Contents

Preface xiii

1 My Family and Youth—1928-1944 1

My father 1

My family 5

The Imperial German School 8

Seeking an intellectual path 9

1944: The fate of my father 12

1944: My escape 14

2 How I Became a Communist—1945–1947 23

Grades of identification 23

Reaction to the trauma of 1944 25

Intellectual conversion and acceptance of Communist political ideas 29

Charismatic personalities 34

Belonging to a community 36

Chance influences and my own capabilities 37

3 On a Communist Newspaper—1947–1955 41

Onward and upward 41

Motivations 44

Life in the newspaper office 47

My perceptions of the economy 49

Intellectual emptiness 52

A moral reckoning 54

4 Waking Up—1953–1955 57

The "New Course" 57

A meeting with an ex-prisoner 59

Clarifying discussions and readings 61

My first show of "insubordination" 64

Reviewing writings by Imre Nagy 65

Rebellion at Szabad Nép 67

The end of my period at Szabad Nép 68

5 The Beginning of a Research Career—1955–October 23, 1956 71

Over centralization

The background 71

Intellectual impulses 73

Breaking with Marxian political economy 78

I begin my research 82

The main conclusions in my dissertation 86

The initial reception of the book 92

Political background 94

6 Revolution and After—October 23, 1956–1959 99

The new government program of Imre Nagy 99

Magyar Szabadság—A new newspaper 103

Troubled days, troubled years 105

Overcentralization continues its career 107

Dismissed from the institute 110

At large, but under threat of imprisonment 113

Friendship and solidarity 120

7 My Universities—1957–1959 123

Self-instruction 123

The Lange–Hayek debate 125

Continued research into light industry 127

Dissociation 128

A blind alley 130

Decisions for a lifetime 132

8 The Economic Application of Mathematical Methods—1957–1968 135 *Two-Level Planning*

Making the acquaintance of Tamás Lipták 135

A mathematical investigation of profit sharing 137

Programming of the textile industry 140

Two-level planning 142

An idealized model of central planning 144

Programming the national economy: Some initial principles 147

The computations 150

Was it worth it? 152

Cooperating with mathematicians 157

9 Traveling to the West—1963 Onward 159

Previous events 159

Cambridge, England 160

At the London School of Economics 162

The same, through the eyes of spies and informers 163

General remarks on my travels and publications abroad 169

A blighted attempt at a "fabricated trial" 172

10 Against the Current—1967–1970 177

Anti-Equilibrium

The antecedents of the book 177

What prompted me to write the book 179

Some thought-provoking similarities 181

What can and cannot be expected from general theory 182

Rational decision makers 185

Non-price indicators 188

Equilibrium and buyers' and sellers' markets 188

The interpretation of the general equilibrium theory from the political point of view 190

Reform or revolution in science 191

Initial reception and influence in the longer term 192

Worth writing? 195

Some subjective closing comments 196

11 Institute, University, and Academy—1967 Onward 199

The economics supremo 199

As if nothing had happened 200

Trust and tolerance 202

An aborted reform of the institute 206

Banned, but teaching nonetheless 209

How I became an academician 211

The privileges of an academician 214

12 Pathfinding and Preparation—1971–1976 217

Rush versus Harmonic Growth

Non-Price Control

Growth: Forced or harmonious 217

An invitation to Cambridge 219

In a cast to the waist—Keynes and Hirschman 220

Teaching at Princeton 222

Continuation in Stanford and Washington 224

Autonomous control 226

Creaking machinery of adaptation 231

Building a new home 233

Market-oriented reform, through the eyes of Maoists in Calcutta 234

13 Pieces Falling into Place—1971–1980 237

Economics of Shortage

Inspiring surroundings 237

The message of the book 240

Self-censorship 242

Publishers' referees 244

First impressions 246

A dispute with the "disequilibrium" school 247

A dispute with an orthodox Russian economist 250

Helping to erode the system 250

The political and ethical dilemmas of publication again 253

14 A Breakthrough—1979 Onward 257

The Soft Budget Constraint

The meaning and significance of the concept 257

The antecedents 259

Empirical confirmation 262 Mathematical modeling of the phenomenon 263 The story behind the first summarizing article 265 Some lessons from the incident 267

15 Amicable, Dispassionate Criticism—1968–1989 273

The Hungarian Reform Process: Visions, Hopes, and Reality

Half-fulfilled, half-blighted hopes 273

From a naive reformer to a critical analyst 275

"Instead of saying what should be done . . ." 280

Efficiency and socialist ethics 282

The importance of property rights 284

The Lange model and the reality of Hungarian reform 286

A detour: Another piece of Hungarian reality 287

Looking back with today's eyes 288

16 Harvard—1984–2002 291

A Princeton institution 291

How Harvard appoints its professors 294

Moving to Cambridge 299

The joys and cares of teaching 302

Diversity and tolerance 304

Ethical rigor 305

17 At Home in Hungary and in the World—1985 Onward 309

What tied me to Hungary 309

Comparisons: Life in Cambridge and in Budapest 312

A center of world culture 314

Friends 315

Among the economists of Europe and the world 320

A visit to China 322

Feeling at home 325

18 Synthesis—1988–1993 329

The Socialist System

How the book was written 329

An intention to synthesize 332

Positive analysis and values 334

General models 335

Too late or too early? 338

Recognition from East and West 339

Rejection from right and left 340

A bizarre episode 341

19 Turning Point—1989–1992 343

The Road to a Free Economy

The bounds of prediction 343

Resolutions in the park of Harvard's Business School and on Budapest's Gellért Hill 345

How The Road to a Free Economy was written 347

Initial reactions 348

An end to simulation 350

For the healthy development of the private sector 352

Responsibility for public funds 355

Surgery for stabilization 356

On balance 358

20 On the Boundaries between Science and Politics—1990 Onward 363

Highway and Byways

Struggle and Hope

Welfare, Choice, and Solidarity in Transition

Positions on Hungary's macroeconomic policies 364

Reform of the health system 368

Do they ask you? Do they heed you? 371

The actual effect 375

Monetary policy making 377

Comments on transformation in other countries 379

21 Continuation—1990 Onward 381

What the Change of System Does and Does Not Mean

Honesty and Trust

Interpreting the change of system 381

Expectations and frustrations, optimism and pessimism 383

Collegium Budapest 388

A splendid intermezzo: My seventieth birthday 390

Harvard: Teaching and farewell 392

Back at home 397

"What are you working on?" 399

Endnotes 401

Chronology 413

Glossary 419

References 431

Index 449