

Masahiko Aoki

(Henri and Tomoye Takahashi Professor Emeritus of Japanese Studies, Economics Department, and Senior Fellow, Stanford Institute of Economic Policy Research and Freeman Spogli Institute for International Studies, Stanford University, Director of the Virtual Center for Advanced Studies in Institution, Tokyo Foundation).

Remarks on “Liberté, Egalité and Fraternité” by Professor Kornai at the conference in honor of Professor Wu Jinglian

In honor of the 80th birthday of Professor Wu, Professor Janos Kornai aptly takes up the fundamental social values of “Liberté, Egalité and Fraternité”, the revolutionary motto of the French revolution, as the theme of his contribution. He examines the achievement of these values in the Eastern European countries after twenty years of the Fall of the Berlin Wall and offers his insight on this as a possible reference frame for China’s reform. I say he does so “aptly”, because Professor Wu, in his paper, *China’s Economy: Sixty Years of Progress*, authoritatively and insightfully traces the progress with respect to these societal values associated with the complex path of economic development of China, while passionately warning against possible regress that might be brought about by giving-up further reform. Doubtlessly, these two giants from the former planned economies, the West and the East, agree on the importance and relevance of those universal values to economic and societal transformation and development, while they are aware of many obstacles and challenges to realize them in the concrete context of each economy.

While Professor Kornai notes remarkable achievements in Eastern European economies as regards Liberté, he points out that there seems to exist no simple political consensus about how to achieve the norm of Egalité and Fraternité. Egalité and Fraternité may be related to the role of the state in social welfare and securities in the contemporary context. Some argue for a liberal, market-oriented approach, supplemented only with the minimum provision of safety nets. Others, as the Social Democrats, opt for universal entitlements. Caught between the two, politicians either tend to become irresponsible populists, or attempt to please everyone without any firm principle. The unexpected burst of the financial crisis has made this divide even more pronounced rather than narrowed. And this divide may raise a serious problem of the compatibility and consistency of Liberté, Egalité, and Fraternité in the contemporary economy. Facing the crisis some people are willing to sacrifice either one of the three for the sake of the rest. Professor Kornai sounds like somewhat pessimistic about finding an easy way-out from this dilemma. And the problem he sees is not only unique to Eastern European countries, but may be ubiquitous in all the democratic states under the control of majority voting. Do we have to wait for a luck to find “a great statesman” in order to solve this dilemma of democracy?

How will China cope with this problem? Some argue that because of relatively better economic performance in the aftermath of the global financial crisis and the prospect of further

growth, the pursuit of Egalité and Fraternité is still in the process of making in China in its own way and that for this some restraints on Liberté may be tolerated. I suspect that Professor Wu would not agree with such a view. On the other hand, we note that one of the crucial ingredients of the Kornai's notion of Liberté is "the introduction of the right of choice between competitive political forces and ideologies." He identified it more bluntly as the "rejection of the single-party state." Kornai considers the Eastern European achievement of economic and political freedom at the same time was a great gift to them. Nobody would deny this. But in at least some Eastern European countries there were relatively more mature historical experiences, preceding the Great Transformation, in terms of Liberté. Then, a question that foreigners like me, and possibly Professor Kornai as well, are tempted to ask and would like to learn is: whether there would be any Chinese way to make progress in Liberté, Egalité, and Fraternité in a harmonious way.

At this point, I consider that historical elements need to be taken into consideration, and in this regard a historical comparison of China with other East and South-East Asian countries than Eastern European may be more relevant and suggestive. Asian economies, including Japan, Korea, Taiwan, Thailand, Vietnam and so on, were all predominantly peasant-cultivating economies prior to the transition to an industry-based, market economy, although there were great variations in the modes of formal land-ownership, government intervention, community cooperation and so on. In order for industrialization to take place under such historical conditions, some mechanism for the transfer of agricultural surplus to the industrial sector for capital accumulation would be imperative, if too much reliance on FDI and foreign aids is to be avoided or not possible. With the said historical backdrop, strong-handed governments, in the form of *de jure* or *de facto* one-party rule with the exclusive administrative apparatus, initially emerged in many Asian economies, even though their political origins and timing were widely varied. And the way this political-economic mechanism worked eventually became an essential determinant of economic performance for each of those economies.

What comes next then? There can be a bifurcation of the evolutionary path after initial industrialization under strong government intervention. One possible path could be that unproductive, rent-seeking collusion between government and industrial elites is strengthened and perpetuate: the path against which Professor Wu has been constantly warned. Another path is that, as markets develop together with industrialization, government gradually recedes from direct control over the industry and chooses to compensate the rural and other disadvantageous sectors for societal stability and further economic development. In other words, government gradually assumes the role of an arbiter among various interest groups for the sake of Egalité and Fraternité. But the ruling party and supporting bureaucrats do behave so by acting as a sort of interest group by themselves at this stage of the government-led arbitrate state. Liberté in the sense of Kornai is yet to come.

From a purely game theoretic view, the ideal democratic state may be viewed as an implicit coalition among all the citizens against possible abusive use of power by the government. As

Professor Kornai is concerned, the mere introduction of competitive electoral system does not necessarily and automatically guarantee an ideal democratic state, although it would be a necessary condition for the latter to evolve. Also as Hayek said, “The ideal of democracy rests on the belief that the view which will direct government emerges from an independent and spontaneous process. It requires therefore the existence of a large sphere independent of majority control in which the opinions of the individuals are formed” (Hayek, 1960: 109)ⁱ. Thus the ideal democratic state is not simply a majority rule. For this state to emerge and evolve out of the government-led arbitrarative state, Libert  in terms of fundamental individual rights needs to be steadily expanded and developed, if not as a Big Bang jump to a formal competitive electoral system in polity.ⁱⁱ

In Marxian jargon, it is said that the economic (class) structure basically determines the nature of the super-structure (i.e., the nature of political state, supporting ideology and the like). However, the relationship between the polity and the economy is actually bidirectional. In neoclassical jargon, they are Edgeworth-complements. Namely, it is not only that the development of markets is likely to lead to the spontaneous demands for Libert . But the development of Libert , even if only gradually, can also facilitate a further development of the market economy, which can in turn provide a better foundation for Egalit  and Fraternit . Libert , Egalit  and Fraternit  are complementary, as Professor Wu forcefully points out. They can co-evolve, or stall together in the long run, although the actual process is complex. This process may be full of trial and error, as well as zigzag, as Professor Wu described and analyzed in his paper. The pursuit of Libert , Egalit  and Fraternit  is a never-ending journey everywhere, and we are lucky in having both Professors Kornai and Wu leading this journey. Both of them are not only superb economists in having lead the transformation of their economies, but also thoughtful moral philosophers in their tireless pursuit of the civilized society and faith in the societal ability of self-organization.

Professor Wu’s paper is comprehensive, authoritative and insightful in the assessment of 30 years of economic and societal progress of China; passionate, courageous and enlightening in making clear the path that China should follow. I am sure that this paper will become a classic and to be read by following generations.

ⁱ F. A. Hayek (1960), *The Constitution of Liberty*, Chicago: University of Chicago Press.

ⁱⁱ In passing, it may be noted that it is not until after the Seoul Olympic Games that the decisive power-shift from the military clan to the democratically elected government occurred in South Korea, although the nature of government had gradually shifted from the authoritarian to arbitrarative nature even in the 1980s. In Japan, an electoral representative government system has been in place after the fall of the military control of politics, but *de facto* one-party rule, in collusion with the permanent bureaucracy, prevailed until the beginning of the 1990s. The nature of government under such scheme was arbitrarative (i.e., functioning as a mediator among various interest groups, by acting as a rent-seeking interest group by themselves). But such a scheme has been under stress since the late 1980s and a change in government power by voters’ choice took place last summer for the first time since the 1920s. But this event doesn’t seem to immediately resolve the dilemma of democracy as pointed out by Kornai.

See M. Aoki, *Corporations in Evolving Diversity: Cognition, Governance and Institutions*, Oxford University Press, forthcoming, for a more detailed theoretical discussion on complementarities between public governance in the polity and private governance in the economy and its application to a comparative institutional interpretation of development processes of some of Asian economies.