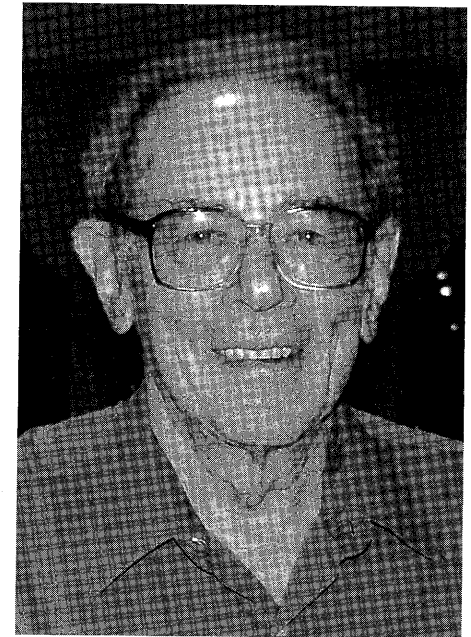


12. János Kornai

This interview took place in Budapest, Hungary on 30 July, 2008



What is your overall reaction to this project?

I was happy to hear about the project and to read parts of the first volume (Colander et al., 2004a) and portions of this one. I welcome your enthusiastic efforts to give an overview of heterodoxy out of mainstream, and to try and structure the ideas. There are certain characteristic elements of your project where I share your views, and we are in complete agreement, some on which I have no view, and then there are other issues where I believe you are leaving out certain aspects of contemporary economics, which I find important. The fact that you don't discuss them can be a sign that you don't find them important. There is little sense in discussing issues where I have no view or those issues where we agree. Thus, I hope we will spend much of the discussion on the disagreements, especially regarding matters you have left out of your presentation.

Where I agree is in your description of the American economics profession. There, I'm both an insider and an outsider. I spent 18 years teaching at Harvard in the United States – from 1986 to 2002. I had taught at Princeton, Stanford and Yale before that. I agree with your description of the self-perpetuating, oligopolistic mechanism that reproduces itself. The world of ideas in American economics is not a monopoly, but there is a very powerful core that does not reflect a fair competition of ideas. So there we are in full agreement.

I agree with you that Europe, instead of enhancing its own history is focusing too much on imitating the American pattern, and is becoming a second United States program. Also, I agree with your view that we need more diversity. Here it is not just agreement, but strong agreement.

What did we leave out?

You are urging all heterodoxies of the world to unite, and then everything from central Europe, from the Soviet Union and the post-Soviet region, and from China, everything east of the former Iron Curtain, is treated as non-existing.

There are hundreds and hundreds of economists, sociologists and political scientists in the Eastern part of the world, including China. They have been thinking about certain problems for decades. There are hundreds of voices, and you do not listen to these voices.

I am afraid referring to language difficulties would not excuse the exclusion. There were remarkable publications in English, written by authors of the ignored region. And there are various books and papers written by Western scholars who specialized in comparative economics, comparative politics, Sovietology, transitology etc., reporting on the discourse in that part of the world. I was surprised by these two volumes. I am meeting here the two authors of an excellent book, *Comparative Economics in a Transforming World Economy* (2004), written by Rosser and Rosser, profoundly studying alternative systems and providing clear analysis of the big issues related to systems. The same persons forget about their own work incorporated in the Rosser and Rosser volume, while editing the present volume

I have almost no disagreement with the other interviews. Nevertheless, I got the impression that we are not on the same wave-length with the subjects of the other interviews. We do not address the same issues. The "excitement" felt by your other partners and by me and my colleagues is caused by quite different puzzles. Your concept of "heterodoxy" or non-mainstream is so unconstrained that it might become an almost empty concept. Like "non-linear" or "non-Muslim". Club of all out-layers? I am not sure that we, economists working in formerly communist countries, fit in well here. You have a dinner of French cuisine, and you serve, just for the sake of larger variety also Chinese dumplings and Hungarian goulash.

In this context let me make a few remarks related to my own contributions. What you left out from your overview of heterodox approaches is my whole life's work (Kornai, 1971, 1980, 1992, 2000, 2007, 2008a). I don't want to give the impression that my concern is out of vanity. The fact that you wanted to talk to me means that you feel some respect for my work. So I am not hunting for your personal respect.

I feel uneasy because you are skipping over what is happening in the

Eastern debates of intellectual life – and that is not compensated by the fact that some people know my name and by the chance to have a conversation with you. Sometimes I feel like Tarzan felt when he was invited to a dinner of British gentlemen in the Tarzan movie. I am coming from the jungle and I know how to use a knife and fork and therefore I am acceptable. It's flattering to be at the dinner, but I am there with mixed feelings.

What came to me as I read through your interviews is how little I know the people you interview, and I suspect, they don't know me or my work. I have obviously met some of them, but it has not involved an ongoing relationship.

We were hoping that you would give voice to those issues. That was one of the motivations for this interview.

I respectfully disagree with that kind of division of labor – I would present the intellectual contributions of our region, while you and your colleagues, the advocates of heterodoxy, did not even try to integrate these contributions into your own thinking, or work hard for the incorporation of these ideas into our common new general approach.

Perhaps the editors and the subjects of the other interviews seem to have a split personality. How is it possible that you absolutely understand the importance of diversity and then miss such an important point? There is a whole way of thinking that is different from mainstream economics in the discourse "East of the Iron Curtain", and you don't recognize it in this volume.

Is the issue that is missing a discussion of systems and what you call the system paradigm?

Let me give you an indirect answer. In Western teaching, it is quite common to discuss a line of thought: Pareto (1896–97), Barone (1908), Lange (1936), Hayek (1940), and debates about socialism around 1930–1940 come up. And then it more or less ends. But the debate continued for 50 or 60 years or more and is still going on! That is not part of the standard discussion on "the debate on socialism".

Let us consider this phenomenon in a wider context. There is an ongoing debate for more than a century on systems. That became an important intellectual tradition, an influential school of thinking. It starts with Marx (1867), then Mises (1920) and Hayek (1944), Schumpeter (1942), Polányi (1944), and the German theorist of the social market economy, Walter Eucken (1940). I would place my own contributions about the socialist system in this intellectual current. The names just mentioned do not share the same political views, but they share a common interest in certain great

puzzles: what are the inherent properties of alternative socio-political-economic systems. My point is that you miss this whole current of heterodoxy. I believe that a serious discussion of this line of thinking about great systems belongs to the broad picture of non-mainstream economics. It's not that the economists just mentioned don't know about the standard ideas, such as the law of supply and demand. It is that they are interested in a different set of questions, namely the great questions of world history. What are the pros and cons of capitalism? What are the pros and cons of socialism? Is there a third way? These are issues, clearly different from the set of questions studied by mainstream economics. You miss the whole line of heterodox thought that focuses on those issues.

One possible response to our leaving it out might be that socialism is essentially dead. We don't necessarily hold that, but it could be a defense for us. The second is that we are indirectly capturing that difference. One of the ideas that has been popping up in our interviews is that in the US there is stronger emphasis on markets and individual decision-making, and in Europe there is more of a focus on the social market economy and group decision-making. This difference shows up in terms of different research approaches that we believe the interviews captured. That difference in research approach captures different views on what society should be.

I find it highly oversimplified to say that the Soviet Union collapsed, and therefore the whole controversy over capitalism versus socialism is not interesting any more. Even if socialism would be dead forever, it would be still interesting because it is part of history. Studying history is important even if it deals with dead systems, dead regimes, dead ideas and dead people. We are the last generation that experienced that debate about socialism.

It is also not true that all socialist countries have disappeared. Cuba and North Korea are still living in a socialist system, and they are causing a lot of headaches in world politics. China still calls itself a communist country. And then think about Latin America! There are countries that are trying to create a new socialism. So I don't think the argument that the intellectual discourse about socialism is passé holds up.

Furthermore, there are issues that are on the agenda all over the world, including developed market economies that show some similarities to the problems experienced during the reform movements in the socialist region. I'm involved with the health sector reform, and I feel quite at home in doing so, given that the health sector is a hybrid form of public and private. The same issues about centralization and decentralization, planning and market, fixed or flexible prices, shortage and surplus, waiting lines and rationing, legal operation, black and grey markets, that concerned us in the socialist era exist today in the health sector. All the big

questions debated in the controversies about market socialism, come up again in the discourse about reforming the health sector in the USA, in Western Europe, Eastern Europe or Russia. So the issues remain; in that sense socialism is not dead.

Let us say that we agree; your charge is reasonable, and we are glad you raised the issues.

There are a number of general issues that I would like to talk about that relate to your project. One is interdisciplinary issues, a second is mathematics, a third is publication of semi-finished products, and the last is the underlying philosophy of economics, which is one of the central problems of orthodox economics.

Let us ask first about your discussion of publication of semi-finished work. What are your views here?

Arriving at an understanding of something is a mental process that typically goes through various stages. A simplified understanding of the issue would involve first seeing a problem, and recognizing it. Then you come to a tentative answer expressed not precisely, but vaguely, and then you sharpen your understanding. Finally, you might arrive at a precise answer to the problem. I enjoy the first parts of understanding most, and I leave to others to do the last stage. I have the strongest admiration for those who do the first. The first one is the most important. Almost all important discoveries of social science start in a non-precise form, and then become more exact and precise.

What is the key to creativity?

There is psychology and there is social setting involved. I think it involves curiosity and open-mindedness – a skeptical attitude that you put question marks to a sentence where others put a full stop. It involves looking at problems that have been considered by many others with a fresh eye. Of course you need an intellectual talent, but many with intellectual talent are not necessarily original. Your first attempts at finding an answer are often vague, but you understand that there is an interesting problem there. Maybe your answer is wrong, but you understand that it is important.

Keynes wouldn't be able to publish anything today. He would at best be able to have an obscure blog on the internet. All respectable journals would reject his work.

I don't want a uniform rule. Some journals may have highly polished papers. But we do not get sufficient guidance for reading due to the almost infinite supply of working papers. There is just too much there on the internet. I think what we need are 10 or so distinguished and respectable

journals, each with a different criterion of acceptance: relevance and originality, instead of refinement and polish. These editors should not rely mechanically on referee reports, and they should avoid conditional acceptances. So, I would like to see editors helping me to find pathbreaking new ideas, half-finished but relevant thoughts in these kinds of journals. Keynes was an editor of the *Economic Journal* for a while. We need more journals like they used to have – where the editor takes full responsibility, even with mistakes.

There is also another aspect calling for new journals and new editorial principles. We need journals that will publish serious interdisciplinary social science papers.

What role do you think environment plays?

I think the present situation in American economics is really problematic in this regard. If you have an interesting idea, but are not able to write it down in an absolutely precise mathematical model, or you are not able to formulate it as a testable hypothesis that can be tested by economic analysis. But if you work on a problem that is basically already solved, and you make a little twist on that, that includes the latest mathematics, then you do well. However, it is not really contributing a lot to knowledge. This is especially hard in social science, where much of theory is not subject to experiments.

What is your view of the rise of experimental economics?

It helps in solving certain problems, but not in solving other problems. Let me demonstrate my reservation with the issues we are discussing here. You cannot experiment with reforms very easily, and the policy is not repeatable, as the nearly tragic situation with the Hungarian health reform shows (Kornai, 2008b.) At the real system level you cannot do experiments.

I am worried by the world-wide tendency to suggest uniform prescriptions for the whole world. Quite a few reform-minded policy-makers want to decentralize in a centralized way, introduce by fiat market-oriented reforms. They tell people – you must use the market. It's a market economy created by command – you instruct people to act like market individuals.

Let reforms develop from the bottom up. Reforms should be tried at provincial and local levels when possible. This way a country, and at a higher level, the whole world is serving as a laboratory for experiments. We are able to do serious comparative studies, analyzing the advantages and disadvantages of a large set of different changes in various countries, regions, municipalities. The study of real-life mutations can lead to more reliable conclusions than artificial experiments in an artificial environment.

To sum up: I have respect for experimental economics if it is limited to what it can truly shed light on. But, unfortunately, that isn't always the most important set of problems.

What objections do you have to modern economics?

I disagree with those who say that economists have the unconditional obligation of specifying the preferences of an agent. This framework of so-called microfoundations is regarded as an undisputable condition of any work to be taken seriously. I would be more tolerant. If the researcher is able to say something about the decision-makers' preferences, that's fine. But I would not impose this approach on every researcher; I would not prescribe it as a mandatory component of every piece of theoretical work. One can say a meaningful scientific proposition simply by analyzing impact and reaction. If I know the relationship between impact and reaction, I can say meaningful things, without having to know what the driving force of the micro agent is. When I look at the core axioms of orthodoxy, I find that here is where I disagree. It seems that any time you do not say what the goal of the agent is, your analysis is considered ad hoc, and cannot be taken seriously. Mathematically that leads to various optimization techniques, which is fine, but optimization is not an absolute requirement of economic science. In each social science it might be sufficient to know that there is a repetitive pattern. What this means is that you don't need the so-called microfoundations to do good science for example in macroeconomics. The question is whether the model is convincing, fits real experience well and leads to workable conclusions, and now whether it has microfoundations.

The issue is not only relevant for macro; it is also relevant for micro. For example, in my book with Béla Martos on *Non-Price Control* (Kornai and Martos, 1981) we tried to do that. All one needs is response functions. In the paper published in *Econometrica* (Kornai and Martos, 1973) and later on in our book we used differential and difference equations to describe the motion of economic systems. The system relied on non-price signals like change of inventories or change of the backlog of orders. Our models lead to interesting conclusions in spite of the fact that they did not specify the preferences or objectives of the decision-makers.

One of the worst properties of much standard analysis is the assumption that the governments have a maximand. Governments are very complicated institutions. Apart from rhetoric they do not maximize anything. Politics is full of mutually conflicting, inconsistent goals, and therefore full of hesitation, vacillation, ups and downs. Creating a consistent government objective function makes the model alien to real political decision-making and therefore almost irrelevant.

What's your view of mathematics in economics?

I am a great fan of using mathematics. It has an extremely important place in all kinds of thinking. But I find it highly damaging to make the use of mathematics mandatory in writing a serious respectable paper. There are certain issues that can be handled by mathematics and there are certain issues that cannot. There is some positive correlation between relevance and inapplicability of mathematics. The more difficult the question, the less it can be mathematized. I'm not talking about rigor. One can be rigorous in prose. Rigor is to a large extent a question of the precision and clarity of definitions, as well as the precision and transparency of the argumentation. You can have a mathematical model with all the precise proofs of theorems and it can be absolutely sloppy because the fundamental concepts are not well defined. I am for more rigor, but I see rigor differently than some other members of our profession. I see rigor mainly as the crystal-clear understanding of the problem and the fundamental concepts. I seriously object to the monopoly or close-to-monopoly of mathematics as a tool of scientific analysis that seems to exist in the economics profession.

Some economists in Western Europe seem to be pushing a relatively narrow view of what is going on in American economics. An idea in our earlier book was that some of the leading US economists at the highest levels of the mainstream, such as Kenneth Arrow, are much more open than many Western European economists seem to think and that in parts of Western Europe they are following a much more narrow-minded version of economic orthodoxy. What is the situation for Eastern Europe? Is it following the narrow version, or a more open version?

Unfortunately, I see the first as being the case. In order to survive in the world-wide profession, several colleagues here in this region think they have to do that. They are even more servile than Western Europeans. However, I should also say that I am not in a position to have a reliable overview. I haven't reviewed all the Eastern European literature or studied what is going on in teaching. I have bits and pieces of information. I am regarded as a bit of an outsider here as well as in Western Europe and in the United States, even though many in Eastern Europe regard me as their teacher.

For Eastern Europe, my impression is that there are two clusters of economists, where I define an economist as someone who is teaching in an economics department. I will talk about two clusters, and there are, of course, individuals outside of these clusters.

One group includes middle-aged and older economists who started their career under the communist era and now they are either retrained formally

or self-restrained. They like to study easier subjects. They find institutionalism highly attractive. For a former Marxist, that is easier to learn. In any case, they didn't arrive at heterodoxy after a long struggle with theory the way someone like Duncan Foley (1982) or Steven Marglin (1974) did, but instead they went directly to institutionalism. Karl Polanyi is popular with many in this group, especially here in Hungary.

The other group is typically younger, and the dominant core of this group has received their PhD in the United States and is well trained in current mainstream economics. Some of them are very good and they move back and forth between their home country and the rest of the world. They are interchangeable with United States economists. They are not interested in anything special for this part of the world. They are interested in publishing papers in leading journals, because they want to become respectable members of the profession. They are what you call global economists. They work on problems that the tools can handle – small problems.

There are power struggles between these two groups about positions and money, and I am not a real fan of either one. The second group regards the first group as uncivilized, uneducated, dilettantish, and amateurish, publishing what they consider to be grotesque. But what gets lost by the younger group is any thinking about specific issues that we face.

In your most recent books, you stress the value of an interdisciplinary approach (Kornai, 2008a). You complained about "guest star" economists who came in and didn't know anything about the local conditions, but made advice anyway. Does this seem to be the same problem with the new group?

I should start by repeating that I only have a small sample. But from this small sample, my sense is that they don't worry about big issues – they worry about finding a small problem that they can model, which will lead to a publishable article.

Much of the public debate nowadays in Eastern Europe is uncivilized and uneducated. It is filled with empty political slogans. Our profession isn't trained for these debates. Economists get no training in how to relate economics to ethics, philosophy, psychology, or sociology, which are very important aspects of policy. A young economist trained in the United States learns from his teachers: if one says about a problem that it is an ethical issue, then here is the end of the task of the economist, and he is not obliged to say anything else. "The ethical aspect of a problem is not our business; it should be left to philosophers or priests." I think that is just a cheap excuse. It is the economist's task at least to clarify the ethical implication of the positive findings and especially of the prescription and policy recommendations. This is the minimum, and even that requires

some training in moral reasoning. In addition, I like the economists who are ready to reveal their own values and link their recommendations to a clearly stated value system. But that is an addition which I would not necessarily require from everybody.

To do policy, you need a much broader training than economists get. Everything that you say in this volume about complexity is relevant from that point of view.

Do you believe that transdisciplinary education can be achieved through educational reform, or through greater cooperation of already trained specialists? Did the older group have the luxury of a broader education?

I don't want to suggest a uniform recipe for that. I don't mind if certain economists are only economists in a narrow sense. But others need at least one course in philosophy and ethics, and another course in sociology or political science or both during their graduate studies, to allow them to work intelligently with other social scientists. This would include economists who would be involved in policy issues. If the economists read on their own, they don't need the courses. Marx, Hayek and Schumpeter all read broadly, and went far beyond economics. Broad education is needed for young people who intend to enter politics, or decision-making at a higher level.

I would also like to see academic cooperation between disciplines. An institute like ours is an excellent place for that. That is one of the roles for our Institute for Advanced Study. I had a focus group here on the problem of honesty and trust. We had economists, political scientists, sociologists, historians and lawyers. It was quite interesting.

Earlier you said that there was a difference between Eastern European economists and Chinese economists? How do Chinese economists differ from other economists?

There are more Western-trained Chinese economists than Western-trained Eastern Europeans. There is a difference, however. Some of these Chinese economists are thinking about really fundamental issues, whereas I don't see that with Western-trained Eastern European economists. They are thinking specifically about what makes China different from the West and from the rest of the Communist world. They think about history and culture.

These Chinese economists are closer to my idea of a general social scientist than are Western-trained Eastern European economists (Kornai and Qian, 2008). This makes their work more interesting to me than much of what I read of the younger economists here in Eastern Europe. Chinese economists are making some original contributions. I'm not arguing that it is an either-or. As in the past in Eastern Europe, the Chinese economists face the

problem of self-censorship, as certain topics are forbidden to discuss openly, particularly in Chinese language publications. There are different life strategies which are morally acceptable according to my own value system. If you want to be a dissident and risk your individual freedom, that is highly respectable. But I can fully understand also people who are keeping silent about certain issues regarded as political taboos by the political leadership and are active in another area of the public good. I have special respect for those who are really reconsidering the basic issues of economics.

Some consider Chinese reforms to have been influenced by your work.

Better to ask Chinese colleagues about that. What is factually certainly true: *Economics of Shortage* (Kornai, 1980) sold over 100 000 copies in China. I am amazed how many people in China have told me they were influenced by the book. Some have told me that they were my students, including even policy-makers at the central and local level.

Doesn't the Chinese path of reforms go against your view that a Third Way is not stable over time (Kornai, 1990; 1992)?

There is no system that is neither capitalism nor socialism. The hybrid form prevailing in China can find a place in the large box that I call capitalism. Capitalism is a very large box, with many variations that are different in various countries and change over time. I see it as a system with a dominance of private property, but not necessarily exclusively with private property. In China, the system evolved gradually. It wasn't structured after any economist's paper, and they have not worried about workers' management or cooperatives or the other sorts of things that Third Way advocates in Europe have often focused on. The emergence of private property started in agriculture. The agricultural reform was not followed by spectacular campaigns of privatization. They just gave the green light to the entry of private entrepreneurs, small and medium-sized business. This way the private sector increased rapidly. And then there were also certain very special forms of creating private business entities. One of these forms was the creation of town and village enterprises. At the beginning they were officially called collective companies, communal property. But in fact it was jointly owned by the community of the town and village which received part of the revenues, by the management and perhaps the employees of the firm, and also by the local mayor and the party secretary. It happened quite a few times that the mayor of a town simply took over the local firm, and he was very motivated to make it work. There is a large diversity in the form of sharing of profits and ultimately in the sharing of real (not nominal but real) ownership.

If you apply strict Western legal and moral standards, a large part of

the Chinese ownership arrangements could be regarded as corruption. The mayor or the party apparatchik gets a part of the profit! I find this type of legalized corruption a way of weakening the resistance of the former cadre of leaders. If you don't want civil war between supporters of capitalism and opponents of capitalism, you must allow the clever members of the ruling elite to become interested in the change in the system. Therefore it is a good idea to allow a Chinese general and mayor to get something out of that. It may be morally disgusting, but it is probably necessary to oil the process of change. Maybe it is more a matter of having a second best rather than a third way.

In your memoirs (Kornai, 2007), which are very interesting, you describe how you came from a sophisticated and cultured Jewish family. Many in your family died during the Nazi rule. How did you personally escape?

I was 16 when the Nazis invaded. Half a million people were murdered in a few weeks, including my father, who before Hitler took power had worked as a lawyer for German companies and did not think he would be victimized. I was in Budapest, where there were not mass deportations, although I served for a few weeks in a slave labor camp, and then escaped. I describe my story in more detail in my memoirs. It was the fortunate result of the coincidence of luck, risk-taking and right instincts on my part (I was 16 at the time!), and benevolence of some people who helped me, particularly a group of Jesuits in Budapest.

In the 1950s you were a supporter of orthodox Stalinist views. Was this in some way a reaction against Nazism?

Certainly, it was one of the components as I saw Stalin as saving Hungary from the Nazis, but I don't think that was the only cause. There were other factors. I was attracted by Marxism as a universal answer to everything. I was non-religious, and was looking for a *Weltanschauung*. Marxism offers that. Another factor was that I was opposed to the pre-war economic system which had kept masses of people in deep poverty. Finally, I liked being part of a collective, belonging to a group, and the Communist Youth Movement provided that, with many intelligent people belonging to it. Later I became much more individualistic. But after the war, I was looking to be part of a broader movement.

You rose rapidly as a journalist, which was aided by your excellent knowledge of German. Was that an important part of your initial training in economics? Has that affected your views?

Yes, I think that the practical views I got as a journalist helped me understand how a communist system actually works. I learned to get

information by talking to people. This has implications for methodology. Economics cannot be only a science of analyzing data. Economists must talk to people. It's not the same as doing a survey, but it is important to actually talk to the people in the field you are studying, with workers and managers in firms about how they actually make decisions. I learned a lot as a reporter, but my interpretation of what I learned was wrong. Later on I put on quite a different interpretation, much like the change that happens in an Escher painting that shows one thing when looked at a certain way and something else when looked at another, as seen on the cover of Rosser and Rosser (2004).

I was privileged during that period to attend meetings of the economics committee of the ruling Politburo, which was led by the Number Two figure in the government. I saw him make important decisions in a strong way and much admired him for that. However, later I would come to be disturbed at how he did this without consulting with others, without gaining input from people affected by these decisions.

How did you come to move away from your orthodox Stalinist views?

I was not moved by rational argument. I was aware of the rational arguments against it but did not react to these arguments. My change came from the emotional and ethical side. A former colleague of mine, an enthusiastic Communist, told me how he was cruelly tortured to make false confessions by another enthusiastic Communist, whom I knew, and who was a nice person, not a sadist or anything, because it was ordered by the party. Then I finally began to understand that cruelty, torture, prosecution and punishment of innocent people was a systemic problem, not due to the personal characteristics of the people running the system.

I had thought of dissidents as enemies of the people, but when I realized that people were making forced false confessions, were lying, then I realized that everything else we were told could be lies. The whole edifice of my convictions, beliefs and norms was destroyed. Then I began to read with an open mind, and I started to see things in a different way. It took two or three years, but over those years I changed. The Hungarian Revolution of 1956 also contributed to my inner urge to go along this road of change.

How did you move from a journalist to an economist?

In 1955 a group of journalists, including me, were fired from our job by the Politburo because we organized a rebellious meeting attacking the communist leadership. When I was removed from journalism for political reasons, I was made a research assistant at half the pay in the Institute of Economics of the Hungarian Academy of Sciences. Eventually I became

a full-time junior research fellow, and started to write my PhD thesis on overcentralization. It was not a normative book; it was a positive book on how a communist system works. I used tables and data. My main source was conversations with medium-level technocrats, the so-called "red executives".

We got closer to the day of the Revolution. The official defense of my thesis became a public event, almost a mass rally, seen as part of the revolutionary movement, with my advocacy of decentralization. A few weeks later, at the very first day of the Revolution I was commissioned by the new revolutionary government to elaborate specific economic policy proposals. The idea was that my proposals would be included in the speech of the Prime Minister when he was going to present his program to Parliament. I started to do the job, worked very hard for several days, but then I felt I was not able to prepare a meaningful, well-elaborated, consistent program for the revolutionary regime. It was heart-breaking, but I just did not feel capable of finishing the job, and gave it up.

After the Revolution was overthrown by the Soviet invasion, the same director of the Economics Institute, who praised me before the Revolution, publicly condemned me as a traitor of socialism and Marxism, and I was fired from the academy. Nevertheless the book was published first in Hungarian in 1957 and later in English by Oxford University Press (Kornai, 1959). So while I got condemned in Hungary, I got high praise in the English and American press. Because of the accusations against my book, my connections with certain illegal conspiracies, and also because I was one of the organizers of a movement aiding the families of arrested dissidents, I was harassed by the Hungarian KGB. Some of my friends were killed, or sentenced to long prison terms, some emigrated, while others would join the new regime.

Why didn't you leave Hungary?

Because I am Hungarian.

*In 1963, you were recalled to the Academy, and you were allowed to go to the West. What was your reaction to the West, and what led you to write *Anti-Equilibrium* (Kornai, 1971)?*

I enjoyed the consumer society. Beside the pleasures it presented for me also intellectual problems. It suggested that the communist system was failing in important ways. The inspiration for *Anti-Equilibrium* came from my comparing the two systems. For example, I was thinking about the following questions. What are the components of the system that can be changed? Can you introduce the market, while maintaining public

ownership and the political structure? Can you maintain planning and have markets?

In reading Western textbooks, such as the famous one by Paul Samuelson (1961), I found that they didn't have a good understanding of communism. They didn't answer my questions.

I then read Debreu's *Theory of Value* (1959) about general equilibrium theory. I admired his use of mathematics, but found that I wasn't satisfied with the questions he was asking, such as his focus on welfare theorems. Even the western discussions of the socialist calculation debate were too Walrasian, such as the arguments of Oskar Lange. This dissatisfaction led to *Anti-Equilibrium*, especially after I consulted with my old co-author on mathematical topics, Tamás Lipták. After having gotten divorced from my first love, Marxism, it was much easier to divorce from the second love, neoclassical orthodoxy.

*Would you say that *Anti-Equilibrium* was a forerunner of later complexity ideas?*

I think it might be. But that is not for me to say. Since you are pushing me, I will try to be honest. I think it was a forerunner of complexity economics because it emphatically raised the question that prices are not the only signal that matters. It was also a forerunner of challenging standard utility theory, ideas advocated by Kahneman and Tversky (1982) that have become behavioral economics, problems about information and rationality in the economy. It was a forerunner of many things – maybe too many things. Although it was praised by Kenneth Arrow and Tjalling Koopmans and I guess some graduate students read it at that time, I think the work has been almost completely forgotten now.

*How did you come to your most famous idea of the soft budget constraint, which receives a clear statement in your 1980 book, *The Economics of Shortage*?*

The core of the idea came up much earlier, particularly in a paper in Hungarian on profit-sharing in some firms (Kornai, 1958). This early paper described the phenomenon of profit-motivated public firms asking for compensation of losses due to unforeseen external conditions. I also discussed the paternalistic relation between state and firm, comparing it to the relationship between father and son. The son is wasting money, getting in financial trouble, and then the father must help him out. The son is expecting the father's helping hand, and that motivates him in irresponsible spending.

However, I didn't use the name 'soft budget constraint' in my early work. I used it in a lecture course on socialist systems presented at Stockholm University in 1975 for the first time. The term was very important to help

people get to understand the idea. If I were writing a 'how to do' book for American economists on how to succeed as an academic economist, I would say that you should coin a term that is close to one learned in introductory economics.

Self-irony aside, I am happy that the concept and the theory of the soft budget constraint became widely known. And I am less happy, because the impact of the soft budget constraint syndrome is still not sufficiently recognized. There are many economists who are ready to admit that the soft budget constraint is a characteristic trouble in socialist economies, and during the post-socialist transition. I believe the issue is more general. There are many intermediate and hybrid forms in the world economy with these problems. Regular market economies, which never went through a socialist phase, are full of soft budget constraint phenomena (Kornai et al., 2003). Bailouts of banks and other firms in Western market capitalist economies are clear examples.

When the transition came, you wrote a book, The Road to a Free Economy (Kornai, 1990). In your most recent book, From Socialism to Capitalism (Kornai, 2008a), you stated that some of your views in that earlier book were not correct. How have your views changed?

I didn't expect the big recession associated with the transformation. I was far too optimistic about how easy the transition would be. To a certain degree, I now see that it was inevitable, but had we expected it, some of the changes could have been more cautious. We moved too quickly in some issues. The Chinese seem to be learning from our mistakes. They are being much more cautious, privatizing gradually to avoid allowing an institutional vacuum to appear.

Did not your advice help in Hungary, especially with regard to hardening the budget constraint?

This may be, as has been reported in some sources (Rosser and Rosser, 2004). We did insist on payment for privatization of state-owned enterprises and a firm foundation for our banking system (Kornai, 1993). However, it was also somewhat easier for Hungary, given our long period of a more market-oriented and decentralized system during the socialist period. But we could not avoid all the problems that the other countries in Eastern and Central Europe experienced.

What do you see as the future of economics over the next 25 years?

My premonition is that it will become part of an integrative social science. Economics has moved far beyond the narrow confines of economics.

Unfortunately, I don't see much encouragement of originality. We

need to encourage new movements in the way that happens in the art world, with new exhibitions and new galleries, new outlets. We need new associations and new journals with strong editors that can provide these new outlets and new publicity in order to achieve this broader and more integrated social science.

*Dedicated to Peter Albin, Don Lavoie, and Larry Moss –
economists who will be missed.*

European Economics at a Crossroads

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