

Review

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Winning a Gamble with Communism

By Force of Thought: Irregular Memoirs of an Intellectual Journey

by János Kornai

MIT Press, 461 pp., \$40.00

The Hungarian János Kornai is the most famous, and certainly the most influential, economist to have emerged from postwar Communist Europe.^[1] His reputation is based on three books, *Overcentralization*, *Economics of Shortage*, and *The Socialist System*, which knocked away the intellectual foundations of the publicly owned, bureaucratically planned economy. In one sense, he was in the line of critics of central planning such as Ludwig von Mises and Friedrich von Hayek, who had argued in the 1930s that it could not be efficient. But Kornai was the first of these critics who wrote from the concrete experience of a centrally planned economy. His books were a stylized rendering of an actually existing socialist economy, not an imagined one, written by someone who—while cultivating extensive contacts with Western scholars and holding, from the mid-1980s, a dual appointment at Harvard University—elected to stay and work in Hungary right through the postwar years.

Hayek had argued that the central planning authority could never concentrate all the necessary knowledge of the economy in one place; Kornai emphasized instead its inability to provide the right incentives. His evocative phrase "the soft budget constraint" pinpointed the main economic problem of this kind of system—namely, that while there may be limits on spending by a public agency, those who break the limits will not face serious consequences. This concept has passed into both economic and political discourse, and the phrase remains an indispensable tool for thinking about the "Sovietized" parts of modern capitalist economies such as health care and educational systems. It is no surprise that after the collapse of the Communist world had robbed him of his subject, Kornai turned his attention to these often dysfunctional features of Western economies, as well as to the problems of the transition from Communist to post-Communist systems.

His autobiography thus promises to be of exceptional interest, and this promise is not disappointed. Its title is designed to show the influence of thought on events; it is "irregular" because the memoirs are interspersed with reflections on politics and economics and are largely silent about his private life. Its chief interest is likely to be threefold: as an account of the scope of intellectual and personal freedom under communism; as a little-known chapter in the history of economic thought; and, for this reader most importantly, as the story of a love affair with ideas. This is Kornai's real private life, and despite his prosaic style, his memoirs convey, as few others do, the inner world of intellectual creation. His attempts at honesty about his own motives, while admirable, are less successful, because he shies away from psychological self-exploration.

János Kornai was born in Budapest in 1928. He changed his family name Kornhauser to Kornai in 1945 to disguise its German-Jewish origin. He himself had not heard one anti-Semitic remark in his eight years at the Imperial German School from 1933 to 1941, despite the currents of anti-Semitism during Admiral

Horthy's regime. In 1944, all this changed. His father, a well-known lawyer, was deported and killed by the Nazis, as was his eldest brother, Bandi. His father had forbidden Bandi to emigrate to England, thereby unwittingly condemning him to death. "We are Hungarians," he said. Similarly, he obeyed the conscription order that sent him to Auschwitz because it "was a state order that had to be obeyed." János, too, took his commitment to Hungary seriously by refusing to emigrate in 1956 or openly to criticize the Communist regimes of Mátyás Rákosi and János Kádár. There is something oddly English about him. As Keynes once remarked (of Malthus): "It is not necessary in England to live a bold life in order to have bold ideas."

János's mother, an older brother, and a sister survived the war; he himself, sixteen in 1944, was first rescued from death by the heroic Swedish diplomat Raoul Wallenberg, then hidden in a Jesuit monastery in Budapest until the Russians came. He typically remarks of his life in the monastery's cellar: "I was the only youngster, so I did not have a real partner for conversation." He emphasizes that he joined the Communist Party voluntarily in 1945, and he describes the five circles of involvement from fellow traveler to full-time worker for the Party. It was a career open to all the talents, and Kornai had the indispensable ones of loyalty and ability. He rapidly went through the hoops, and became an official at the Budapest headquarters of a front organization called the Hungarian Democratic Youth Federation (MADISZ).

There is something to explain here, and he tries. His commitment to communism was both intellectual and psychological. Spengler suggested the possibility of the start of a new cycle of civilizations in Russia. The literary critic Georg Lukacs made it respectable to admire great bourgeois writers for their realism, despite their unemancipated thoughts. From Marx Kornai got the idea that it was the capitalist system, not individuals, that were at fault. Marx kindled his ambition to be an economist. Later he applied the Marxist method to his own critical work on socialism, doing for socialism what Marx did for capitalism. He was impressed by the "military precision" of Stalin's thought. The Communist Party also freed him from a sense of a separate Jewish identity, and gave a lonely boy a sense of belonging. Not least, communism in Hungary was a guarantee against the recurrence of murderous anti-Semitism.

Kornai had emerged from his liberal family environment as a "self-conscious individualist," not an obvious qualification for a budding apparatchik. But he was soon promoted because of his aptitude for keeping records and organizing, classifying, and managing information. From an early age, he writes, "I liked my things to be in order.... Even as a boy, I found chaos, untidiness, and half-completed tasks annoying." He would be an orderly rebel, and a longing for order at first took precedence. Between 1947 and 1955 he worked for the leading Communist daily *Szabad Nép* (Free People), and was promoted to head the economics section at the age of twenty-one, though he had never studied economics.

Today he finds the articles he wrote in this period intellectually empty and morally repugnant. Marxism had provided him with a set of "axioms...created by meta-rational factors" which excluded all experience and ideas contrary to them. After six years of unswerving faith, by 1953 and 1954 cracks started to appear in his belief. This was not through revelation of the inefficiencies of the socialist economy, which he put down to individual failings and lack of discipline, but the result of meeting a former editor of another Communist paper who had been imprisoned for several years on trumped-up charges and released from prison after a confession extracted by torture. He learned that there were 40,000 political prisoners in a population of ten million. He stresses that his rejection of communism as an ethical system preceded his questioning of the intellectual foundations of socialist planning, though he kept his criticism of communism private.

Stalin's death on March 5, 1953, lifted the severity of the repression. Kornai read accounts of Yugoslav socialism based on decentralization and self-management. His first act of rebellion was to reject the demand of the minister of the interior, Ernő Gerő, that he write an article attributing electricity shortages to "objective circumstances." Instead he wrote an editorial on February 11, 1954, saying they were caused by failures in planning. He and other *Szabad Nép* writers supported the reformist prime minister Imre Nagy in his struggle against the Party's Stalinist general secretary Mátyás Rákosi. In 1954, a rebellious Party meeting, organized by *Szabad Nép*'s staff, including Kornai, called for the removal of the Stalinist members of the newspaper's board. But Rákosi, now in control again, had Nagy expelled from the Party, and on April 28, 1955, he fired the rebellious journalists, reassigning them to lowlier jobs after forcing them to confess to mistakes. Kornai writes:

The lying words were forced out of me. I was a victim, but I had suffered a moral defeat as well. Looking back on a successful research career of half a century, I can console myself with the thought that it was worth saying those few words, if they were the price for being allowed to embark on a research career. But is there a place in such dilemmas for a cost-benefit calculation of any kind?

Kornai's earlier "blind faith" was shattered once and for all. More significantly, the experience led him to reject political life. *Szabad Nép*'s editor, Miklós Gimes, said to him: "Politics is not the thing for you. You would do better if you became a researcher."

His words stuck. Kornai came to despise political and economic journalism "with its hasty, hurried, improvised way of gathering and conveying information." He rejected political involvement of any kind:

Stomach-turning lies, infamous slanders, hypocritical arguments, sly use of real and false reports compiled by informers, threats and blackmail, and mental torture and humiliation of opponents were among the "normal" methods used in Communist factional fighting.

In the 1960s he refused to join committees set up by the Party to work out economic reforms. In the 1970s, he remained detached from the regime's "New Economic Mechanism," which was intended to introduce market reforms, and was partly inspired by his own criticisms of central planning. One reformer asked him ironically, "Why are you so afraid of getting mud splashed on your immaculate toga?" He would devote himself to a life of research, leaving it to others to draw political conclusions from his work.

In June 1955 he was reassigned as "assistant staff member" at the Institute of Economics of the Hungarian Academy of Sciences. Although he had never received a first degree in economics or anything else, he immediately embarked on a doctoral dissertation on planning in Hungarian light industry. At the end of 1955, he writes, he "gave up Marxism," which left him intellectually rudderless. Without any training in statistics, his dissertation was forced back on "naive empiricism"—"a thorough questioning" of managers and planners, based on his journalistic experience of talking to people in factories, and the "great literary tradition of Hungarian village research." But for Kornai, empirical research was never an end, merely a means to draw "general conclusions from particular observations." The flash of intuition that squeezes generalizations out of raw data is what we mean by "originality." For Kornai it came out of intense periods of aloneness. He developed the habit of "working walks" in which he would think about the material he had collected, being ready with pad and pencil to jot down ideas as they came to him. He describes how he needed to escape to bolt-holes, usually holiday resorts, when he wanted to write works which demanded great concentration. Like others possessed of great powers of focused thought, Kornai

hardly refers to his notes when writing. It would interrupt the flow of his ideas. In that sense, writing arguments is easier than writing history, but it requires a mind at home with ideas.

The result of his working walks was the forbiddingly titled *Overcentralization in Economic Administration*, published in 1956, a month before the Hungarian Revolution, and the first inside account of how the Soviet type of economy actually worked. It stamped him as the intellectual leader of "reform socialism." Kornai was already groping toward the main conclusion of his life's work—that the defects of the centrally planned economy were systemic, that it couldn't be reformed because it supplied the wrong incentives. But he hadn't yet got there. What he had noticed was that any loosening of the planning system, as happened after Stalin's death, undermined it. The socialist system could solve the incentive problem only by coercion. Thus the "decentralizing" new course of Imre Nagy would actually make the system less efficient.

Kornai remained largely on the sidelines during the Hungarian uprising of October 1956, and he is still embarrassed about it. On October 23, casting aside his decision to be scientific, not political, he agreed to write the speech in which Imre Nagy was going to outline his economic program. He composed a rough draft, whose adoption would have moved Hungary to a Yugoslav type of economy based on "market socialism" and workers' self-management. But Kornai abandoned the assignment even before the Soviet intervention, because, he writes, he was "unprepared" to formulate an "economic program for a multiparty coalition." He took part in starting an independent newspaper, *Magyar Szabadság*, but when asked to write for it, suffered from a "writer's block." He needed to have time to weigh things carefully, and events were moving too fast. On November 4 the Soviet tanks rolled in and restored order.

He had not exposed himself unduly and he made peace with the new regime of János Kádár by acknowledging defects in his *Overcentralization*, saying that he had used "faulty" language that had been cited by foreign critics of the Hungarian regime. It was an act that gave him "an oppressive and degrading feeling." He refused, however, to join the reorganized Communist Party or take any advisory role. He made small gestures of defiance, such as publishing without permission in Western journals. The regime allowed him to continue research, though not, after 1958, at the Institute of Economics. He writes that he "used study and work as therapy, a way of treating spiritual wounds."

For the next thirty years, he kept his head below the political parapet, burrowing away like an indefatigable mole at the rotten foundations of the planning system. He refused to have anything to do with illegal or samizdat publications, imposing "self-censorship" on himself so as to preserve his freedom to do "scientific" research. He never attacked Marxism or communism publicly; but he never made the required laudatory references to Marx and Lenin in his writings, setting an example of how to be a "non-Marxist" in an environment in which it was mandatory to be a Marxist-Leninist. This was his Faustian bargain with the regime.

He accepted the bargain because he did not want to be silenced or marginalized and he wanted above all to preserve his freedom to travel so that he could be part of the Western economics profession. Because we tend to respect bold stands more than the passion to understand things, we are apt to underestimate the bravery of his choice. Yet it is inseparable from his achievement as an economist. Had he chosen to join the 250,000 Hungarians who fled into exile, he would have been cut off from his main research subject,

and would never have become the most influential interpreter of socialist economics to the West. At some level of consciousness, Kornai knew exactly what he was doing.

In the late 1950s, though no longer a Marxist, he had not yet given up hope of contributing to the "renewal" of communism. The arrival of computers, albeit of gigantic size and tiny computational capacity compared with modern laptops, promised to make central planning more "scientific" by using linear programming—a mathematical technique for working out the optimum combination of inputs needed to produce a desired output. The economist Leonid Kantorovich pioneered this technique in the Soviet Union. To master it, as well as to publish in the West, Kornai had to learn the language and idiom of modern economics. This required mastering econometrics—the use of statistics to test mathematical models—comparatively late in his professional life.

Although Kornai became a competent econometrician—and must have been especially gratified to be elected president of the Econometric Association in 1978—he was dependent on a brilliant mathematician, Tamás Lipták, to render his economic ideas in precise form. Their joint article "Two-Level Planning," published in the journal *Econometrica* in 1965, made their names known in the world of mathematical economics. The two authors produced an idealized model of central planning—what "perfect" planning would look like if a number of conditions were fulfilled. In his memoirs Kornai felt it conveyed a "theoretical message of lasting validity" by showing that "perfect" planning could not work. It is not so clear that he thought so at the time.

In 1962, he accepted a job at the computer center of the Hungarian Academy of Sciences, and agreed to create mathematical models for the Institute of Economic Planning. He directed the project for the next five years, at the height of which he had 150–200 staffers "enthusiastically engaged in compiling the model, gathering data, and making computations." It was safe work. As Kornai puts it: "Having seen a few equations in a manuscript, [the thought police] put it down with a shiver." He also reminds us that central planning was much in vogue in the West in the 1960s. His attempts to produce a mathematical scheme for socialist planning convinced him that mathematical techniques would never be able to solve Hayek's question about economic information: "How will central planners be able to trace the supply and demand of a million types of products at once?" But it was not all waste. He got to know the planning system from inside. And through his failed project he met his second wife, Zsuzsa, who worked for him as a computer technician, and later as an economic researcher.

In reaction to his attempt to model a "perfect" planning system, he turned to a new research program intended to produce a critique of mainstream neo-classical theory. Derived from the nineteenth-century French economist Léon Walras, neoclassical theory was the common intellectual basis of both market and planned systems. It proved that both systems achieve optimum equilibrium—between supply and demand—in all markets provided that certain conditions are met. Kornai was dissatisfied with mathematical models that exhibited economic outcomes as "solutions" to a set of simultaneous equations. The outcome was his book *Anti-Equilibrium*, published in 1971.

General equilibrium theory, or GE as it is known in the profession, has an almost irresistible attraction for economists. As Kornai writes:

The theory is strictly logical and I might say beautiful in its conciseness and crystal clarity. It captivates all who come to know it thoroughly.

GE is peculiarly fascinating to those who prefer to get things precisely wrong than approximately right. For Kornai it had two major defects. The first was that it had no connection with reality. Kornai now realizes that this criticism is misplaced; in fact it is the virtue of the theory. The purpose of models is not to describe reality but to clarify the conditions under which a statement is true. Thus all abstract models of the Walrasian type implicitly carry warnings that they should not be confused with reality. Nevertheless, they are dangerous playthings, because many policymakers confuse assumptions with reality, and read GE theory as a justification for unregulated markets.

More importantly from Kornai's point of view, GE theory failed to explain why a capitalist system works better than a socialist system. For example, in neither system did "agents" (planners or firms and households) have perfect information. But capitalism provides incentives to improve the quality of information, since individuals may profit from having better information. In a centrally planned system, such an incentive is lacking; in fact the incentive for the officials in charge may be to expand the sphere of disinformation in order to demonstrate their administrative success. "Capitalism," Kornai writes, "receives an enormous boost from its combination of decentralized information and decentralized incentive."

Despite the failure of *Anti-Equilibrium* to dislodge economics from its commitment to equilibrium theory, Kornai's strategy of sticking to economics and eschewing politics was paying off. He was gaining increasing international recognition as an economist, having become a regular performer on the campus lecture circuit in Europe and the US, and this raised his prestige in Hungary. In 1967 he returned full-time to the Institute of Economics and remained there for twenty-five years. His nomination to the Hungarian Academy of Sciences was twice rejected by Communist Party members who saw him as ideologically weak, and he was only elected a member in 1976, following a personal decision by Kádár. He was still barred from teaching at the Karl Marx University of Economics, the main university in Hungary.

By the time he was finally offered a professorship there in the 1980s, he had already accepted a chair at Harvard. (He wrote of the Hungarian offer: "It has come too late. One can only live once.") This was after he had previously rejected offers from Cambridge (England), Princeton, and Stanford. (He had taught at Princeton and Stanford during the 1972–1973 academic year.) Between 1984 and 2002 he spent half the academic year at Harvard, working the other half in Hungary on unpaid leave. He discusses Harvard's methods of appointment, ethical standards, colleagues, and students, writing that he was "astounded" by the laboriously scrupulous process by which professors were hired, with the final decision in the hands of the president, not the department, while financial compensation was negotiated privately with the dean. Comparing them with his colleagues in Hungary, he found the American scholars he met more professional, more committed to work, and less liable to loaf and chat on the job; they were a lot more up to date on technical developments. His one point of criticism of the Americans he came to know was their provincialism. They combined "eternal optimism and belief in action" with naiveté and lack of appreciation of complexity.

Anti-Equilibrium reflected the influence of Hayek; his next book, *Economics of Shortage*, reflected that of Keynes and, to a lesser extent, Albert Hirschman's book *Exit, Voice, and Loyalty*. It was written in a rush at the Stockholm Institute for International Economic Studies in 1976, and published in 1980. While reading Keynes's *General Theory* for the first time when in the hospital with a shoulder dislocation, it suddenly came to Kornai that the Hungarian economy was a mirror image of Keynesian disequilibrium: an economy in which there was an excess of consumer demand, not a deficiency of it.^[2] A shortage

economy is one in which shortages are endemic throughout the system. He had himself experienced the shortage economy when trying to build a house in Budapest:

We found ourselves up against the reality that it was nearly impossible to obtain the building materials required.... In each case, we had to choose between searching, waiting, making forced substitutions...or giving up our buying intentions. Apart from the product shortages, we came up against labor shortages as now one and now another skilled tradesman failed to turn up and thereby stalled the whole operation.

How did this shortage economy arise? Kornai produced no general explanation. But he offered an important clue in the concept of the "soft budget constraint." The constraint, or limit on a firm's expenditure, is said to be soft when firms chronically showing a loss expect to be bailed out by the state. The limits can be "harder" or "softer," with the socialist system at the "soft" end and the capitalist system at the "hard" end. Each degree of softness generates characteristic behavior patterns. In the socialist system, the ability of firms to buy inputs without footing the bill creates an excess demand for these inputs. Where the soft budget constraint is general, shortage occurs throughout the economy. Consumers had no "exit" in Albert Hirschman's sense—i.e., they could not find a way to buy the same thing elsewhere—because there was no competition between suppliers: they either had to get in line for the products or find substitutes for them. And firms had no incentive to innovate. So the system generated inferior goods for which one had to wait for a long time.

Kornai's idea of a generalized shortage was attacked by the British economist Richard Portes, who found no evidence of generalized excess demand (or "repressed inflation") in the socialist consumer goods market even though prices were controlled. In that sense, he wrote, planners successfully matched aggregate household incomes to consumer goods. Prices were severely distorted, so that there were some lines, but not economy-wide excess demand. The dispute between Kornai and Portes was never resolved, but the bridge between the two positions is easy to see now. In *Overcentralization*, Kornai had hinted that the socialist system worked less and less well as repression was lifted, because it had no substitutes for ideology and terror. This indeed came to pass. Shortage became much more general in the late 1980s when the planners lost control over the size of wages and thus of aggregate consumer demand.

Kornai's tragedy was that by the time he had finished explaining why the socialist system did not work, it had disappeared. His last major book, *The Socialist System*, summing up his life's work, was published only in 1992. So he could not be credited with predicting the system's demise. Indeed, though he does not say as much, it was the collapse of the Communist governments in Eastern Europe in 1989 that freed him, for the first time, to nail Communist Party dictatorship as the original source of the socialist economy's dysfunctions. In *The Socialist System*, he reverses the Marxist scheme of a material base and a political superstructure. The Party, he writes, is the base, the economy the superstructure. The socialist economy was not a technical improvement on the market economy; it was a device for maintaining the power of the Communist Party. It did not make Party dictatorship inevitable; commitment to Party dictatorship made it unreformable.

The still suggestive part of Kornai's work remains the endlessly fertile notion of the "soft budget constraint," which, as he writes, "took off on a career of its own." In the programs of early post-Communist reformers like Yegor Gaidar in Russia, a central concern was to "harden" the budget constraint so that firms could not ceaselessly go on operating at a loss. Kornai himself has done much to ensure the longevity of the idea by applying it to a range of behavior found in capitalist economies.

Wherever banks or firms become too big to fail or even states expect to be bailed out by governments or international bodies, one sees the same regular features. Anyone who wants to understand the prevalence of low standards, lines, and consumer dissatisfaction in state-run health and education services despite (or perhaps because of) the vast amounts of money thrown at them cannot avoid at least a passing reference to the phrase. And although the "socialist system" seems dead, there is the recurrent danger of its resurrection, in association with new waves of anti-globalization, anti-Americanism, and anti-capitalism. To all tempted by the beguiling promises of the radical left, Kornai's work stands as a grim warning.

Notes

^[1] The Soviet economist Leonid Vitaliyevich Kantorovich (1912–1986), one of the inventors of linear programming, has been the only Soviet economist to receive the Nobel Prize (1975). But outside the specialized field of mathematical economics, he is unknown.

^[2] Technically the normal state of the Keynesian economy is one of "under-employment equilibrium": that is, it is an equilibrium, not a disequilibrium phenomenon. Kornai's "shortage economy" is a disequilibrium construction, since it leads to rising inflation.