

SECTION IV: BOOK REVIEWS

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János Kornai: From Socialism to Capitalism. Eight Essays. Central European University Press, Budapest – New York, 2008. XVI+240 pp.

Kornai's newest book is, at the same time, different from and similar to his previous publications. It is different, because it does not address just one specific issue of socio-economic development but makes an overarching attempt at evaluating almost two decades of economic transformation. It is similar to and truly following his decades-long addiction to and professional mission for understanding key issues of transformation. In consequence, he decided to put together eight articles written on different aspects of transformation at different times. Despite the apparent diversity of topics and the time gap among the individual contributions, the book reads itself as a unique and comprehensive assessment of the history of two decades of transformation.

The author's basic attitude to economic problems, well-known from his life-long professional activities can be easily identified in each of the essays. He does not deal with short-term (daily) economic issues but still addresses processes that do affect our economic framework and challenge our acquired knowledge both in the short and the medium or longer term context. Kornai remains true to himself when he does not offer concrete recommendations but develops powerful arguments for and against concrete decisions and tries to influence both decision-makers and the public opinion. Based on his broad experience with successes, failures and still open issues of transformation, his approach is characterized by regional comparison. Evidently, Hungarian lessons and questions cannot be avoided, but they are closely integrated into a more general context spreading not only across the European transforming countries but reaching out to non-European countries with or (as of today) mainly without transformation (China and Vietnam on the one hand and Cuba on the other).

Although well-known of his capacity to explain economic processes by clear and understandable mathematical formula, Kornai keeps away in this

book from models. Not only because mathematical models used to present a static situation that can hardly provide us with the ability to understand the dynamic feature of transformation. More importantly, being the socio-economic transformation of the last two decades a multi-dimensional and multi-temporal process (economic, political, social, mentality-related developments regularly have different timeframes to be fully developed), it cannot be described by any mathematical approach.

In fact, interdisciplinarity is a very strong factor of the analysis in each essay. This is a feature still not very common in transformation-related literature. Kornai makes reference to empirical studies that revealed that almost 90 per cent of carefully selected economic literature dealing with transformation did not take note of the results of related social sciences in the same field (e.g. political, social, legal, institutional, historical, psychological aspects of transformation). The situation is not better if the same investigation is carried out from the point of view of any other discipline. Therefore, and with full justification, he argues in favour of a higher and different quality of responsibility of research in all areas of social science by integrating the results of outstanding representatives of other fields into their analytical work.

The series of essays start with a study taken from the book „The Socialist System”, written on the very eve of transformation (1992). It deals with the different fundamentals from which the hurdlesome and painful journey from socialism to capitalism had to start (classical socialism versus reform socialism, at least in Central and Eastern European comparison). In historical context, the classical socialist system proved to be able to create a cohesive structure and gain the support of certain part of the society. However, it was unable to solve its inner contradictions, let alone the problems arising from competition from capitalism.

Reform socialism, as implemented in some Central Eastern European countries (mainly in Hungary, but some elements of changing the functioning of classical socialism also in other countries under Soviet domination over decades) may have offered answers to some inherent and growing conflicts but had, at the same time, created its own inner contradictions. This is the subject of the second essay („The Inner Contradictions of Reform Socialism”), based on a lecture at a round-table conference organized by the Soviet Academy of Sciences in Moscow, in

1989, before countries opted for (or were just forced by history to) choosing the unchartered path from socialism to capitalism. „Reforms” meant some steps towards liberalization in the political sphere, some decentralization in the state-owned sector and some room for private economic activities. Still, the fundamental attributes of a socialist system (unshared political power of the Communist Party, dominant role of the state-owned sector and the control of centralized bureaucracy over limited private activities) remained unchanged. Experience proved that there is a possibility of coexistence between widespread economic reforms and one-party political system (Essay Three is dedicated to the „socialist market economy” of China.). Also, more private activities may coexist with bureaucratic coordination. However, the relative weights are important, and shifts towards more influence of the private sector may reach a „point of no return”.

In this context, two basic questions can be raised. First: is it better to jump from the classic system of socialism to the „classic system” of capitalism, without contradictory processes, loss of time and energy, that are inherent in the transitional character of gradualism (contrasting with the „shock therapy”)? Second: is there a „third way” of socio-economic development to be chosen freely between socialism and capitalism? Kornai is clearly arguing against any mixed form and underlines the key importance of genuine private sector development in the process of transition.

In more detail, essay No. 4. embarks on the speed of transformation, with already one decade of practical experience behind the system-changing countries (keynote address to the Annual Bank Conference on Development Economics convened by the World Bank in Washington, 2000). Kornai’s analysis focuses on ownership reform by comparing two basic strategies of private sector development. The first is called the „strategy of organic development” characterized by creating favourable conditions for „bottom-up” development of the private sector, by market-conform selling of state-owned companies (i.e. selling them to „real” owners) and by the general hardening of budget constraints on companies.

The second strategy emphasized accelerated privatization containing the elimination of state ownership as fast as possible, give-away (voucher-type) privatization technique and no preference to future owners. Kornai is convinced that the right strategy has been the first one, since, among other things, the genuine way towards sustainable development (and

international competitiveness - A. I.) is deeply rooted in the bottom-up and organic development and not in apparent and statistical successes of how much of the economy could be „privatized” in the shortest possible time. As Kornai puts it: „...the emphasis has to be placed on consolidation and stability, and at the same time, on sustainability of growth, not on breaking records with it” (p. 80).

In the last two decades, the question of speed has several times been revisited by historical developments from socialism to capitalism. National preparation (and cross-country competition) for EU membership as well as the introduction of the Euro as the common currency are just two recent examples. Not less importantly, even on a one-country level, the process of transformation is far from being homogeneous in time. Some stages of the same process are gradual, but, at a certain point, a radical (accelerating) decision has to be taken (see the very much market-conform bankruptcy law of Hungary in 1992-1993 that can partly be made responsible for the very high proportion of active population outside the official labour market). Moreover, different areas of transformation used to reveal different speeds of genuine development.

No question that genuine (bottom-up) development of the private sector is a key factor of (sustainable) success. However, the private sector in the transition economies had to start its genuine development under conditions different from those that surrounded the century-long private sector development of the industrialized world. On the one hand, the former did not have either the tradition or, certainly, the time to strengthen their activities starting from one-person undertaking over family-based business to small- and medium-size firms. Second, and probably more importantly, this genuine development had to be embedded into the conditions of economic liberalization and global competition. Thus, promising companies could not get even a temporary umbrella of protection (e.g. by protecting the national market for their development) in critical stages of their growth. Practically from the very beginning, they were exposed to the harsh winds of global competition, both on external markets and on the liberalized (opened-up) domestic market as well.

The next essay, based on the Presidential Address delivered to the 14th World Congress of the International Economics Association in Morocco, 2005) undertakes an unprecedented task of measuring fifteen years of

transformation in the historical context (in fact, a very rare approach by economists dealing with current issues of transformation). Not only experience gathered in one and a half decades, but also growing disappointment with the outcome of transformation has justified such an approach. Despite all mistakes and new contradictions, Kornai's view is clear. He does not accept the simple balance-sheet approach of summing up the successes and the failures and, if the first turns out to be more important, the balance should be considered positive. Instead, he has two accounts that should not be merged. „On one account, I gladly acknowledge great success on a level of world history... On the other account, I have the list of good and bad experiences in everyday life: much joy and much pain. ...events in this region can be considered simultaneously as a success in terms of global historical significance and at the same time in many important aspects a process associated with trouble and suffering...” (pp. 119-120).

In addition, he underlines that transformation is not over. Different countries are at different stages of transformation, and the process cannot be limited to Europe. Beside a special study on China, already mentioned, another essay of the book dwells on Cuba (Essay No. 7). Not less importantly, beyond some common features, each transformation is different. Therefore, experience of the transforming countries has to be studied in a comparative way.

Essay 6 has been provoked by the Hungarian political developments in October 2006. In these critical days, Kornai, never a politician and always having stressed his distance from politics, could not resist the temptation of raising his personal and powerful voice of conscience and responsibility. Few scholars have the talent and moral standards to differentiate between the wood and the trees in times of difficult and volatile developments. Kornai certainly does when he recalls „the fundamental facts of the change of system – and how the capitalist economy and parliamentary democracy came about” (p. 147). He strongly objects to dismiss the results of many years of transformation and feels necessary to „defend ourselves from ... irresponsible attacks in order to formulate a more balanced way of thinking” (p. 147).

The last study is considered to summarize the main features of transformation under the overarching title of „system paradigm” (based on a lecture held in Berlin, 1998). Here, for several reasons, Kornai abandons

the concept of „transformation paradigm”. First, he considers vital to look at the whole system not just to some of its elements. Second, system paradigm means an interdisciplinary approach in order to identify the interaction among different spheres of the functioning of a society. Third, the system paradigm approach focuses on „more permanent institutions within which these events (economic, political, cultural – added by A.I.) and processes occur... Special attention must be paid to the distinction between institutions which emerged historically, in the course of an evolutionary process, and other institutions which are ad hoc constructions of a bureaucratic decision.” (p. 191). Fourth, system paradigm has to take into account the historical elements of development and create a linkage between various disciplines of social science and history. Fifth, the basic approach is not static but dynamic, asking and searching for the way how transition from one system to another system occurs. Sixth, such an analysis can convincingly reveal the basic features (strong and weak points) of a given system, by acknowledging that no system is perfect. Seventh, system paradigm approach is based on comparing different attributes of a system with the same ones of another system and identify similarities and differences. Finally, it can be added that in our globalized environment, the system paradigm approach has to heavily rely on external conditions that regularly affect the functioning of a given system.

This last remark seems to be extremely timely at the beginning of an unprecedented, deep and lasting economic recession, with uncalculable social and, even more dangerously, ideological consequences – not only in the transformed/transforming countries but in the strongholds of capitalism as well. The real test of transformation will be carried out by these developments in the next years. Kornai’s book and his many other publications will be a highly useful point of orientation in the stormy period ahead of all of us.

The book does not only enrich readers with deep and multi-dimensional analysis of transformation from socialism to capitalism. Not less importantly, it communicates intellectual honesty, tolerance to other views, theoretical research with fundamental policy-oriented recommendations, professional and individual moral responsibility, openness to new challenges and, if necessary (in fact, in few cases only) the courage to self-criticism.

Still, considering the current (and expected) global and European developments (both risks, dangers, threats on the one side, and new ways of development, chances and revival **within** capitalism, on the other side) I would stress Kornai's continuous struggle against mental backwardness and massive mental contamination that might be strengthened by rapidly spreading populism and demagoguery in all countries of Europe. We will definitely need clear arguments, balanced but decisive views, historical knowledge and moral courage in order to successfully resist toxic and poisonous ideas. His book is a powerful instrument in this struggle.