

A review of *Constraints and Driving Forces in Economic Systems, Studies in Honor of Janos Kornai* edited by Balazs Hamori and Miklos Rosta (Cambridge Scholars Publishing 2016)

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*Constraints and Driving Forces in Economic Systems* is an edited volume in honor of Janos Kornai by Balazs Hamori and Miklos Rosta published by Cambridge Scholars Publishing in January 2016. Different chapters of the book are written by well-known Hungarian and International scholars that had Janos as their mentor, colleague and/or coauthor.

The preface by Hamori clarifies the scope of this collected volume as well as the content of each paper. Soft budget constraints, paternalism, over-centralization and some other Kornai concepts are employed in addressing various types of economic problems at micro, meso and macroeconomic levels. Firms, the health care system, the pension systems sector, the financial crisis in Greece, Hungarian public administration and the higher education reform in Hungary are all analyzed in light of a conceptual framework that can be related in one way or another to Kornai's theoretical toolkit.

The theoretical richness of this collection is not its only merit; a second merit should also be emphasized. Attached to the democracy as a fundamental value, authors criticize a recent new turn in the Hungarian polity with disastrous consequences for academic activities. Gabor Klaniczay's case study of the Hungarian unique academic institution, *Collegium Budapest* during its nineteen years of existence is a case in order. The study shows how this institution in which Janos played a key role was a 'success story' during its first decade and then transformed into a 'personal tragedy' with its closure in 2011. Remembering the title of the volume, "Constraints and Driving Forces in Economic Systems", the new FIDESZ government's policy with regard to academic activities might be considered as a decisive 'constraint'. As Hamori put it in his trenchant criticism, the story of *Collegium* "can serve as a case study describing how an autonomous institute... can be destroyed at the stroke of a pen, with a central administrative decision." (p. ix). In fact, Hungarian post-socialist experience provides ample evidence for Csaba's contention that "No compelling evidence... brings us to expect that democracy and market economy will always go hand in hand, or that the victory of these 'inclusive institutions' would be in any way a historical necessity, either in terms of time or especially in any concrete regime change." (p. 5). Csaba's paper shows how a comparative-institutionalist approach can cast light on the importance of historical trajectory and path-dependency in Hungary's recent economic development.

At a theoretical level, Csaba diametrically opposes comparative-institutionalist approach to mainstream economics, and he then underlines Kornai's systemic approach and his comparative-institutionalist method in analyzing specific socio-economic systems. But can one characterize Kornai's thought as always opposed to mainstream economics? In my opinion, this is an important question in defining Kornai's position in academic debates as well as the way it has been received among orthodox and heterodox economists. In one of his personal letters to me, Janos as a mentor wisely advised me in the following manner:

““Mainstream” is not a well-defined set of ideas with well-defined border-lines. Scholars who are critical of the present state of economics, and have a new idea which contradicts main-stream ideas only at one point, want their own new idea to be incorporated into main-stream. Before acceptance, “information economics” was outside, and then it got inside. Is Schumpeter or Shackle inside or outside? Is Acemoglu inside or outside? There are many interesting and important ideas which appear in the rather wide grey zone between rigid orthodoxy and revolutionary-oppositional heterodoxy. My preferred formula for this situation is to be with *one leg inside and with the other leg outside the mainstream.*” (Kornai’s personal letter to me, 22 November 2010, the emphases are mine).

This last phrase summarizes Kornai’s relationship with orthodoxy and heterodoxy. His numerous academic successes as well as his disappointments are related to this simple fact that he was and is with one leg inside and with the other leg outside the mainstream. Unfortunately, the well-known Kornai is only the Kornai with a leg inside the mainstream. The concepts that have been bought by mainstream economics and used extensively by international organizations without paying due tribute to their inceptor are soft budget constraints, and hardening the budget constraints. They are now integrated in the economic literature and economists often cite them without always knowing who coined these concepts. In the aftermath of the 2008 financial crisis, I have read articles by prestigious scholars using the soft budget constraint concept to explain some aspects of the crisis without mentioning the name of its inceptor! How lucky Kornai is to have formulated ideas that are now ‘public goods’ exposed to ‘free-riding’ problems.

Soft and budget constraints are well-known in our discipline thanks to its incorporation in mainstream economics, but what about Kornai’s concept of ‘normality’ and his description of the ‘normal state of a system in terms of specific chronic contradictions’? Again, what about his critical approach to ‘maximizing behavior’, i.e. a principal tenet of mainstream economics? Here is the other leg of Janos ‘outside the mainstream’. How much is this second Kornai known?

In my opinion, Kornai’s thought in its entirety is still unknown; what is known is rather a Kornai standing on one leg. The good thing about this new edited volume is that a few authors have also talked about Kornai’s other leg. For example, Peter Mihalyi writes about Kornai’s *Anti-Equilibrium* as a harbinger of evolutionary economics. While Csaba opposes Kornai’s ‘comparative-institutional’ approach to mainstream economics, Mihalyi opposes Kornai’s ‘institutional and evolutionary economics’ to ‘General Equilibrium Theory’. The latter tries to summarize Kornai’s critical assessment of the principal tenets of the general equilibrium theory in three major points (pp. 80-85). Here we have the second leg of Kornai.

In a sense, Kornai’s theoretical framework looks like a Hegelian system out of which can come out both revolutionary Marx and conservative philosophers of the Prussian state. This is not only true about his theoretical framework but also about the policy implications that can be derived from concepts such as soft budget constraints. For example, is a hard budget constraint efficient in supporting technological innovation? Should hard budget constraint be followed in the context of a financial crisis? What is really required for economic efficiency: soft budget constraints or hard budget constraints? Is there any unconditional response to these questions? All depends on which leg of Kornai you stand. Kornai himself stands on his both legs and this is why he is undoubtedly one of the most eminent economists of the twentieth century.