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My Days as a Naive Reformer

Thirty-three years ago, in the autumn of 1956, I submitted the manuscript of this book to the Economic and Legal Publishing House. Now, the preface to a new edition offers a choice as to what to discuss from a variety of issues that come to mind. Personal reminiscences might be in order, invoking the tempestuous times of first publication. Another possibility might be to take inspiration from Frigyes Karinthy's classic short story "Meeting a young man" and to ask to what extent I fulfilled the plans of my youth. But no matter how attractive these approaches are, I propose to discuss a different question: to what extent do I still consider the message of this small book valid and in what respect has my opinion changed since.

Given that I chose this to be the subject of the new preface, I would like to implement this task objectively, as objectively as I can. False modesty will not prompt me to gloss over points that I still consider timely and instructive, but I shall also discuss the weaknesses and the problematic features of the work. This does not, however, preempt criticism of the second edition. Critics will certainly find in this work things to which they take exception, and perhaps also merits, of which I do not speak here and now.

Let me quote the preface of the first edition: "The first necessary step is a description of the situation as it is. This, it may be thought, should already be available in dozens of books. Unfortunately this is not the case. There are, of course, dozens of textbooks and collections of notes for use at universities which describe our methods of economic administration and planning, our pricing and wage systems, etc. However, all these have a serious fault in common: instead of telling us how our economic mechanism really works, they merely describe how it would work if it worked as their authors would wish. ... For this reason a coherent description of how the mechanism of our economy really does work represents a new task, not hitherto performed in the economic literature of our country." Or: "These methods of running the economy were increasingly beginning to show the disadvantages attached to them. The task set for the present study lies in just this sphere. It is to reveal these faults, the contradictions within the economic mechanism we have used."

This is still my aim. I have considered it the principal objective of my research activity ever since. This is not a self-evident pledge. It is frequent that the committed partisans of some system, political current or party feel that they must primarily and above all

János Kornai is Professor of Economics at Harvard University and the author of *Economics of Shortage*, North Holland Publishing House Co., Amsterdam, Oxford, New York, 1980. This is the preface to the new edition of *Overcentralisation in the Economy*, which was first published in 1957.

emphasise in all their works, written and oral presentations, whatever serves the interests of the system, current, or party supported by them, keeping silent as far as possible about what could damage these interests. The conviction ripened in my mind in the 1954-1955 period to play a different role: I would no longer be the *propagandist* of the socialist or any other system, but become a researcher. Before I commit pen to paper, I ask first of all whether what I want to say is true, and not to which cause it does harm or benefit. To use an almost forgotten but nowadays again timely expression, I have no wish to practise partisan science. To avoid any misunderstanding: I have no desire to eliminate from the public sphere and the sphere of ideas the desire by political actors to be in the company of their fellows, serve a common cause and identify themselves with a party or movement. I respect those who choose this approach to life, although I do not believe that this is the only morally acceptable attitude. Partisanship and political commitment are values of a high order, but their place is outside science. Scholarship begins whenever somebody tries to rise above his commitments and to apply the criteria of scientific truth. It is clear to me, and I shall deal with this in detail below, that those active in the social sciences never entirely succeed in this, but I believe that they are at least obliged to *strive* to do so. I do not only accept this view but even wish to suggest it, although I know that in the West and in the East, at home and abroad, numerous "antipositivist" intellectual currents reject this as obsolete.

The researcher is neither prosecutor, nor counsel for the defence, nor presiding judge, but his role, to stay with the legal metaphor, is akin to that of the *juge d'instruction* of the continental system who, before the trial, collects all possible facts, questions witnesses, but does not himself pass any judgement. In this respect, it is in good conscience that I pass this small work to the reader for the second time: even today I think that what I wrote then was a correct report on the classical socialist system prior to the reforms.

The concrete system itself, about which this book speaks, no longer exists in Hungary; today it will be of interest primarily to students of economic history. But this past left such a deep imprint that we still feel its effects. It is impossible to understand truly the Hungarian economy of 1989 and 1990 and the problems of transformation, if we are not familiar with the initial conditions. In addition, numerous relics of the overcentralised, bureaucratic economy, relying on instructions and other administrative measures, are still alive and kicking. Not to mention that what already belongs to the more remote past in the Hungarian economy, is more recent in the Soviet Union or Poland, and is the present in East Germany, Rumania, North Korea and Cuba. (Since I wrote the present Preface, East Germany has ceased to exist, and the situation in Rumania has also changed although the future system of its economy is uncertain.)

It is not only an emphasis on a descriptive-explanatory approach in scientific analyses that I consider a timely requirement; the book makes a contribution to scientific philosophy and methodology on numerous other questions as well. These I still fully accept. Here I shall mention but one range of questions: the relationship of the book to Marxist political economy.

I ask the reader to place himself back into the intellectual atmosphere of the time. Abroad, the socialist economy was of course much discussed employing a non-Marxist approach. In Hungary, however, just as in the other socialist countries, Marxist political economy enjoyed an officially proclaimed monopoly. Not only blind supporters of the existing system, but its sharp-eyed critics as well relied on this apparatus. Reformers demanded respect for the Law of Value, and among other things, debated whether the means of production or labour were commodities. The method, conceptual apparatus and

terminology of overcentralization are not part of the above. As I was writing, I was not only convinced that Stalinist innovations in political economy (Basic Law, The Law of Planned Proportionate Development, etc.) were unusable and misleading, but also that the conceptual apparatus of the Marxist theory of labour value was unworkable. It provided no constructive help in the analysis of the reality of the socialist system. I did not argue against it, but simply ignored it. I have been doing so ever since.

I wished to suggest to the readers that they could reach noteworthy and substantial conclusions if they avoided the texts and jargon of the anointed priests of Marxism: political economy and did not get bogged down in their arguments. Instead they should try to observe reality directly and from a pragmatic perspective and then draw generalising conclusions. What makes a work theoretical is not the number of references to *Das Kapital* or the repetition of the term "Law of Values" but generalisation based on the observation of reality. In numerous other disciplines (thus, philosophy festering in the shadow of György Lukács) not only dogmatic Stalinist social scientists but others critical of the classical socialist system were still caught for a long time in the tight chambers of Marxist doctrine, or tried to expand its walls by cautiously exchanging a brick for two. In other socialist countries (for instance in the Soviet Union under the influence of Kantorovich and Novozhilov) a similar situation prevailed over a long time in economics, too. Perhaps I may say without appearing immodest that it was also due to this book that the profession of economics in Hungary was freed of these shackles earlier.

At the same time it is worth stressing that the influence of Marxism can still be felt in several aspects of the book, and that in these aspects I have remained loyal to this understanding of Marxist method since. I think, for instance, it is a fertile approach to consider that if something appears on a large scale, and goes on for some time, one should not be satisfied with a superficial explanation which seeks the explanation in individual mistakes, in policy errors, or in the personal characteristics of the man in power. Let us examine whether it is not the system which is the principal or at least one of the principal factors in the explanation of the problems.

Socialism, whether in its classical pre-reform shape or in the variant which came about in the course of the reforms, is not a coincidental agglomeration of individual phenomena. Regularities, general tendencies, ingrained patterns of behaviour came into being. In the fully-formed system, characteristic situations occur repeatedly and this gives rise to characteristic attitudes. The basic duty of the social scientist is the study and description of these regularities, tendencies, patterns of behaviour, and response functions, as well as synthesising them into a theory. I am now aware that this approach is not particular to Marxist social science. Not all schools of thought may accept them; yet it is true all the same that such methodological principles form part of several respectable non-Marxist, or institutionalist research strategies.

An example of this approach in the book is the examination of how a particular system of planning, control, and financial incentives induces certain reactions in the management of firms, against the will of the allegedly almighty centre. Chapter III describes seven regularities. While the standard textbook at the time taught that the ever higher level of consumption or the planned nature of all activities were "laws" of socialism, I tried to present what the *real* laws were, that is more precisely and more modestly, the real regularities: making a fetish of the plan, plan-speculation, plan bargaining and the rush at the end of plan period, among others. Not a pretty sight but inevitable under the given conditions.

Others may have learned this from other sources but in my case it was Marxism which taught me that things occur on different levels. There are chains of causality and at the

same time more superficial and deeper regularities. *Overcentralisation* made several attempts at applying this approach. In fact, this first book of mine already raised all the important questions that were to torment me throughout my life as a scholar. To what degree can human action be planned? To what extent does uncertainty govern society? What is the relationship between bureaucratic control, forced growth, and chronic shortages? To what extent can the selection and behaviour of bureaucrats according to certain criteria (uncritical obedience, lack of initiative, etc.) be explained by the characteristics of the political and social system? Why does the huge bureaucratic apparatus tenaciously recreate itself? Now that, after more than thirty years, I re-read my first book, I became aware that the questions which I asked were drafted in my mind as I took my first tentative steps. What has changed in my later works was the answer to these questions. On some problems I changed my views more than once. I cannot provide infallibility retrospectively either, nor for the future. All I have done was to try and establish the truth and I will do that in the future as well.

One of the sources of the weaknesses in the book was ignorance, or perhaps I should call it knowing things by half. I was twenty-eight when I wrote it. I knew a thing or two about the way the system I examined worked, I was a trained Marxist-Leninist, familiar with the debate in Hungary. Yet this was about all. The book was my dissertation for a Candidate's Degree, comparable to the thesis a graduate student has to submit to obtain a Ph.D. in a university in an English-speaking country. I knew just about nothing of the literature and ideas which a student at a good university has to be familiar with if he wishes to graduate in Economics. What skills I acquired in this area, I obtained after the publication of *Overcentralisation*, in the years when I found myself on the fringes of the Hungarian academic community and thus had the time to spend all my waking hours reading. Those years were my "Universities", when I learned, with considerable effort and by teaching myself many things which students at western universities are spoonfed by their lecturers and tutors.

The book refers to some Hungarian authors, primarily to György Péter, whose ideas influenced me very much. On the other hand, there is no reference in it to the western literature, or in general to contemporary foreign literature on economics. This was not done to steal the ideas of other men or to hide my sources for tactical reasons, but simply because I was unfamiliar with these writings. I look at the man I was then with a certain astonishment and hair-raising respect: how could I attempt such neck-breaking heights with such poor equipment? And yet I had no illusions about my knowledge at that time either. It was clear to me that I did my work almost instinctively: my only instrument was the interpretation of elementary statistics, the observation of individual cases and the questioning of persons taking part in economic events, as well as comparing the pieces of information thus obtained. In this respect my work resembled the practice of the Hungarian rural sociologists of the 1930s and made no use of the advanced methodology of western empirical surveys. Aside from lacking methodological skills, I knew little about the results achieved by Western economists in clarifying the general problems of the working of an economic system, such as prices and markets, the behaviour of firms, risk and uncertainty, or the theory of conflicts. I was aware neither of the debate between Ludwig von Mises, Oskar Lange, Friedrich von Hayek and others concerning the nature of socialism and planning nor of the work done by western students on the economic system of the Soviet Union and the other socialist countries.

Perhaps I even benefited from this situation. Ignorance sometimes acts as the midwife in the birth of original ideas. Take an example: section IV.4. describes the "model" of the

old economic mechanism, differentiating between vertical and horizontal links, and stressing the dominant role of the former. As far as I know, this kind of differentiation was introduced by *Overcentralisation* and has become part of common knowledge to such a degree that no one now remembers the source. It is possible that if when writing the book, I had known about what economists today call a model, I would not even have dared to write these few pages.

But I do not want to make a virtue out of necessity after the deed either. I have overcome this phase, as have many other Hungarian economists. From the time that I began to become familiar with the world economic literature and its conceptual and analytical apparatus, I felt it indispensable that I too should join the blood circulation of the international professional community. I felt that we had to break out of narrow provincialism. There is no obligation to agree with the methods or theories of this or that foreign school of thought. I myself have engaged in numerous disputes. But I believe it is imperative that we familiarise ourselves with the scientific results of the time; that we take over everything that can be adapted, and reject only what, on the basis of thorough argument and not of prejudice, we do not consider workable under our circumstances. I would therefore advise readers of this second edition, and especially students and young scholars that they transcend the methodological standards of the book. What was perhaps a forgivable weakness, a pardonable sin, on the part of the early pioneers several decades ago, is an unpardonable omission today.

Regarding the length of the text, approximately 95 per cent is descriptive, positive analysis, and at the most five per cent falls into the category of normative theory. In my later works I strove to keep the two clearly apart, even if they appeared within a single study. At that time, however, I had not yet formulated this goal, and consequently normative arguments appear here and there, sometimes in a sentence or two, condensed into a requirement or recommendation, in various places, mainly in the second half of the book. Nevertheless, the normative arguments hang together and together suggest a certain notion of reform.

The book influenced the Hungarian reform process. Among other factors this book also shares responsibility for its virtues and shortcomings—even if nobody mentioned this influence at the time. Its influence was, of course, indirect. It manifested itself as an influence on the thinking of the intellectual leaders of the Hungarian reform process.

Although at the time it was not really formulated in my mind in a sharp manner, but I felt—and this was also expressed in the book—that the purpose of the reform was not only to improve economic efficiency but also to give more scope to other things valued by human beings, such as initiative, spontaneous action, a life free of fear and reprisals by the authorities, the opportunity to make autonomous decisions. On the level of practical economic tasks the reform here outlined is linked to the principles that in the Hungarian literature were first formulated by György Péter: greater autonomy for the firms, prices ensuring equilibrium between supply and demand, the central role of profitability in the material and moral incentives offered to management. In addition, in some more specific proposals, *Overcentralisation* contributed another substantial idea to this system of thoughts: one should not be satisfied with partial measures, the whole of the economic mechanism had to be changed radically, and at one stroke.

I well remember that when the manuscript was first discussed in the Institute of Economics it was precisely this message that irritated some, they objected that my book argued as follows: If we changed the mechanism this way, then this would be bad, and if we changed it that way, then that would cause trouble as well. What then did I want?

Did nothing please me? A couple of years later the same objection called the tune in a hostile official press campaign against *Overcentralisation*, alleging that it rejected the entire existing economic mechanism of the socialist economy.

The principle of a package of measures became one of the distinguishing features of the Hungarian reform process. The reform of 1968 was the first and so far the only action which produced substantial changes in almost all areas of the socialist economy at one full sweep. *Overcentralisation* had pointed out many years earlier that the introduction of the profit incentive might produce scant results and might even do damage, without a simultaneous radical change in the pricing system, i.e. without introducing market-clearing prices. It is hopeless to reduce the size of the apparatus without changing the mechanism. New ratios must be established between production and consumption, and between supply and demand; chronic shortages have to be put an end to so that the market and horizontal inter-firm contacts can function successfully. There is a close relationship between forced growth and overcentralisation; consequently the growth policy and the economic mechanism must be changed concurrently. On all these questions the book was much more consistent and unequivocal than later "neither-fish-nor-fowl" Hungarian (and Soviet, Chinese, Polish, etc.) practice. Within the limitations to be mentioned it proposed that uniform and complete change should take place. Truly comprehensive changes were needed in the domain of prices, financial incentives, growth policy, power positions in the market.

The book reflects the recognition that much had to be included in a package of simultaneous measures so that detailed measures should not run counter to each other but should have a beneficial joint effect. But as the years passed and experience was gathered, it became more and more obvious that much had been missing in the package, not only in the reform plan sketched in *Overcentralisation*, but also in the points debated in later years, as well as in the practical measures of the 1968 reform. These shortcomings were exactly what I had in mind when I mentioned that *Overcentralisation* shared responsibility for weaknesses which became more and more distressing in later years.

Already in the beginning of the 1970s the discussions about the reform in Hungary revealed that those who had theoretically prepared the first wave of reform and those who later carried it out in practice had thought that the "division of labour" between plan and market would be very simple to achieve. The idea was to entrust short-term regulation, the input-output flow necessary for current production and consumption, to the autonomous decisions of profit motivated firms, while leaving long-term regulation, primarily investment decisions, in the hands of centralised planning authorities. The error is now obvious. As long as the truly vital decisions, such as entry and exit contraction and expansion of output, the changing of the product pattern, decisions concerning technical development and investment in general are left mostly in the hands of the central authorities, it is a self-deception to speak of a genuine autonomy of firms.

Overcentralisation had a position on this question, though it was mistaken. But what was not even mentioned, not even in the form of a hint is even worthier of attention. Not only this book, but all those who participated in the discussions taking place in the economic journals and the economic and business institutions of the existing system, neglected to deal with the fundamental issues of ownership, political power, and socialist ideology.

In more recent writing I have called that type of reform economist, to which I also belonged between 1954 and 1956, the naive reformers. At that time in Hungary this group included György Péter and Tibor Liska. In the 1950s and 1960s Włodzimierz Brus in Poland, Sun Ye-fang in China, and Ota Sik in Czechoslovakia could be included with

them. If we were naive then Evsei Lieberman who was the first apostle of the profit motive in the Soviet Union in the 1950s was ultra-naive. (It is essential to give dates because most of the reform economists still alive have changed at least some of their views since.)

The word naive is not pejorative. Used in its original sense, it refers to a peculiar well-intentioned childlike attitude, the stage of development of the mind in which somebody courageously engages in a task because he does not even suspect how difficult it is. He puts his hand into the fire without hesitation because he has never burnt himself. In addition naivité is not merely a state of mind but also a form of behaviour. A naive person is completely outspoken, since he feels he has nothing to hide and he cannot yet evaluate the consequences of what was said. It is of course easy to be wise after the event. It is not my aim to point out old errors, including mine at the time, knowing what I know now. But it is worth asking why we were not interested in the depths of the problems.

Before trying to answer, I must seek to eliminate in advance a possible misunderstanding. Naive reformers did not keep silent about difficult and delicate questions of this sort because they exercised self-censorship. It does not mean that I condemn self-censorship. In a system in which legal publication and public lectures are subjected to formal or informal censorship, self-censorship is unavoidable if one wishes to propagate ideas in a legal way that transcend officially set limits. Those who speak and write can decide to give up legality. This choice implies much gain in speaking without self-imposed limits and at the same time loss of influence, not to speak of other gains and losses. If a scholar chooses legal publication, he faces thousands of further concrete dilemmas: how far to go in self-censorship; what to say out loud and what to throttle; how to suggest to readers implicitly what cannot be communicated explicitly. An enlightened and far from naive critic of the existing system usually holds back a great deal. He consciously or half-instinctively suppresses much of his message. Compared to him the naive reformer is refreshingly outspoken, since he does not even understand the grave implications of the problems he tackles. When, in later decades, there were debates among the various schools of reformers, the naive ones were always in a more favourable psychological position. They could easily answer the questions put to them, because they simply said what they thought. Every major question confronted the "enlightened" with complicated intellectual and moral dilemmas and forced them to decide how far they might be able to go, and how far they wanted to go, in providing an answer.

Looking back at the evolution of my own ideas, I can say that *Overcentralisation* was not only my first book but also the last which I wrote as a naive reformer. Back then the reason I omitted one or the other difficult question was not because I recognised after much brooding and fretting that it made sense to draw the limits at that point. I omitted them, because at the time of gathering material for the book and of writing it, I simply did not sense the importance of numerous major problems. Now is the time to ask why not? One reason has already been mentioned, and that was my incomplete knowledge. My impression is that this was of secondary importance. By that time those listed above, and numerous other economists who thought along the same lines, already had the chance to read as much western literature as they wanted to. There were certainly a few amongst them who then knew more economics than I did. The problem at such times is not that there is no broadcast but that the set is unable to receive it.

Anybody who tries to think about social issues on a theoretical level, takes certain axioms as given, or adheres to the declared axioms of some school of thought. There are some whose minds are governed by an implicit system of axioms, and unaware that a few

final principles, postulates and taboos limit their thinking. What distinguished the naive reformers from their successors was that their axioms had not yet been questioned by anybody. These axioms ceased to function as such for the later generation of reformers.

Let me mention a single, though very important question, that of ownership. It is the most important aspect of the Hungarian economic reform that the formal and informal private sector gained as much ground as it did. Compared to that it is of secondary importance that in some respects changes occurred in the state sector as well. But if I think back to conversations at the time of working on *Overcentralisation*, I have to say that the problem did not even arise. The desirability of state ownership was an axiom that was not questioned either by myself or by those I talked to.

The system of axioms of a social scientist does not usually take shape on the basis of an individual intellectual choice. It can, of course, be imagined that an individual chooses amongst different possible systems of axioms, just as he chooses amongst TV-sets or suits in a store, and then fits into his mind the one which he finds most attractive. It can be imagined, but I do not believe that this is the typical course. The system of axioms is already predetermined by metarational values, which are largely linked to feelings, passions, and prejudices. Those who detest private property do not compare the advantages and disadvantages of public property and private property with an open mind. They only think of how the operation of public property should be organized. Usually a trauma, a shock or some stirring historic experience are needed for an axiom or an entire system of axioms to be suddenly shaken, for the internal taboo to disappear, and for thinking suddenly to become open to rational argument and comparative analysis. The part of the Hungarian intelligentsia which started out with a belief in socialism can be divided into many groups, according to the following criteria: when and under the influence of what experience they suffered such a trauma, how thorough the catharsis was, and which axioms or group of axioms it destroyed. Perception and understanding is selective. It is ready to expel certain impressions and ideas, and the selection is also subordinate to the system of axioms. Starting with the lifting of one or two internal barriers and the expansion of the receptivity of thinking, numerous questions which were considered uninteresting before suddenly become important. Men of science suffer shocks of recognition: all of a sudden they realise how clearly this or that author had seen the essence of the problem twenty or one hundred years earlier.

A comparison of the reform process in the different socialist countries offers important indirect evidence for this argument. It seems that no country ever learned anything important from the experience of another. It is possible that one or the other partial measure is adopted; let us say that in the Soviet Union they copy the bad Hungarian personal income tax. But did the first naive group of Soviet reform economists pay attention to what the second, third, fourth generations of no longer naive but enlightened, disillusioned, sharply critical and radical Hungarian economists disclosed of the failures of the first attempts? No. They start all over again. No matter how many intelligent people there may be among them, the received axioms stop up their ears. The voice of Hungarian social scientists cannot reach them.

The work of social scientists is seriously limited by their inhibitions. These blunt and narrow the influence which a man can have on his colleagues, let alone on the wider public. A bitter recognition, which should at least serve as a sign of caution against immodesty.

Nevertheless, without exaggerated illusions as to possible influence, or exaggerated expectations as to political impact, there is great need for more research in the social sciences. We are taking part in unique and important events in the socialist world; many

kinds of duties await the economist. There is great need for what Americans call monitoring: presenting in detail on the screen of scientific works the events and processes of the immediate past and of the present. This can also provide useful help to active participants in political struggles. Researchers can help to clarify what can be realised in a given situation and what is impossible; what the options are among which we can choose, and what are the expected consequences of alternative political and economic actions. In other words, the researchers, although they do not remove responsibility from the shoulders of those who make the political decisions and who govern the country, can help make sure that their decisions and their governing in general serve the progress of the country. And they can further this aim indirectly as well, through educating, through adding a ferment to intellectual life.

But however many-sided the duties of the scientific researcher may be, his task is always conditioned by the fact that he has to take positive perception and thorough analysis of reality as his point of departure. This lends credibility to his words; this is the particular job that nobody can do in his place. These days everybody is busy preparing programmes and proposals, arguing. It is good that many do so. But I believe that it would be desirable that there should continue to be some whose main activity continues to be research, the honest, the more complete exploration of reality.

