy for countries that declare willingness to learn from others' political and economic experiences, proving receptive to them and adapting them to local conditions.

The successor states that arose from the demise of the Soviet Union and the ex-communist-led countries of Eastern Europe as a whole form a vast laboratory, where a wide variety of political and economic institutions are being tested. I would advise my Chinese friends to seize this exceptional opportunity, look over this vast laboratory carefully, learn from the mistakes, and put the successful experiences to good use."

Translated by László Tóth