

BOOKS AND AUTHORS

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ON THE RESPONSIBILITIES OF ECONOMIC THEORISTS,
ADVISERS AND POLITICIANS

*Preface to the Russian edition of Economics of Shortage**

It is a great pleasure and honour for me to have my *Economics of Shortage* published in the Soviet Union.

The facts there discussed are well-known. Hungarians and Soviet citizens, Chinese and Rumanians, Cubans and Poles are all equally aware of what it means to queue for meat and shoes, be on the receiving end of rude remarks from shop-assistants instead of getting the goods requested, wait for years for a flat from the Council, or to find production stopped in the factory because there is a lack of raw materials and components. From shortage ensues a diversity of losses: it reduces consumer satisfaction, hinders proper production, and takes away important incentives for technical development. What is, perhaps, the heaviest loss of all is that the seller has the advantage over the buyer; the individual's autonomy and freedom are violated. The seller's domination frequently places the buyer in a humiliating position, either as a customer in the shop, or as a worker in the factory. We have here a most specific field of political economy: we are not studying the relationship between man and things but are discussing social relationships among people when trying to clarify the causes and consequences of chronic shortage.

Soviet economists recognised this problem early. The present book also refers to works written by L. N. Kritsman in 1925 and V. V. Novozhilov in 1926. Later on, however, for decades people only talked about shortage at home, perhaps when standing in a queue; shortage did not figure as a topic of scholarly research. Here it is worth stopping for a moment to consider what the actual task of the economist investigating the problems of socialism is.

In the long period of time when economists in the socialist countries carefully avoided discussing the phenomenon of shortage and other, similarly delicate questions, their philosophy was determined along the following

* For an English-language edition see János Kornai: *Economics of Shortage*, North Holland Publishing Co., Amsterdam, Oxford, New York. 1980. 631 pp.

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lines. Socialism is a system which satisfies the old desires of mankind. All of its laws, by definition, exert a favourable influence. Consequently, all the unfavourable, harmful phenomena, which cause human suffering or economic loss, are merely passing inconveniences, resulting from negligence or bad work on the part of individuals. It is also possible that the harmful phenomena are brought about by errors on the part of this or that leader who acquired extraordinary power—a Stalin or a Mao—and since such individuals exert enormous influence, the losses caused can be very grave. This much is certain, however—to follow this thinking—the problems are independent of the fundamental social relationships of the existing system. In socialism all the laws are “good”. Problems, if they exist at all, come into being only because individuals did not recognise the “good” laws, implemented them badly, or acted against them.

In the works that resulted from this way of thinking, the duties of the economist, the observation, description, and explanation of reality, the appraisal of the given situation, and the drawing up of practical tasks and programmes appear in conjunction. These spheres of competence are described in the economic literature under different denominations, contrasting the “positive” (descriptive-explanatory) theory with the “normative” theory (evaluating and making recommendations). In the works inspired by the thinking outlined above, the answers to be given to two questions, which ought to be sharply distinct from one other, intertwined: what is it that *exists* and what is it that *should exist*? What is *reality* and what should the *desired* situation be like? The imagined properties of the ideal, perfect society is referred to by these works as “objective laws” while the internal, real contradictions of real society do not even appear in their analysis. The most important requirement of scholarship, the contrasting of statement with observation, experience, and facts, remains unsatisfied.

Similar to works by a number of others, the present book is based upon a way of thinking and approach different from that outlined above. Its starting-point is that we must face reality, whether we like what we have observed or not. The first question a conscientious researcher must pose himself is not whether what he sees is “good” but whether what he has stated is *true* or not. Is the description supplied in accordance with the facts? And if the researcher, following his own conscience, meets this, the only possible scientific criterion, then he has the right to commit to paper what he has stated, whether the truth which thus comes to light is pleasant or unpleasant.

The word law has been abused so frequently (and this has given rise to so many misunderstandings) that the writer is reluctant to use it. Let us use

more modest expressions than that: let us speak of social regularities, tendencies, the inclinations of the system, its behavioural patterns. The basic precept of the book is that the economic system which was typical of the socialist economy prior to decentralizing reforms inevitably creates shortage. This, then, is a regularity which necessarily comes into being under certain social circumstances.

The phenomenon is general. No one states that in this system there is always shortage and of everything. The statement is more qualified than that: namely that none of the important spheres of the economy is free from shortage; it appears in the market for consumer goods and services, in production, in the allocation of labour, in investment, in foreign trade, and in international currencies. The phenomenon is chronic: it manifests itself in every period; it always reappears following the occasional temporary success of the efforts made to defeat it. The system ensures the reproduction of shortage. The phenomenon is of a self-generating character: shortage breeds shortage. The phenomenon is intensive: it prevails in great strength and exerts a strong influence on the behaviour of all members of society. When there is manifested in a system general, chronic, self-generating, intensive shortage—in the sense described and defined here—then this system may be referred to as a *shortage economy*.

The book attempts to present a causal analysis. If something is frequent, permanent, and intensive, it cannot be accounted for by the occasional, accidental errors of individuals. The argument that shortage is created by the errors of calculation in planning, or the selfishness and carelessness of certain factories, or the lack of care on the part of some sellers, does not seem to be convincing. We have to seek causes lying deeper than that.

The analysis presented by this book tries to proceed backwards from the phenomena observable by everyone to the more superficial and then the more general causes of a more fundamental character, delving into deeper and deeper layers of cause and effect. It discusses the extent to which shortage phenomena may be explained by the various frictions in the economy, that is by conflicts and weaknesses in information, decision-making, and decision-implementation. The next layer is the connections between chronic shortage and the different social effect-mechanisms: expansion and quantity drive, investment hunger, hoarding tendency, the almost insatiable demand of the state sector for production inputs and especially investment resources. To go another layer deeper: how can the tendencies above be accounted for by the weak responsiveness of the state firms to prices and profit, the lack of compulsion towards profit, the set of phenomena which is referred to by the book as the soft budget constraint of the enterprises?

This is related to the fact that state-owned companies are much more dependent upon the bureaucracy they are subordinate to than their customers. Their life or death, their contraction or expansion does not depend on their success in competition but on what the authorities exercising paternalist control wish to do with them. This casual analysis could probably be continued and the question as to why may be raised after each answer. However, it appears from the analysis in this work that shortage will be constantly reproduced as long as the vertical dependence of the company remains the dominating relationship in production.

Since my book has been published, it has been the subject of much discussion both in Hungary and abroad. In ten to twenty years' time, following a great deal more discussion and, hopefully, after extensive research based upon as many facts as possible, economists will probably have understood the set of problems related to shortage better than was possible when this book was written. I expect the analyses of the book to be the subject of discussion among my Soviet colleagues as well. However, I would be very happy if, what is more important than this or that economic proposition argued in the book, the philosophy and ethics of science, upon which this work is based, met with as great an understanding as possible. I would be glad to see as wide an agreement as possible that we have to face facts even if they induce negative feelings in us. We do not have the right to avoid delicate truths. We cannot be satisfied with superficial answers but have to try to find the deep roots of problems and maladies. We have to reveal the true regularities of the economic reality around us, the genuine explanation of mass phenomena and of the lasting tendencies.

Even among those who share these views there will probably be some who will put down the book in disappointment for the author presents no guidelines on how to remedy the existing disease. What is the value of a diagnosis without a therapy?

Let us stay with the simile taken from health care. A few years ago I wrote a study on the analogy between the medicine and economics (*Contradictions and Dilemmas*. Budapest, Corvina, 1985, and Cambridge, MIT Press, 1986); not long ago a Russian translation of this was published by the Soviet journal *Eko*. At this point I would like to return to the line of thought outlined in this work. There is no doubt that the most important thing is for the sick man to survive, and, if possible, recover from his disease. But this cannot be achieved by commanding the doctor to prescribe some medicine because the patient *must* recover. "Lung disease," "consumption" (later known as tuberculosis to medicine) tortured people for thousands of years. They implored, at times threatened, first sorcerers and later the culti-

vators of the profession called medicine. All kinds of treatment were administered to the patients: prayer, exorcism, hot and cold baths, a huge diversity of medicinal herbs and chemicals. Finally, and only in 1890, Robert Koch discovered that tuberculosis is caused by a bacillus. When he arrived at this conclusion, he was unable to indicate how to fight the bacillus. More than half a century elapsed before a really effective medicine, streptomycin, was discovered and tuberculosis ceased to be a killer. True, understanding the cause of the disease made it possible to make use of sensible forms of treatment prior to the discovery of a really effective medicine: the patients were carefully nursed, sent to places where the air was reputed to be good, their fever was alleviated, perhaps a part of the lungs was removed. The medical profession respected the Hippocratic oath: at least harm should not be caused to the patient.

And now let us return to our own profession. The complicated regularities of the operation of the socialist system have not yet been revealed. In this respect we are in a much weaker position than the economists in the capitalist countries attempting to understand the operation of their own system. It is almost as if we were just getting down to this enormous task. Some economists are very sure of themselves: they just look around and know already what must be done. The author does not belong to this type. We do not know exactly what causes the malady of our patient, the socialist economy. We are not faced by a single disease but a whole complex of negative symptoms. What is the connection between them? Do they have separate causes or are they the consequences of common causes? Are they properties that are inherent to the system, any kind of socialist system, no matter which particular mechanism they might operate with, or do they follow exclusively from one version of socialism, an overcentralized command economy? Can all the maladies be remedied or, may some be impossible to overcome and only an alleviation of the symptoms be attained? There are a whole host of questions which have not yet been answered convincingly.

The questions above raised in general terms can be made more specific with regard to the subject of the present book, shortage. Although I have been studying this topic for several years, I have to confess that I am unable to provide a definite answer to a number of questions. A few paragraphs above I stated that shortage is a necessary concomitant of a command economy, the old overcentralised mechanism. From this, however, it does not follow automatically that the statement may be simply inverted for normative purposes: it is sufficient to eliminate the command economy and grant greater autonomy to the state-owned firms and this in itself will terminate shortages. It seems to me that this is a necessary but not sufficient condition in itself to

put an end to the shortage economy nature of the system and reverse the present situation where buyers compete for sellers and replace it by a competition between producers and sellers for buyers. It has not been fully clarified yet which are all the sufficient and necessary conditions for eliminating shortage.

Scholarly examination cannot give finite answers to these open questions, because the practical reforms carried out so far have not led to unambiguous results. I can say personally that I am a long-standing, sincere, and enthusiastic advocate of reforms and I would wholeheartedly welcome successes as convincing as possible for them. However, those engaged in a scientific discipline—and this I wish to stress again most emphatically—must take as a starting-point not desires but observed facts. The reform process has a forty-year history in Yugoslavia, twenty in Hungary, and almost a whole decade in China. All three countries represent specific mixtures of amazing results and disastrous failures. It would be dishonest to notice only the results for reform propaganda purposes, or point merely to the failures for those of counter-propaganda. Among other things, from the point of view of the subject of the present book, that is shortage, and the related other serious trouble, inflation, the experience of these three countries does not indicate unequivocally the way out of the problems. It is not the task of this short preface to strike a balance among the reforms carried out so far and clarify why the situation is lopsided and why progress is not more rapid. Here I merely wish to point out that it is understandable that we are not in possession of a plan of action aiming at the elimination of the shortage economy which would be scientifically well-founded, in the liberal sense of the term.

The reform measures carried out in any of the socialist countries so far can be looked upon as experiments, in the scientific sense of the term. One might risk drawing strong conclusions even from a few experiments if the results of the experiments are unequivocal. Unfortunately, the experiments of the reform processes so far were not conclusive; they did not provide enough information for valid scientific inference.

It does *not* follow from all the above that I am suggesting that we should stop and hold all practical steps until economics has explored the problem in a finite and irrefutable manner and placed in our hands a programme of action. Here we must break away from the analogy taken from medical science and emphasize that history will not wait for the men of science to have clarified the problems. There is a division of labour not only within the economy, in production, but also in social action. First there is division of labour between the politician and the economist. The politician, the statesman, who undertakes the responsibility of leading society, works under the compulsion of

having to act. He is aware of his having to take steps even if he does not know exactly what will be the consequences of these steps and what the hidden connections are that move the complicated social medium in which he is taking political action. In most cases, it is internal conviction and beliefs rather than strict and objective scientific analysis which inspire in him the steps to take.

As far as those active in science are concerned, there is a division of labour too; not everyone is ready to undertake the same task. Some feel that they are able to make quick and resolute decisions in practical matters, following the results research revealed so far and—what is actually far more realistic—their own common sense. At the same time, other economists feel the vocation to perform basic research and analyse the deeper problems and do not consider themselves suitable for the role of practical advisers who contribute to the preparation of current decisions.

Full respect is reserved for those among our economist colleagues who concentrate their intellectual power on drawing up operative proposals and practical action programmes capable of being implemented immediately. Their work is necessary; the reform policy requires their participation. They can help in making changes more carefully planned and in making use of international experience more fully and successfully. But while sincerely feeling a justification for this respect, I claim the same for those who have assigned themselves different duties. A Robert Koch was needed, a man ready to spend so much time over his microscope even though he did not heal a single person suffering from tuberculosis in his lifetime. Some perform operations, bravely cutting into the flesh of the patient; others, shrinking from taking a lancet in their hands, try to discover the secrets of the human organism in the laboratory. Perhaps the work performed by the theoreticians engaged in basic research also yields some immediate practical use: if nothing else, their analysis may restrain rash or spectacular but actually useless or even harmful actions, or cool the illusions and exaggerated expectations which may later result in disappointment. Beyond this ungrateful but useful role of helping people to sober up, basic research and theoretical investigations may, sooner or later, indirectly and with great delay, render assistance in the thorough understanding of the situation and of the tasks to be done and, ultimately, of the practical development of society.

Mutual respect, understanding, and tolerance in relation to opinions, philosophies and commitments different from our own are important things which we are in great need of in the world of science. No institution, organization, movement, scientist, or politician can consider itself or himself infallible. This book, together with the recognitions and mistakes contained

in it, would like to help strengthen this spirit and the fruitful evolution of scholarly discussion.

Finally, I wish to end on a personal note. I wrote my first academic paper, my Ph.D. dissertation understanding "The Overcentralisation in Economic Administration" in 1955-1956. Soon after it appeared in book form in Hungarian and in 1959 it was published by Oxford University Press in English. Thirty years have elapsed since my first work was published in a foreign language. Let me now confess that I was frequently saddened by the fact that while my books were translated into several languages in the socialist and in the capitalist countries, not one of them was published in the Soviet Union. True, some articles of mine appeared there sporadically but this—I felt—could not make up for the books in which I elaborated my views and ideas far more completely and more comprehensively. All the greater, therefore, is the gratitude I feel towards those who stood up for the publication of my books. First of all, I have to name the late R. Karagedov, who presented an excellent and concise summary of the ideas of this book and recommended it for publication in the Soviet Union many years ago. But mention should also be made here of the names of the other colleagues who again and again argued for the publication of the book in the Soviet Union; let me mention at least those whose efforts to this effect are known to me: T. I. Zaslavskaya, A. G. Aganbegian, and O. T. Bogomolov.

I am grateful to D. Markov and M. Usievich, the translators of the book, as well as to the editors for their enormous and strenuous work, and to the Nauka publishing house which took on the publication. May I take the opportunity to extend my heartfelt gratitude to all those who promoted the publication of my book in the Soviet Union through their initiatives and participation.