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Review of: János Kornai, *By Force of Thought: Irregular Memoirs of an Intellectual Journey*. Cambridge (Mass.): The MIT Press, 2007

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János Kornai, *By Force of Thought: Irregular Memoirs of an Intellectual Journey*. Cambridge (Mass.): The MIT Press, 2007.

By Force of Thought is the somewhat emphatically and rather incongruously titled intellectual and personal biography of János Kornai. Its main interest lies in the candid and detailed account of the intellectual environment of a Central European country of real socialism such as Hungary, from the Stalinist after-war years to the progressively more relaxed, but still constraining, atmosphere of the sixties and later. This forms the background of the subjective evolution of Kornai, from complete adherence to the regime in the early years as a young communist intellectual, to the disillusionment toward the mid fifties, and to the eventual construction of a *modus vivendi*, avoiding the extreme choices of complicity or open opposition, where the latter would have implied the choice between suffering the consequences of repression or moving into “external” emigration. Kornai’s choice after the repression of the 1956 “counterrevolution” was instead of avoiding any involvement with the political choices of the period, and somewhat dissimulating his internal antiregime and anti-marxist persuasions, amounting, one would say, to a sort of “internal” emigration (which was made possible, notwithstanding his sensitive profession as an economist, by the more moderate characteristics of the communist regime in Hungary, making the country “the most cheerful barrack of the camp”, as the popular saying would go at the time¹). Of specific interest for the economist is Kornai’s inside testimony of the actual functioning of a “real” socialist planned economy, and of the political processes related to it. This comes first from his activity as an orthodox economic journalist, then as an industrial researcher, and finally as the leader of a giant research project aiming to the elaboration of advanced mathematical methods of socialist planning, giving him, out of his daily contacts with the actual planning machinery and its leaders, an insider’s view of how planning worked in practice.² In the intellectual side of the autobiography Kornai retraces the research process that, starting from his practical acquaintance with the functioning and the intrinsic flaws of socialist planning, leads first to the critical appraisal of *Overcentralization in Economic Administration* (the title of his first important book, launching him in the Hungarian and international economic arena), and then to an almost life-long research project into the mathematical theory of socialist planning. What is peculiar of his very successful research project (granting him the greatest prizes an economist can dream of, short of a Nobel prize, involving first class international recognition, up to a Harvard professorship) is that, notwithstanding the important theoretical contributions that arose from it (such as the Kornai-Liptak decomposition, or the theory of the shortage economy) in the end it led, as the author admits, to no recognizable practical contribution towards an effective improvement of actual planning methods.³ The fundamental reasons why it was so lies on the one hand in the incentive structure of political players, but on the other, and more fundamentally, in the many constraints (informational, organizational, temporal) of the practical planning process, allowing at most to formulate some kind of more or less plausible plan, without much scope for real coherence or optimality.⁴ It must be said in this respect that the same considerations apply as a whole to the mathematical theory of economic planning that was fashionable in the sixties and in the seventies (such as

¹ Cf. p. 290.

² Cf. p. 157.

³ Cf. pp. 152-157. After a giant five years project directed by him on perfecting central planning in Hungary, he arrived to the firm conviction that “socialist planning, however modern the techniques tried, would never be able to fulfil the hopes socialists placed in it” (p. 156).

⁴ As Kornai puts it “Our computations came too late. It was easier to just look at the figures and rely on a practical eye to guess at the balances in the plan than to calculate them with a rigorous system of equations” (p. 156).

summarized for instance in Heal's 1973 advanced textbook), dealing with some interesting theoretical issues, but fundamentally sterile in its concrete implications. So Kornai's practical contribution is basically the clarification of some intrinsic tendencies in the operation of socialist planning, and specifically of its inherent intrinsic flaws, rather than the constructive one to show how socialist planning could be improved and made reasonably efficient. At the same time some of the themes that were the objects of his research, and to which Kornai was able to write important contributions, such as the theory of two-level planning, the economics of shortage, or the economics of the soft budget constraints, are of general theoretical interest, quite independently of the specific context of the Soviet-type economy. However, some concrete practical impact on the organization of the Hungarian socialist economy, not on improving planning, but rather towards abolishing planning, Kornai did have, as the original analysis of *Overcentralization* and the co-authorship of a reform proposal towards the introduction of market socialism in the Summer 1956 were forming, according to his narrative, and most plausibly in fact, the intellectual background which led to the 1968 New Economic Mechanism (p. 94). By then however Kornai was estranged from the idea that a socialist economy, even in a decentralized and market-oriented form, could represent a suitable alternative to a western-type capitalist economy. His viewpoint (which he could not express openly as long as the communist political system was alive) had become that "if you want a market system, you will have to want private ownership as well."⁵ As to the concrete Hungarian application of market socialism, Kornai's criticism refers in particular to the "soft budget constraint" and the "bureaucratic redistribution of profits" making managers' careers (and motivations) dependent "far more on their connections to higher authorities than on their market successes" (p. 274). At the start Kornai's rejection of communism was mainly political: a revulsion against the repressive and dictatorial aspects of the political system, and the bloody suppression of the '56 revolution. After '56 he "never expected an economy controlled by the Communist Party to be compatible with respect for individual freedom and human rights" (p. 276). On the other hand his aloofness, and wholesale ethical condemnation of those involved with the post-56 regime, seem to this reviewer a little bit too far-fetched. His attitude does not take into considerations the international political constraints in the framework of which Kadar and the Hungarian leadership were acting at the time. After all Kadar's regime was perhaps the most liberal (or least repressive) of the Soviet camp, pushing to the limits of the "invisible walls" which existed, not only for intellectuals such as Kornai⁶ or for the common citizen, but also, and even more so, for the leadership as its basic political decisions were concerned. In Czechoslovakia Dubcek tried to push the limits somewhat further, believing the "invisible walls" to be wider, and the tragedy of the August '68 invasion was the outcome. The issue of how to adapt to these types of outside constraints, and whether the right choice is to adapt in order to minimize damages or to resist, is a general one that cannot be dismissed too easily, irrespective of the specificities of the situations. After all Kadar was no simple Quisling. As to Kornai's criticism of the economic aspects of the regime after '68, his contention that "in an economy in which public ownership predominated, the market could not play the main role in coordinating economic processes" and that "only a capitalist economy could operate a *genuine* ... market economy" seems to me a bit too far-fetched. Objectionable can be also the one that "the more human the face, the less capable of operating the system becomes" (p. 334); after all it does not seem that the

⁵ P. 285. The basic reason being "Hayek's line of argument" that "knowledge is necessarily decentralized. If it is to be used fully and efficiently, those in possession of the information must be able to use it ... for their own benefit. Decentralized information must be coupled with free enterprise and private ownership" (p. 156). At the same time, while "socialism lacks the spontaneous force of competition", "competition in capitalism provides an impetus that pushes producers into continuous technical renewal" (p. 182).

⁶ On Kornai's perceived "invisible walls" see p. 243.

more human face of Hungarian market socialism and political system after '68 led to worse economic performances than during the harsh Stalinist rule or that the overall performance Hungarian economy (especially considering the ability to satisfy customers' preferences) turned out to be worse than that of the more orthodox countries of the camp. Indeed, the contrary appears to be true. Moreover, the tendency towards public or publicly controlled enterprises to operate under soft budget constraints may not be inevitable. One is left with the intellectual curiosity to know how a socialist market economy would perform in the framework of a democratic political system, and with the enforcement of hard budget constraints to the same extent as they are imposed to private enterprises in capitalist market economies. After all we have ample historical examples of capitalist market economies, run by populist governments, prey, in their behaviour towards economic actors, to the soft budget constraint syndrome, leading to widespread inefficiencies, high inflation, unbalanced external accounts, and ultimate economic disaster, and we are not justified in interpreting any single case as an inevitable outcome of the capitalist market economy, rather than of specific policies. But once, with 1989, the communist dogmas against liberal democracy and the market were over, there could be no compelling reason left not to dispense with the Marxist dogma against hiring labour for private entrepreneurial gain (which had otherwise already been amply attenuated before, leading to the development of a sector of small private firms), and not to proceed instead to the wholesale reintroduction of the institutions of a capitalist economy. Thus, probably we will never know.

A further interesting aspect of Kornai's tome is his picture of the academic economic profession in the West seen with the eyes of an outsider turned insider, a kind of truly anthropological work. Of special present relevance are the pages dealing with the role of mathematics. First Kornai turns to mathematics, and starts his fruitful collaboration with Liptak, not only in order to clarify some theoretical issues he was struggling with (such as the economic consequences of alternative formulation of the profit indicators, the possibility of decomposition in two levels of the planning process), but also in order to "do economic research that matched the standards of the period" and to become an economist of world academic relevance. His project turned out as completely successful, but at a certain moment he has a kind of shock: his seminal paper on soft budget constraints is rejected by the *American Economic Review* (it was published eventually in a less important economic journal, *Kyklos*, and since its publication has been widely quoted). The paper had in fact an irremediable flaw, hindering its acceptance by a major economic journal with double-blind refereeing: there was no mathematics. To this episode he contrasts the courage and wider perspective of Sonnenschein, the editor of *Econometrica*, who accepted for publication his 1978 presidential address on "Resource-Constrained versus Demand-Constrained Systems", even if the address was purely verbal, no mathematics were involved (p. 269). But the comparison is misplaced. First presidential addresses are different, it is quite common for high-brow journals to publish presidential addresses (unlike other kinds of papers) that are entirely verbal. Secondly, in the *American Economic Review* case the refereeing process was double-blind, while in the case of the *Econometrica* presidential address Kornai had passed the "mathematical test" before, and was accepted as a relevant member of the theoretical economics profession, allowing him to be appointed president of the Econometric Society. Whatever he had to say in his presidential address was worth publishing, and a decision to reject the publication would have appeared as a grave inconsistency with respect to the previous one of the presidential appointment. As Kornai aptly remarks (p. 271) "primarily in economics but increasing in other social sciences, mathematical methods are seen as giving 'respectability' to a contribution. Though the idea could be conveyed more simply in everyday language, it is wiser to present it in a more complicated way, using mathematical formulas." A more controversial aspect relates to the "impatience with which selection is made among half-formulated new ideas" which prevents their publication in more

respectable journals. The author considers this issue to be often entwined with that of the “prejudices that exist against a nonformalized, verbal style of presentation.” The above seems to me objectionable on two grounds. First, half-baked new ideas and works in progress could take the form, rather than of articles in “respectable” journals, of working papers that nowadays can be very widely spread (even more, one suspects, than the definitive articles in respectable, but payable, journals) through Internet repositories with ample and gratuitous possibilities of access, both by authors and by readers, such as repec (www.repec.org) or ssrn (www.ssrn.com). This opportunity allows also some remedy to the tendency that Kornai rightly laments, towards conformism rather than genuine innovation and research contributions, which plagues modern academic economics. Secondly there is no need to associate the “verbal style of presentation” with sloppy thinking. Rigorous and relevant reasoning does not necessarily require mathematics, and vice versa, the use of mathematics does not necessarily imply rigorous and relevant reasoning. Variables could be ill defined and non-operational, flaws could be hidden in complicated formal arguments that only a small minority of dedicated and competent readers could be able and willing to crack, the logical structure of the argument could be so hidden in the mathematics that one could wonder what trick really brings the rabbit out of the hat... Moreover one should also consider the law of minimum means: if something is clear and understandable in plain words, what is the need to use more complicated and less understandable instruments... Moreover there is still another alternative “respectable” option that Kornai’s criticism does not consider. If a novel and very important idea is simple and quite understandable, only nobody thought of it before, and it could be conveyed economically in a short verbal paper, perhaps only half a printed page (such as, say, in the case of Hirschman’s basic idea of Exit vs. Voice), it can be taken seriously, as it was in Hirschman’s case, even if no mathematics are used, if it is expanded in a “long-winded and woolly book”⁷. So in the end Kornai is basically right, but in his anthropological excursus on the economic profession he forgets the roles performed by the working papers option or by the “long-winded and woolly” books. In the final part of his career Kornai was mainly concerned with transition, but here his relative relevance may have been somewhat diminished by the multitude of prominent economists rushing to deal with the issue (and in the process cash in advice money), and by the much greater openness of transitional Hungary (as well as of the other transitional countries) in comparison to the much greater closeness of the countries belonging to the socialist camp, thus reducing the importance of the enlightened internal witness. His basic suggestions in his November 1989 book entitled in the Hungarian version *Passionate Pamphlet in the Cause of Economic Transition*, and *The Road to a Free Economy* in the 1990 English edition, seem rather reasonable, and vindicated by successive events: to stabilize and liberalize the economy and free prices first, and to gradually privatize in a remunerative way later. And in fact Hungary, unlike other transitional economies, did not go along with the elaborate follies of speedy voucher privatization, while the revenues of a more gradual, remunerative, “regular” privatization process helped to pay for the huge foreign debt (but not huge enough, unlike the Polish case, to justify default or remission) that the previous regime had left over to the its successor.

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⁷ This is the opinion, which Kornai refers disapprovingly (p. 269), voiced by some “mediocre mathematical economist” on Hirschman’s book *Exit, Voice, Loyalty* (1970).

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