Review
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Kornai's Choice

One of the most striking features of the years after the collapse of communism has been the general lack of interest on the part of Americans, at least, in what the former communists have to say about their lives, their experiences, their societies. We make exceptions, of course, for defectors, those who wholeheartedly adopted our point of view: most conspicuously, Alexander Solzhenitsyn (at least for a time). Otherwise, without the full confession of error, it is assumed that the experience they accumulated in all those years of living under central planning is of very little value. No matter who they are, we figure, they only need to take lessons from us.

There is an obvious exception to this rule at the moment, of course. It is "The Lives of Others," a German drama about the corruption of everyday life by the *Stasi* secret police in the DDR, the old East Germany. The film won an Academy Award earlier this year (although even here a Hollywood remake is being discussed.) Another, considerably more illuminating testimony is to be found in Janos Kornai's newly-published memoirs, *By Force of Thought: Irregular Memoirs of an Intellectual Journey*.

Kornai is a famous Hungarian dissenter who, having been hit by the Marxist meatball as a youth (the phrase is that of R. Crumb, coined to describe the many similar conversion experiences among the young in the West of the 1960s), who then broke with the Communist party, who stayed home after the 1956 Hungarian revolt was crushed by the Russians, taught himself economics, and managed to build a formidable reputation among economists in the West as an expert on the mechanics of socialist systems.

Kornai embraced communism after the Russian Army chased the Nazis out of his country in 1945. The Germans had murdered his lawyer father and older brother the year before. Thus cruelly tumbled from a comfortable *haute bourgeois* childhood, the 17-year-old changed his name from Kornhauser (which sounded German and Jewish); and traded what had been an "open and flexible" view of the world for a mechanical Spenglerian mindset, in which "the fresh energy and raw barbaric force of the communist movement heralded the coming of a new age."

He joined the Communist Party, read *Das Kapital* with a friend, annotating every page, and, in due course, got a job on what, under the communists, rapidly became the country's main newspaper. Of Marx, he writes, "The young man who at 14 to 16 had feverishly sought enlightenment in a hundred types of reading now found it radiating like sunshine from those thousand pages."

The newspaper education was a good one. Kornai rose swiftly, vaulting ahead of more experienced men (two main criteria governed advancement, he says, Party loyalty and

ability). He worked hard, wrote fluently, convinced that he had the inside track on history. The death of Stalin was the crucial watershed; almost immediately, Russia's new rulers recognized the chaos that Stalinist directives had produced, called their Hungarian franchisees to Moscow, and loosened up a bit. "I was not among those who had suffered in the period before June, and I did not feel the time had come to breathe a sigh of relief," Kornai writes of the "New Course" that Hungarian communism sought to adopt after Stalin's death. But many others did, and in the course of the next two years, Kornai paid attention to them.

He met an old editor of his paper who had been imprisoned during a purge in 1951 and beaten at the direction of a friend with whom Kornai had joined the Party; after that, he started paying attention to the number of political prisoners in his little country (40,000 in a nation of ten million in 1953).He read the British journalist Isaac Deutscher's biography of Stalin, and various Yugoslav writers on economic topics.(Tito, having been thrown out of the international Communist party by Stalin, had already begun to decentralize.) He defied the party boss who told him to attribute electricity shortages and service cuts to "objective circumstances" rather than poor state planning.

And then, in October 1954, he joined a memorable two-day meeting of Party members at his newspaper at which a couple of dozen staffers endorsed the "New Course" and openly criticized the regime. Inevitably, word of the newspaper rebellion leaked out. Other organizations followed suit. Self-determination was in the air.

Alas, it's hard to loosen by degrees. The Communist Hungarian government reacted. The first three rebellious newsmen were fired in December; Kornai and several others (including his wife) were let go a few months later, after a humiliating "self-criticism."

"My mental state in those months was one of disillusionment, bitterness and horror," he writes in *By Force of Thought*. "My earlier blind faith was dispelled once and for all. My eyes had been opened wide to what was happening. 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' weapons used in Communist factional fighting. .... I wanted to get as far as I could from this pollution."

Already his first newspaper editor, his old friend Miklós Gimes, had told him, "Politics is not for you. You would do better if you became a researcher; it would suit you better." Kornai earlier had wangled admission to Budapest's Institute of Economics as a result. Now he took advantage of it, becoming a full-time student. From the start, his work as a scholar displayed a strong empirical bent: countless interviews with managers in light industry. What were the problems with which they dealt? In little more than a year, he had written a dissertation: *Overcentralization in Economic Administration*. It contained none of the usual Marxist jargon, just a steady parade of facts about bottlenecks, plan bargaining, mismatched incentives of all sorts. Within the Institute, it was well received -- enough to win Kornai an appointment as a research fellow, with a salary and a bonus to boot.

But first there would be a public defense. It was held September 24, 1956 -- barely a month before the outbreak of the Hungarian revolt against Russian rule. Word of the event had got around town, naturally; some two hundred persons showed up for what the *cognoscenti* described as "a choice political morsel." Newspapers carried news of the highly favorable debate. No wonder, then, that Kornai was enlisted a month later to write the economic section of the speech Imre Nagy would give as new prime minister. That night Hungarian security police shot unarmed demonstrators at the state radio station. The next morning he started to work on a draft.

It was the last time Kornai would dabble in politics. Ten days later, Soviet tanks rolled into Budapest. His friend and former editor Gimes, having started an illicit newspaper (Kornai declined to participate) was hunted down by police (after hiding for a few days in Kornai's mother's apartment) and later hanged. So was prime minister Nagy. Kornai was interrogated repeatedly, though never tortured. He did not turn on his friend, though he buckled in small degrees in other situations. (The passages in which he reconstructs his calculus in these matters are among the most moving in the book.)

Nor did he take the opportunity to leave Hungary for the West, as did some 200,000 to 250,000 others, including his closest friend. Instead, between times, he studied his German edition of Paul Samuelson's *Foundation of Economic Analysis*. As Soviet tanks shut down the city, he had decided both to remain in Hungary, and to become part of the economics profession of the West, even while declining to emigrate.

A year later, towards the end of 1957, blackballed at Budapest's Karl Marx University of Economics, he was quietly dismissed from his job at the Institute.

That was the nadir. Starting in 1958, Kornai found jobs that permitted him to carry on his work, first with the Light Industry Planning Board, then with the Textile Industry Research Institute. He remarried, the economist Zsuzsa Dániel, whom he met while he worked on mathematical models at the National Planning Office. On Oxford economist John Hicks' recommendation, *Overcentralization* was translated into English. It appeared in 1959, to glowing reviews. Who had the nerve to write so candidly about the Communist world from the inside?

As early as 1958, London School of Economics professor Ely Devons had invited him to teach there. Only in 1962 was he permitted to lecture in East Germany, Poland and Czechoslovakia. Edmund Malinvaud succeeded in winning him permission to travel to the West -- to England -- in 1963, where he met Tjalling Koopmans, who would become his long-time friend. Kenneth Arrow invited him to Stanford in 1968, and thereafter he was relatively free to work abroad, in Cambridge, at Yale, Princeton, Stockholm University, the Institute for Advanced Study in Princeton. But it was not until 1986, when he accepted an offer from Harvard University that permitted him to split his time between Cambridge and Budapest, that he finally became a full professor at a university.

Until then, Kornai had had relatively few doctoral students of his own, the mathematical frontier having steadily moved on since he learned linear programming from Samuelson,

Robert Solow and Robert Dorfman's text. But at last there was time to excavate an idea that had been implicit in his work for years -- the "soft budget constraint," meaning the socialist practice of routinely plowing resources into failing enterprises even when they routinely exceeded their budgets, year after year (as opposed to the "hard" constraint of bankruptcy.) Kornai first employed the phrase in 1979, but not until he acquired a Swedish co-author (and not long thereafter, a son-in-law), Jörgen Weibull, did the pair undertake mathematical modeling of what by then they were calling "paternalism." With Ágnes Matits, a young Hungarian collaborator, Kornai then sought to empirically document the phenomenon in socialist economies.

Meanwhile, Richard Quandt at Princeton had begun formal modeling of the propensity to bail out failing enterprises -- what he called "the Kornai effect." Soon Eric Maskin and Mathais Dewatripont at Harvard had cast the familiar phenomenon of "too big to fail" in game-theoretic terms. Yet when Kornai sent a literary summary to the *American Economic Review* in 1984, it was rejected.

Kyklos, an international journal noted for publishing original approaches, immediately accepted it without revision, and at last Kornai had a famous paper, perhaps the most frequently cited of all his papers.

It is sometimes said that Kornai's reputation rests on four books. *Overcentralization* (1959), *Anti-Equilibrium* (1971), *The Economics of Shortage* (1980), and *The Socialist System* (1992). It is held against him that he failed to foresee the collapse. "Kornai's tragedy is that by the time he finished explaining why the socialist system did not work, it had disappeared," wrote Robert Skidelsky in the current *New York Review of Books*. In fact, *The Road to a Free Economy* (1990) is in some ways Kornai's best and most important book, and the real tragedy is that the gradualist approach to privatization that he advocated in it was almost universally ignored in Eastern Europe and Russia.

The patching and darning of socialism had to end, wrote Kornai. There could be no more wistful longing for "a third way." Socialist economies would have to change completely. But the accelerated privatization schemes of Western reformers were misguided, he argued. Vouchers, mutual fund distributions and other "big-bang" schemes conveyed the impression "that Daddy state has unexpectedly passed away and left us, his orphaned children, to distribute the patrimony equitably.... The point is not to hand out the property, but rather to place it into the hands of a really better owner."

In the end, Hungary preferred the slow sequence of events recommended by the book, while Russia tried to convert to democracy and capitalism overnight. The rest is history.

Kornai was in Cambridge, Mass., last week in connection with the publication of his book. At one point, he gave a seminar to a circle of old friends. Here is how his old friend (and fellow Hungarian), Harvard economist Francis Bator concluded his introductory remarks:

"Some might think a blemish Kornai's choice, as he puts it in the book, 'not [to] indulge in heroic, illegal forms of struggle against the communist system...[instead] to contribute to renewal through...scholarly activity.' Not so. If you want your bold ideas to affect the real world, you have sometimes to restrain your impulse to be bold. It is the courageous tradeoff of a quintessentially autonomous man."