Janos Kornai's Odyssey to the Never, Never Land

DEENA KHATKHATE

REVIEW ARTICLE

By Force of Thought: Irregular Memoirs of an Intellectual Journey by Janos Kornai (*Cambridge Mass, US: The MIT Press), 2006; Price not stated.*

The allurement and mesmeric appeal of the pristine Marxist-Leninist doctrine and socialistic vision of society have been perennial among the people across all continents ever since the Bolshevik revolution and its later spread to eastern and central Europe. As one among the idealistic youths of India in the 1940s, I wrote on the sly by way of irregular memoirs about the mental churnings of the young that "they were smoking away their thoughts in a spiral of circles on historical dialectics, democratic centralism, the Stalin-Trotsky thesis and antithesis on world revolution, the decadent national bourgeoisie, and, as the final denouement, the raging controversy about whether the Bolshevik revolution was a permanent revolution or a false alarm. Being an enslaved and poor nation, the distance of Russia lent charm and richness to our miserable existence. We dreamt that one day Russia, Lenin's Russia, which had made a reality of Marx's utopia, his flight of fancy would take many a hapless poor to that kingdom in heaven" (Khatkhate 1992). But then Soviet Russia and its satellites in the eastern and central Europe melted like an iceberg; China under Deng Xiaoping ushered in "capitalism with Chinese characteristics" after the tyrannical regime of Mao which kept the Indian youth under its magic spell for a while.

The Indian leftist intellectuals, however, remained frozen in a time warp, not giving up their fantasies but they have not been alone. They are all Jean-Paul Sartre's progeny who took "the Soviet Union as an article of faith, the only country where the word progress has any meaning" and after Stalin's mass killings told his credulous followers that "A revolutionary regime must rid itself of certain threatening individuals; I see no way of doing this other than death".

However, after the communist empire became history by 1990, one would have expected a painful soul-searching among the apologists who prided themselves as rational beings about the Soviet system and its founding principles derived from Marxism and Leninism. It is easy to understand the psychology of the communist politicians who find it difficult to give up their lifelong missions, unless there are amongst them contrarian thinkers like Arthur Koestler, George Orwell, or M N Roy. But one is simply flummoxed when intellectuals who are supposed to live by their wits refuse to question their beliefs when the facts before them speak otherwise. There have been two types of reflective reactions from this class. The first is exemplified by Eric Hobsbawm, a long-standing communist historian, and Meghnad Desai, a distinguished economist of leftist persuasion at least until the 1980s. Both of them saw Marx in his new incarnation rather than the need to reprise the Marxian doctrine. Hobsbawm (2006) argued that

> First, the end of the official Marxism of the USSR has liberated Marx from the public identification with Leninism in theory and with the Leninist regimes in practice. The people have begun to notice once again that there are things in Marx that are really quite interesting; second, that the globalised capitalist world that emerged in the 1990s was in some ways uncannily like the world Marx predicted in 1948 in the Communist Manifesto. This became clear in the public reaction to the 150th anniversary of that Manifesto. …Paradoxically it was the capitalists who rediscovered Marx more than others.

Desai's interpretation is not far different from that of Hobsbawm as he explained in his book, *Marx's Revenge* (2002) that Marx shone light on the virtuous side of capitalism, which either his followers misunderstood or passed their comprehension, leading them to pursue policies such as dictatorship of the proletariat, erosion of price-determining markets and competing production units. Yet, Hobsbawm and others of his ilk did not ask whether or not the institutions built and centralisation of decision-making were the legacy of the Marxist superstructure of social transformation. Such attempts in defence of Marxism are a futile exercise to resurrect the core of Marxism from the detritus of the collapsed communist system.

The second wall of defence is erected against the intellectual assaults on the socialist system even when it has been evaporating by its internal contradictions. In India there is Prabhat P Patnaik, who, undaunted by the decline and fall of the communist empire, still argues that

> The social system that transcendence of capitalism must bring about in other words can only be socialism, not necessarily in the form it had taken in the past (or that is taking today in China) but not too far perhaps from the form which Lenin had originally visualised at the time of the Revolution, when he had set great store by the "schmytekka" or the worker-peasant alliance, as forming the bedrock of socialism…Today the choice that is emerging before mankind is between mass hunger, destitution and starvation on the one side and the alternative of socialism" (Patnaik 2008).

He asserts without adducing any empirical evidence – and ignoring the lessons of history of the Soviet fall – that the non-socialist capitalist system has outlived its usefulness and needs to be replaced.

Patnaik's fellow-thinkers are not far behind. Amit Bhaduri (2006) writes: "The ideological dimensions of the competing systems of capitalism and socialism were rooted in economics. The socialist system appeared capable of providing employment through deliberate state policies." Yet another diehard believer in socialism calls the present economic liberalisation regime in India a "frenzy", while not disputing that "nations with market-friendly policies do seem to have fared much better on many economic indicators rather than nations with socialistic orientation, especially growth rates" (Nachane 2008).

This sort of tilting at windmills is not confined only to the learned economists; it has an outreach to the general Indian intelligentsia who, having been disillusioned with the socialist state based on pure centralisation and economic power as in Soviet Russia, China, eastern and central Europe, now turn to "the pluralistic experiments in socialism in Cuba, Venezuela, Bolivia" as a consummation to be desired (Banerjee 2007). Perhaps these intellectuals who, despite the undisputable evidence about the unworkability of the communist system, continued to stick stubbornly to their malfunctioning guns would have benefited if they had imbibed the sagacious thoughts of one amongst them, D D Kosambi who said that "Marxism is not a substitute for thinking" (Thapar 2008).

This rather long prolegomenon to the review of Janos Kornai's book is not so much to instigate a controversy as to rivet on the fact that most of the academic intellectuals, experts in their own domain, offered their critique of socialism from a distance – away from the lived experience in a socialist regime and therefore they adhered steadfastly to their preconceived notions about the socialist system and their long-held ideological predilections. Janos Kornai is not one of them. Starting his career in journalism early in life, he was ideologically drawn to Marxism and the system based on its first principles. He learned on the job, became a fanatic follower of the communist doctrine, practised it in low and high positions, internalised the problems, and sought a solution.

In the process, he studied economics in its social, political and ethical dimensions. Even when certain policies in the socialist regime failed, he thought of other alternatives to make it succeed. Finally, when nothing could work as visualised by the doctrine of Marxism-Leninism, he turned to the scientific study of why the socialist system could not live up to its vision and formulated some general propositions which were then embodied in his most lauded economic research. His strictures on the socialist systems, therefore, are more credible and empirically validated unlike the fancy generalisations by the academics wedded to socialist dogma, based on hair of a dog kind of arguments which has no relationship with "the Witches' kitchen of policymaking" (in Kornai's words) in a socialist system, leading eventually to its doom.

Kornai's book is an excursion in memoirs and yet it is vastly different from the spate of memoirs written by famous and not so famous economists and other social scientists. It is strictly an intellectual autobiography, depicting how his thought processes were transformed, as he started his adult life in varied professions, political activism with a communist brand name and agonised self-doubt. At first, many problems in implementing policies arose from philosophical Marxism but largely from mimesis of the Russian model. When certain difficulties were encountered in strictly following the socialist canons, they were initially brushed aside as the temporary hiccups unavoidable in translating philosophical vision into a practical reality, but when difficulties persisted in even greater severity, Kornai began to wonder whether they were not after all systemic failures, endogenous to the system. It was this intellectual struggle that dominated his personal, political and professional life.

Kornai calls his memoirs also as "Irregular" which is not merely a semantic expression used casually but reflects that he is not telling just a story of his life but "analysing the problem, and its circumstances and in the process comments "on some aspects of sociology, political philosophy, ethics, the process of research and creation, the sociology of science, or various other subjects". His memoirs thus take on a character of being regularly irregular, each aspect of them standing alone and detached, transcending his persona to convey a profound message.

Like all intellectuals, Kornai arranged his accumulated experience and observations and converted them into axioms with their underlying causal relationship. But the important difference in Kornai's case – and this is necessary to bear in mind because it led him to question the communist system's foundation – is that his axioms were created by meta-rational factors such as "belief, prejudices, aspirations, desires and moral judgments". These meta-rational factors, as Kornai puts it, act "as doorkeepers who decide which door should be kept open to an idea and which closed". In the early years of his youth, when he was drawn to the communist ideology and social mores, he noticed that he was insulated from the ability to decide which door to an idea should be opened and which closed. This was because of cognitive dissonance – a psychological concept which compels one to shut out all doubts about one's experiences when they challenge one's beliefs. Kornai was initially a captive of cognitive dissonance but as he got more involved in the issues, policies and fundamental principles of the communist system, his mind revolted, and he saw clearly the dysfunctional nature of the society he lived in, which proved the hollowness of those principles. This prompted him not only to oppose the system but come out with an alternative explanation about why the system was not working. Cogitation on these issues resulted in Kornai's innovative out of box thinking which aimed at showing why the communist system would never deliver either democracy or growth or even distributive justice. This is all reflected richly in his seminal work, *Economics of Shortage, Overcentralisation in Economic Administration* and also in "The Soft Budget Constraint".

The premise with which Kornai starts to analyse his experiences during his tryst with the Hungarian socialist system is that the type of economy the Soviets initiated and was followed in a copy-cat fashion later by eastern and central Europe and, finally, by China and Vietnam was strongly entrenched in the central ideas of Marx, which were subsequently adapted or even bastardised by Lenin, Stalin and Mao. This was a vital reasoning particularly because there has been a common tendency among some socialist intellectuals to exonerate Marx from the intellectual responsibility for what happened on the ground in the socialist countries. The same apologies are offered for Lenin to distinguish him from Stalin and Mao. Kornai convincingly argues that elimination of property, market and their replacement with public property and bureaucratic coordination, which was a euphemism for centralisation – all emanated from Marx and were faithfully translated into action by Lenin. If the

socialist societies crumbled or later slithered into market socialism as in the case of China and Vietnam, Yugoslavia and Hungary before they shook off the yoke of formal socialism in the 1980s to avoid the total breakdown, Marxism-Leninism should be held fully accountable for it.

Kornai then proceeds to analyse the anatomy of the failure of the socialist model of economy and this was a more vital move in his long and painful intellectual journey. To impart clarity and precision and also not to particularise the history of each country where the socialist system prevailed, he traces, to quote him, "the course of the system by dividing it into three identifiable phases. First was the transition from capitalism to mature socialism which was marked by collectivisation of agriculture and the first great trial of 1936-38, leading to the elimination of all political opposition. This phase lasted for 20 years in Russia but was telescoped in other socialist countries because of the Soviet occupation". The second stage called "classical socialism which began with great trials, executions, imprisonment and mass deportation thereby eliminating" democracy from the democratic centralisation "paraded by these countries for many years. The third stage, according to Kornai, displayed "various directions and lines of reform within the socialist system". But there was no uniformity in the pattern among different socialist countries. "Yugoslavia experimented with self-management; and then in Hungary, and later in other socialist countries, the idea was to introduce a market mechanism while retaining the communist monopoly of power and predominance of state ownership".

Kornai, as a highly self-critical intellect, asked himself why is it then that the socialism with all its charismatic appeal failed to deliver the summum-bonum its advocates and founding fathers promised. His initial thinking on the dystopia of the system led him to formulate his thesis on "Rush Versus Harmonic Growth", derived from Hungary where "heavy industry was rushing ahead to make its growth as high as possible", though it had some flavour of the experiences in other socialist countries. The rush was being undertaken even at the expense of living standards, maintenance of national assets such as building, machinery, equipment, education, system, etc (Does this not sound familiar to Indians who lived during the 1960s and 1970s?). His experience in Hungary brought him face to face with the controversy in economics on unbalanced growth initiated by Albert Hirschman and Paul Streeten whose argument was that it helped developing countries to "have bottlenecks, shortages, and conditions of disequilibrium as these urged a slothful society towards restoring proportionality and equilibrium". Kornai's sensibilities on these issues led him to plead for harmonic growth and to challenge the belief that the centralised planning is a substitute for markets.

Kornai was constantly assailed by the problematics of how the imbalances could be removed or shortages surmounted. Intuitively, he concluded that the production units in the socialist systems were getting wrong price signals so that demand and supply could rarely be matched. During this phase, Kornai had applied himself to the serious study of economics. In course of this and at the prodding of Gyorgy Peter, a Hungarian economist, he read a classic paper of a well-known Polish economist, Oskar Lange, in which he visualised a "virtual market" where prices are set by a central planning authority. If demand for the product exceeds supply, its price is raised and vice versa if the supply exceeds demand. It is more a trial and error method to arrive at equilibrium prices. Kornai was fascinated by Lange's insights – a subtle recognition of Walrasian trial and error methodology – but he was not seduced by it. His experience in Hungary convinced him that the importance attached to the "quantity signals" sent by the production units to the central planning authority in Lange's model is no substitute for "the price signals" in the real markets (see also Marglin 2008). The lesson he learned from Lange's work was that a market was indispensable to the efficient running of the economy and the welfare of the community, contrary to the Marxian holy script. From then on, he moved to construct his own theoretical schema to explain the failure of the socialist system.

The first step he took together with another Hungarian economist, Tomas Liptak, was to model the markets that would operate under capitalism and socialism – the latter approximated to what was happening in Hungary. His conclusions startled him. Under capitalism based on free enterprise and private ownership

> there is a connection between information and incentive – under socialism, on the other hand, the scattered information has to be supplied willy-nilly to the center, like the grain from the collective farm – capitalism receives an enormous boost from its combination of decentralized information and decentralized incentives and this blend is absent from socialism.

The next phase in Kornai's intellectual journey was to dissect central planning to its bones to observe its consequences. In his work called *Overcentralisation*, he discusses what it leads to in practice. He calls it "plan bargaining" which is alternatively described as the "ratchet effect". If an enterprise overfills its plan target in lure of a higher bonus, that higher level of output automatically is built in the next plan. This has a perverse consequence as the enterprise has an incentive to hold back its target or exaggerate difficulties in attaining the target. The centralised decision-making also overemphasises "today" against "tomorrow" as Kornai puts it. This relegates the longer-term task of innovations in regard to techniques of production as well as new products. Kornai therefore concludes that these inefficiencies are entrenched in the system and cannot be eliminated without overturning the whole social system.

The third milestone in his intellectual journey is his formulation of the soft budget concept. From his close involvement in the Hungarian economy, he found how access to resources by a firm to the central planning body leads to inefficiency in production and losses, which he calls the soft budget constraint. The inspiration for this he derived from the Greek economist, Andreas Papandreou, who became for a while prime minister of Greece in the 1970s. In his monograph *Paternalistic Capitalism*, Papandreou argues that "A paternalistic society treats its members as minors, almost as infants. It does not expect them to look after themselves and considers it natural that

they should await remedies from above for all their woes". Kornai saw a close parallelism between the paternalist society and a socialist system inasmuch as the enterprises are guided, and parented with financial goodies and disciplined when needed.

The prevalence of a soft budget constraint in socialist economies does the most serious damage to the socialist economies. As Kornai succinctly puts it,

> Even if prices are reasonable, firms will not be sensitive enough to the signals from prices, costs and profits. A hard budget constraint automatically metes severe punishment to firms that are uncompetitive and post losses. The soft budget constraint on the other hand gives them immunity from punishment and tolerates inefficiency. This situation disposes producers to place orders irresponsibly; for, if bills cannot be paid, they will be picked by the body that bails the producers out.

Those who are familiar with how socialist systems all over have a chronic tendency to inflate their investment plans which eventually resulted in their collapse would see the significance of Kornai's soft budget constraint concept. The beauty of this concept is that it is a commonsense maxim that every household displays in managing its expenditure and forms the backbone of microeconomics that we learnt from classical and neoclassical economics. But what is commonsense becomes uncommonsense under socialism.

Kornai's other major contribution is the economics of shortage, which is an analytical generalisation of his "every day life in socialist Hungary". Initially, he struggled to reconcile the shortages with his idealistic vision of socialism. Only when he reached an intellectual cul-de-sac that he challenged the fundamentals of the socialist order. He wrote his book on economics of shortage while on an extended stay made possible by noted Swedish economist professor Assar Lindbeck at the International Economic Studies Institute in Stockholm. He needed "peace and quiet – distance from bitter conflicts, petty struggles, exasperations and tussles of life at home". He believed that unlike his other works in economics *Economics of Shortage* was the work of a mature, professional economist. Briefly, "the shortage economics shows extensive, chronic, intense shortages all through the economy. This is not an isolated temporary phenomenon away from equilibrium between demand and supply but a permanent deviation from the Walrasian equilibrium". His analysis focuses on the consumers who are forced to buy something other than they intend to, and cope with incomplete and intermittent deliveries of materials, finished products and components, coupled with labour shortages. Such shortages immunise the producers from any worries of lower prices of products, leading to technological stagnation.

Writing a book in rigidly censored socialist Hungary was not an easy task but fortunately, the timing of the book release coincided with a relatively soft phase of socialist regime under Kadar. The publisher had to get Kornai's book referred to see if it was politically correct, by some one either belonging to the communist party or closer to it ideologically. On gentle hints, Kornai's highly respected economist friend, Andras Brody, endorsed it risking a political backlash. The other was, Lajos Faluvegi, a finance minister and a committed reformer. But his endorsement was a stalking horse as it was drafted by Kornai himself because the finance minister's assistant to whom the drafting of the endorsement was assigned had no clue as to what the book was all about. This was fortunate; otherwise, the book would not have been published or it would have been circulated as a samizdat without the academic acclaim it received on publication.

Kornai's intellectual journey thus ended in his achieving great fame as an economist who diagnosed the pathology of the communist state in a dispassionate and scientific manner without the bitterness of his torment by the communist nomenklatura. However, his insights and experiences would not have been placed in a rational frame of theory, if he were not in the intellectually stimulating environment of western universities like Harvard, Cambridge (UK), Institute of International Studies, Stockholm, etc. For instance, in the United States "the scholars he met were professional, more committed to work, and less liable to loaf and chat on the job. They were a lot more up to date on technical developments". And yet,

Kornai finally decided to return to his homeland, without succumbing to the allurement of a prestigious life tenure at Harvard with all its post-retirement benefits. This was not merely a sentimental decision; it was his strongly-held belief that the mainsprings of his scholarly output were basically rooted in Hungary and its socialist praxis, and for that reason his theoretical contributions superceded in importance similar studies in the west. "What gave my work special authenticity was that everything", he intones, "from my first work to my last article was written by someone who had himself seen and experienced what went on – I have based it on Hungary as an example". Also because he saw Hungarian economy moving from capitalism to socialism and again transiting back to capitalism, his work carried greater weight and credibility than those of the economists in the non-socialist world.

Kornai's comments on the Hungarian leftists' u-turn in the face of rising woes of Hungarian socialism are both interesting and perceptive. The New Left that emerged there "built up fantasies on a socialist utopia and turned in disgust from the socialism that actually appeared. At the same time, many members of the intelligentsia before the changes of the system built up a distorted picture of the 'west' and its democracy and market economy. Faced with capitalism, they were aghast as they compared it not with realistic expectations but with their own imagined utopia". How one wishes that the leftists in India who are disillusioned with the distortions in the communist regimes and their final collapse had taken a more realistic view of communism and capitalism in India and elsewhere. They would have then noticed communism and capitalism in the correct perspective.

Kornai visited India, China and Vietnam with curiosity about India's experiment in planning with leftist characteristics and about the experiences of the latter two in running a communist system similar to Hungary's. He gave lectures in Calcutta on the Hungarian reform and dilemmas faced in course of implementing it. It was surprising that his audience, living as it did under the communist government in Bengal, was highly agitated by Kornai's thoughts on the socialist transition to capitalism and looked back in anger at him for his shifting socialism towards a market economy. Kornai writes somewhat in sarcasm but more in amusement that they (i e, his Calcutta audience) would rather battle with shortages of the socialist system through rationing than resort to the anarchy of the market. Kornai then concludes that the rationing system that spreads misery equally may assuage feelings of injustice for a while but a lasting solution to shortages lies in reforming production and not distribution. Perhaps, he thought that the reactions of the Calcutta intellectuals could have been different if the disastrous consequences of "the Great Leap Forward" movement in China had been known to them at the time of his visit, i e, 1975.

In significant contrast to his visit to India, his discourse in 2001 and 2005 with the Chinese and Vietnamese intellectuals was enthralling and more of a "give and take" variety and without any preconceived ideas. This was because Kornai and those he interacted with shared a common experience of living in communist regimes, were disillusioned with communism and desperately sought a path to get out of the morass. The discussions were frank, open and the Chinese and Vietnamese counterparts bonded with Kornai, which could not have happened with the western or Indian economists.

Kornai mentions in this context a very amusing episode about Joan Robinson who in her old age became an ardent and partisan Maoist. Kornai happened to meet her at Nicholas Kaldor's home (Kornai was Kaldor's distant cousin) in Cambridge where they were discussing the Hungarian experience. Suddenly Joan Robinson said to Kaldor and other guests present in a voice of command that "Kornai is coming with me" and drew him out with her to her house nearby. "She went to great length to persuade me", Kornai says, quoting Robinson, word for word "that China had found the real road to communism, because the functionaries of the party served the people voluntarily and not for mercenary motives as in the Soviet Union. She would not listen to any counter-arguments or hear about my experiences in eastern Europe" (p 161, footnote). The most amusing aspect of this is that the same Joan Robinson in her lectures delivered in China praised China for introducing markets to make its economy work! (Gibson 2005).

Kornai's memoirs, as argued earlier, are not personal though his narrative moves around his personality and his interactions with other players in the Hungarian society, who together participated in first transforming it into a socialist system and then reforming it when it hit the rock. Both as an active participant in this and as a bystander with detachment reflecting on the nature of the momentous changes and their consequences, Kornai, by sheer force of thought came up with an alternative model to explain the breakdown of communism both as a philosophy and a living system. The fascination for socialism, Kornai attributes to "the real truth that Karl Marx had accustomed those dissatisfied with capitalism to bad algorithm of thinking". Kornai for all his devastating criticism of Marxism-communism maintained his balance and perspective regarding his idea of capitalism. He recognised the "detrimental and morally nasty features of capitalism". But for want of any better alternative, one could not but live with it, which invokes the famous Winston Churchill's quip that "Democracy is the worst form of government except for all the others". In sum, Kornai has given us an exemplary classic of the economist as a participant-observer genre.

Email: dkhatkhate@aol.com

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