

János Kornai

China Economics Prize Greetings

Read out in a video message on December 4, 2016

My Dear Friends,

I am sending my greetings to you from far-away Budapest. I deeply regret being unable to attend this significant occasion. My wife Zsuzsa and I would like to express our heartiest congratulations to the two people we are celebrating now, Yingyi Qian and Chenggang Xu, the first recipients of the newly instituted China Economics Prize, the highest award for Chinese economists. It makes me very proud that this special recognition was awarded to my former university students, who have also been close friends of mine ever since.

The academic and public merits of the two laureates will no doubt be outlined by others. In this short greeting I prefer to contribute to the description of the award winners' characters with a few personal reminiscences. Before I start, I shall say some words about earlier events.

Some background

In 1981, at the Athens conference of the International Economic Association, I became involved in a disagreement with one of the leading Soviet economists. I asserted that the centrally controlled socialist economy necessarily creates chronic shortages; he rejected my statement and declared that it was only mistakes made by the planners that created shortages here and there. After the lecture an agreeable, sincere-looking Chinese economist came up to me and suggested that we have a little talk together. He introduced himself: he was Jinglian Wu. He was very interested in the Hungarian economic reforms, the introduction of certain elements of market economy. He believed China could learn from this. That was when our friendship started; it has lasted up to this day.

This photo was taken in Beijing almost quarter of a century after our first meeting: we were both happy to see each other again. Our birthdays fall at more or less the same time; it felt good to celebrate together.

Professor Wu is one of the most important architects of China's great economic transformation. He is an ardent believer in market economy and free, enlightened thinking. He does not preach dogmas learnt from books; instead, he ponders deeply over what real changes are conceivable under the given Chinese political, economic and cultural conditions. He has not appeared very often before the wider public, but it is well-known that he has had an enormous influence on decisions concerning reform and on public thinking. Let me also mention here the name of Xiaomeng Peng, our dear friend, who has been of great assistance to Professor Wu in spreading reform theories and in a variety of other ways, among these by editing the periodical in which numerous studies where progressive ideas are developed have found publishing opportunities.



It is proper that I should start my story with an appreciation of Jinglian Wu's work, because he was one of the first masters of the two people we are celebrating today. Not in the narrow sense of "the person who taught their first course in microeconomics or econometrics at university". I use the term 'master' here in the much more important sense that it was mainly from him that Chenggang and Yingyi learnt about Chinese realities and about the fundamental issues related to development.

Of the two award-winners I met Yingyi first. I gave a lecture at Yale, if I remember correctly in the academic year of 1983/1984. At the end of the lecture he came up to me and told me that it was his firm intention to transfer his studies from Yale to Harvard, as he had heard that I was going there and he wanted to learn from me. This aspiration filled me with pleasure: I wanted to teach students just like Yingyi.

The Harvard period

The next meeting point was Harvard University. I started my work there with a lecture series lasting the whole academic year on the nature of the socialist system. Many well-trained students interested in the functioning of socialism took part in this course, among them Americans, Germans, Latin-Americans and Canadians. Chenggang Xu and Yingyi Qian distinguished themselves especially. From what they said and from our discussions I really felt that they truly *understood* what I was talking about. It was not purely intellectual and political curiosity that attracted them to this topic: they reflected on

the descriptions and analyses in my lectures from *within*, on the basis of their own experience at home.

As the years went by our friendship developed in various ways. I was shocked to hear about Chenggang's life. He was an enthusiastic believer in Mao's ideas as a high-school student, and volunteered to leave the city and work „among tthe people”. He did farm work during day time, and studies poitical economy in the evening. He started to write and circulate papers. In 1970 he was purged as a „counterrevolutionary”, put under solitary confined and tortured. The purg lasted six years, followed by a pwrioid whenh he was assigned to various manual jobs. He had a long-long way of learning, leading to postgraduate studies at Tsingshua Univwersity and finally to Harvard. I was overcome with respect when I observed how calmly he talked about what had happened to him, smiling slightly, as was his habit. An Eastern European would have told the story with indignation and anger.

In our Cambridge home we used to sit in front of the TV screen with the Chinese students who were closest to me, watching with excitement what was happening in China. In our discussions the great questions of life surfaced: what could, what should intellectuals do when events of global historical importance were taking place in their home countries and in the other parts of the socialist world?

For me it was a new challenge to act as adviser to those outstanding Harvard university students in the learning process which culminated in their PhDs. In my own country I was black-listed: from when I received my own degree, in 1956, up to the change of regime in the 90ies I was forbidden to act as the officially recognized adviser of even a single student. Tutoring students like Yingyi and Chenggang offered me all the more intellectual pleasure as a result, especially when working together with such a great scholar as Eric Maskin. It is difficult to imagine a better tutor for young people yearning for professional knowledge: from Eric him they could learn the skills of the economist's profession, primarily those of theoretical research, and acquire precision and consistency of thought. Eric has a kind, gentle spirit - as future teachers they could also learn from him what a warm, friendly relationship can emerge between a teacher and his pupil. Harvard University turned both award-winners into true scholars. The fact that they were trained in this lively and inspiring intellectual environment is of great importance. I can recollect how the participants at Yingyi's general examination, including scholars well-known in their professional fields, suddenly became aware that it was no longer the candidate they were questioning, but each other: can the market function in a socialist economy and what was the dispute that had taken place between Oscar Lange and Hayek fifty years earlier?

When in later years my lecture series, repeated many times and frequently revised, took shape in the form of the book entitled 'Socialist System', many of my students, both those from Budapest and those whom I taught at Harvard, cooperated as research assistants. I am grateful to Chenggang and Yingyi for helping me even at that time to understand the processes taking place in China. They have continued to do so up to this day.

Geographically far apart, spiritually close together

From the moment they received their PhDs and left, we were far apart, in terms of geographical distance. They both found places at prestigious institutions: Yingyi first at

Stanford, then at Berkeley University, Chenggang in London, at the London School of Economics. As their former teacher, I was proud of this fine beginning to their careers. In spite of the geographical distance, our friendship and intellectual relationship remained intact. During my second Chinese visit Yingyi took the trouble to come to Beijing from far-away California to help us. Although we had an official interpreter, at one point Yingyi took over the job of translating, saying that it was not being done precisely enough: he speaks three languages fluently, Chinese, English and ‘Kornai-language’.



This picture was taken during the trip in 1999 that I have just mentioned. Yingyi not only accompanied us to serious professional discussions, but introduced us to Beijing’s cultural delights as well.

A career in the West would have been open to both Yingyi and Chenggang. Still, they decided to return to China. This is a fine example of genuine love for one’s country. Patriotism – not expressed by nationalistic slogans, but by deeds. They contribute to the improvement of their fellow citizens’ lives by spreading modern knowledge and rigorous,

critical thinking as teachers, as authors of studies and books, and as organizers of university education.

Let me add that it was not only these two former students of mine, who once studied at Harvard University, that returned to their native land.



This photo was taken later, at a Hong Kong conference: former students of mine lined up next to each other. Chenggang Xu, Yijian Wang, Yingyi Qian and David Daokui Li, (and Chong-en Bai, who does not appear in the picture) all chose the same path: to return to China. They were all full professors at prestigious universities.

On Chenggang Xu and Yingyi Qian's academic achievements

I am talking about two individuals, each with his own, different, academic and personal characteristics. However, these traits go well with mutual appreciation. They already formed a personal friendship during their years at Harvard. There are significant overlaps in their professional interests; sometimes they worked together as co-authors.

They were both inspired by the theory of the *soft budget constraint syndrome*; indeed, Yingyi chose this as one of the topics of his PhD thesis, using and further developing Dewatripont and Maskin's model of mathematical game theory. It was a great success: it was published in one of the most prestigious economic journals, the *American Economic Review*. He, like Chenggang, returned to this topic repeatedly. For me it was

especially instructive when Chenggang convincingly outlined the role this syndrome plays in the capitalist system as well, pointing out that this was also one of the main explanatory factors of the overheating in the economy that led up to stagnation in the Japanese economy and later to the American and world-wide great depression. Not only the two of them, but other Chinese economists also successfully applied the basic ideas of the theory of soft budget constraint to the description and analysis of the Chinese situation, and within this to the functioning of state-owned companies and the financial sector. When state bodies fail again and again to enforce the observation of credit agreements, when irresponsibly provided bail-outs become frequent, then financial discipline slackens and the efficiency of production decreases.

Turning to another theme, I have learnt a great deal from those works in which Yingyi and Chenggang investigate the system prevailing in China *comprehensively*. I would like to pick out two examples.

I was strongly affected by Yingyi's study 'How Reform Worked in China', which was published in 2003 in the volume edited by Dani Rodrik, an outstanding piece of scholarship: balanced, and thoroughly researched analysis of the first developments of the gradual progress of China towards a market economy.

Also, I consider as a work of high importance Chenggang's 'The Fundamental Institutions of China's Reforms and Development', which appeared in 2011 in what is perhaps the most prestigious and influential publication: the *Journal of Economic Literature*. In twenty years this was the first study in *JEL* to deal with China.



The photo shows a conversation with Chenggang at a conference in Helsinki. By this time I had read the first drafts of his *JEL* study, and we had exchanged letters several times. We talked about how important it is to approach the comprehensive description of a country's institutions not as a narrowly focused economist, but as a social scientist who integrates the perspectives of economics, political science and political philosophy with those of sociology and historiography. Whoever considers only China's economic statistical data and fails to think through the whole context cannot understand the country. For example, he does not analyze what the political structure of the system is actually like, what is going on in the world of ideology, and how the social distribution of power, wealth, income and knowledge develops.

Facing difficult tasks

China has developed enormously in the last decades. GDP per capita, measured in US Dollars has multiplied 26 times between 1980 and 2015. However, Chinese and foreign experts have seen quite clearly for some time that this stormy momentum cannot be sustained for long. Tensions of various kinds have emerged in the economy and in society.

A greeting composed for this festive occasion is not the proper place to analyze the problems of China: there are other forums for that purpose. What do belong here, to this beautiful and serious celebration, are a few words on the responsibility of the academic intelligentsia. Economists can delve into a hundred topics which focus exclusively on the question of how to increase economic efficiency, interpreting the term 'efficiency' in a narrow, technocratic way. However, in this profession we need also scientists who are able to face difficulties with courage, who do not abstain from revealing deep contradictions. Nobody could possibly undertake this huge responsibility from the outside; the task is for people who know the situation from inside. When they consider the different ways in which difficulties can be overcome, such scientists are aware of the fact that any relevant choice between alternative strategies cannot be value-free: it is strongly linked to ethical principles. It is good to know that among Chinese economists there are people, and not just a few of them, whose way of thinking is based on a decent system of values: values which include the defense of the autonomy of individuals and of smaller and larger communities against tyranny; the enhancement of democratic governance and the rule of law; social responsibility for disadvantaged people; the poor, the sick and the aged. China's progress is promoted most efficiently by those members of the academic intelligentsia who are consistent not only in their thought processes, but in their value choices as well.

So I will conclude by wishing further fruitful work and ever greater success to my dear friends, Yingyi Qian and Chenggang Xu.