Preface

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What do the diametrically opposite tendencies in the height of the North Korean and South Korean population over the past sixty years, the paternalism in the current pension systems and the Greek crisis have in common? Readers should not promptly reply “nothing”, because they are in for a quick and strong rebuttal when they start reading *Constraints and Driving Forces in Economic Systems*. The studies analyzing various topics actually all discuss the same point: the forces driving development and the constraints hindering progress in economic systems and subsystems.

The study written by Karen Eggleston, “Innovation, Shortage and the Economics of Health Care Systems”, demonstrates that before the division of Korea, North Koreans were on average taller than South Koreans, but during the six decades that elapsed since the division, this trend has reversed in such a way that the average height of North Koreans has not changed. Is there an argument more convincing that the elimination of a market economy leads to stagnation (even in biological acceleration), banishing the driving forces and putting thousands of obstacles into the way of development?

However, all studies are consistent in stating that economic systems and their radical changes cannot be simplified into the claim that the mere existence of a market economy and the establishment of the institutions thereof automatically guarantee efficiency and promote development in all areas. Studies prove that the scheme is much more complicated than this mechanical approach, since – as László Csaba notes in his introductory study – “The economy works as a system, more like a living organism than as an engine as postulated by Walras and others”. Even in the most advanced market economies, characteristic traits that were previously associated with socialism can appear, as proven by the study written by András Simonovits on pension systems and the study by Dóra Győrffy discussing the Greek crisis.

While examining pension systems in the duality of paternalism and autonomy, András Simonovits contrasts private and public retirement savings. In his opinion, a well-functioning and secure pension system cannot be based solely on one of the types. “Private saving is more efficient than the public one”, but due to the short-sighted stakeholders who do not think about the future, “its size may be insufficient”. On the contrary, the state is able to force the members of society to provide larger pension contributions, but does not implement it efficiently enough. The study’s important conclusion is that there is no optimum mix of paternalism and autonomy that would be valid under all circumstances; in addition to making efforts to minimize paternalism, the “mandatory” public savings are always maintained and their desirable “mix always depends on other parameters as well, such as the discount rate”.

The study written by Dóra Győrffy analyzing the Greek crisis draws attention to a neglected impact of the soft budget constraint as defined by Kornai. “While the term was originally applied to the enterprises in the socialist system, the financial crisis illustrates its relevance in market economies as well.” According to Győrffy, “the theory of soft budget constraint helps to understand why subsequent bailout packages failed in Greece and why the recession was so severe”. To which we may add that not only the crisis, but also the health care system analyzed by Eggleston, and the pension system described by Simonovits all exemplify that severe efficiency problems by far do not only exist in socialist countries. It cannot be proven that the market economy goes hand in hand with efficiency, but then, neither can it be proven that the soft budget constraint is characteristic solely of socialism, which is restricted to ever-decreasing regions.

The entire book underscores the point that there is no straight-line progress to a market economy. There are three studies in the book that indicate the halt of the promising development and the appearance of the ghosts of the past in Hungary. Miklós Rosta’s study, “Janus-faced Public Administration Reform in Hungary”, provides several examples for phenomena that seem to already belong to the past such as over-centralization and the soft budget constraints. (An example of the former is assigning all Hungarian primary and secondary schools under one centre, which is the employer of 120 thousand primary and secondary school teachers in Hungary. The state forcing banks to allow the final repayment of foreign currency loans on an artificially low exchange rate can serve as an example of the persistence of the soft budget constraint.) A similar turnaround is described in the study written by Eszter Rékasi on the higher education reform presently in progress in Hungary: “The reform headed in a direction opposite to that which is generally seen as desirable for the success of European universities: more resources, more autonomy and increased market competition, alongside accountability”. As a consequence of the above, the responsibility of market players decreases, they are faced with shortage of information, instructions weigh in more in coordination and not only does efficiency weaken, but equity also prevails to an increasingly smaller degree.

Gábor Klaniczay evokes the history of a unique institute in his study, "A New Kind of Academic Institution: the Institute for Advanced Study. International and Hungarian Experiences". His writing can serve as a case study describing how an autonomous institute – operating as a catalyst for social science research in Hungary for nineteen years, in whose establishment and development János Kornai played a decisive role – can be destroyed at the stroke of a pen, with a central administrative decision.

Overall, however, the studies do not give any reason for pessimism regarding the future of market economies, despite the aforementioned winding development paths of some Eastern European economies such as Hungary. The study by Katalin Szabó and Balázs Hámori analyzing the latest innovation trends convincingly justifies János Kornai's thesis that the advantage of market economies over all other social structures is undeniable in terms of innovation potential. Analyzing the two remarkable new innovation trends, crowdsourcing (i.e. involving the crowd in the innovation process) and reverse innovation (i.e. innovations flowing from less developed countries to more developed ones), the authors point out the common features of the two phenomena. In both trends, ICT, and mainly the Internet, play a definitive role. ICT is obviously the achievement of the market economy; at the same time, it incredibly expands opportunities for less developed countries, including the ones that are progressing on the rocky road towards a market economy and a democratic structure. The combination of inventive ideas coming from remote areas, professions or marginal stakeholders, which is typical of both reverse innovation and crowdsourcing, increases innovation potential on all levels and in all areas. Another common characteristic of crowdsourcing and reverse innovation not to be neglected is that both cut the costs of innovation and mitigate the risk. A highlighted element of the study is the statement that innovation is marked by the features of the socio-economic system it is implemented in. Therefore, the radical changes taking place before our very eyes may not be truly understood based on a narrow partial analysis, since as it is proven by Kornai's entire lifework, the related phenomena may only be understood when viewed in a system.

The same approach is applied by Gérard Roland's study, "Individualist and Collectivist Culture and Their Economic Effects", which is "a comparative analysis of the economic effects of individualist versus collectivist cultures". According to Roland, "individualist cultures will create a demand for the protection of property rights, for the rule of law, for institutions that limit the powers of the executive. Individualism will be associated with more openness towards immigration, higher geographical mobility, weaker family ties and more market-based social relations. Collectivism will be associated with higher ability for coordination leading to better public good provision and higher efficiency of government organization. Collectivism will be associated with higher demand for political and social stability and a lower taste for institutional experimentation." The following conclusion can be drawn from Roland's analysis: individualist cultures are more favourable for innovation and growth, and are more in harmony with the openness of the global world than collectivist cultures. However, individualist cultures often lag behind in terms of offering public goods, and by increasing disparities, they often threaten stability. Nevertheless, it is obvious that societies may not choose their cultures since these are the products of thousands of years of evolution.

The study written by Péter Mihályi also discusses the evolutionist approach and describes János Kornai's *Anti-Equilibrium* as the forerunner of evolutionist economics. Mihályi's study justifies the following German proverb quoted in László Csaba's introductory study "*Das Neue ist die gut vergessene Alte*", that is, new theories often only revive old ones. Mihályi convincingly demonstrates that since the 1970s, several economic schools proposed theories similar to Kornai's. One good example of this is Daniel Kahneman's explanation of the subsistence of the status quo. According to Mihályi, the gist of the explanation using the loss aversion behaviour is the same that was written by Kornai when writing about the inherent cohesion forces of socialism and capitalism. The study summarizes Kornai's impact on international economics, pointing out that he is the Hungarian scholar with the greatest impact on international economics, and he can be deemed as the forerunner of several "new wave" economic schools that flourish today.

László Csaba's introductory study, "Constraints and Driving Forces in economic systems", has the same title as the book and can be regarded as the summary of this broad-spectrum book. An important statement of the study is that "No compelling evidence … brings us to expect that democracy and market economy will always go hand in hand". Several studies in the book prove that the establishment of democratic institutions by political measures does not guarantee by far the normal operation of a market economy, not even the development into the direction thereof. Democracies born this way are very fragile. "The most recent experiences in Ukraine, Libya and Venezuela indicate that a change which may start as a corrective, at the end of the day, culminates into decay and disintegration."

Since Adam Smith, the poverty and prosperity of nations, and the development traps or their lack have been some of the key questions in economics. Csaba regards this question – neglected by the mainstream – as the central dilemma of comparative economics and development economics, and so do the authors of the book. Almost all studies – directly or indirectly – contribute to answering the question by analyzing the driving forces and constraints of development, whether pertaining to higher education, or the innovation of innovation. According to Csaba, "Comparative economics has a great advantage over the neoclassics in terms of its ability to endogenize technological change and its broader concept, innovations". Csaba's study underlines the relevance of path dependence and path creation, too. Only by taking these categories into consideration can we understand the Greek crisis, or Hungary's turn back from the path leading to the building of an advanced market economy. In the final part of his study, Csaba highlights the relevance of the political element in the economic analysis. The term "political economics" sounds bad, especially in former socialist countries, since a lot of people associate it with apologetic pseudo-Marxism. Actually, the legitimacy of political economics is indubitable. The political element is incorporated into decisions on the pension system, just like into the ones on the reorganization of higher education in Hungary leading to a dead-end street.

All the studies in the book are closely related to János Kornai's work whose decisive impact on economic sciences and the individual professional development of the authors is highlighted by each author. Several Hungarian economists and their foreign colleagues can also say: "We all came out from Kornai's overcoat". Instead of paraphrasing the saying about Gogol, let me quote Jameson, whose words perhaps grasp Kornai's mission most vividly: "To evoke originality, to kindle the fires of genius, to regularize, to criticize, to restrain vagaries, to set a standard of workmanship and compel men to conform to it." This is what the authors of this book have realized and recognized with the studies dedicated to János Kornai.