

Janos Kornai's comparative theory of socialism and capitalism. A discussion

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Capitalism and socialism in a 'system paradigm' perspective

- ▶ System paradigm: Marx, Schumpeter, Hayek, Eucken, Polanyi, - we may add Kornai
- ▶ Analysis of the whole system and the relation to its parts
- ▶ Interaction of parts within the system
- ▶ Systemic tendencies, including dysfunctional features
- ▶ Processes of evolution and decay at the system level
- ▶ Coherence of classical systems, elective affinity of its diverse elements
- ▶ Evolutionary development and a natural selection process among institutions
- ▶ Great systemic transformations
- ▶ Method : comparative analysis, historical approach, combining social sciences

The socialist system (1992)

- ▶ A magistral treatise, unique
- ▶ The system paradigm exemplified
- ▶ Synchronic and diachronic, historical and theoretical
- ▶ Political economy of communism: social relations between people, not things
- ▶ « Exceeds the bounds of economics »: political science, sociology, psychology, philosophy, history
- ▶ Analyse « internal relationships within the socio-political-economic system »

A demand receives an answer

- ▶ « Who will write a twin book, with a similar Kornaian approach, *The Capitalist System?*” (Chavance 2000)
- ▶ *Two Essays on the Nature of Capitalism* (2013)
- ▶ Surplus economy : “one of capitalism great virtues, albeit one with several detrimental side effects”.
- ▶ The essays are also a schumpeterian plea for capitalism, with a general perspective, but formulated by Kornai in a context where he feels that capitalism is not appreciated as it should

Dynamism, Rivalry, and the Surplus Economy. Two Essays on the Nature of Capitalism (DRSE, 2013)

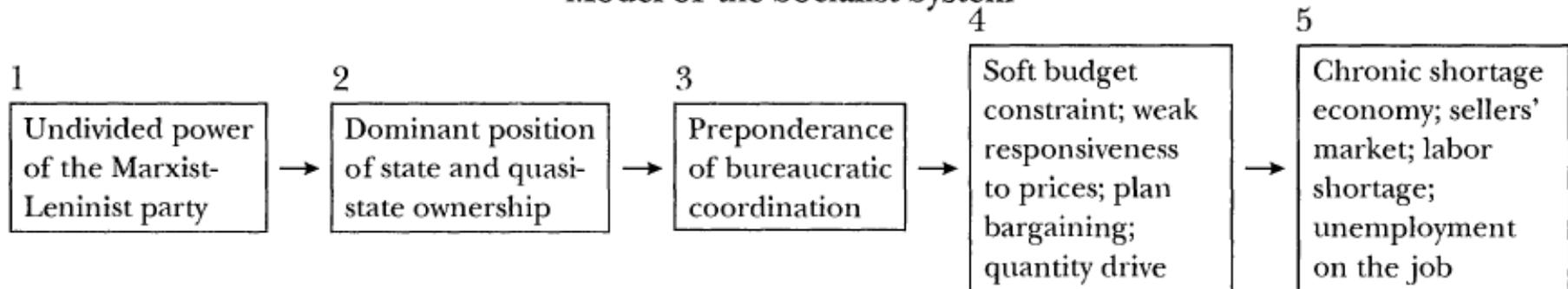
- ▶ There are two (related) great theories of capitalism in the history of the system paradigm, those of Marx and Schumpeter. While *The socialist system* (1992), with its view of emergence, contradictory evolution, and eventual demise of socialism, had a marxian flavour, DRSE is decisively on the schumpeterian line
- ▶ Making the « vision » explicit : « Perhaps comparing capitalism with another system—with its opposite, in a sense—allows me to see in it something not noticed by fellow economists living within it who are unable to free themselves of their accustomed outlook. » (2013)

Reverse comparison

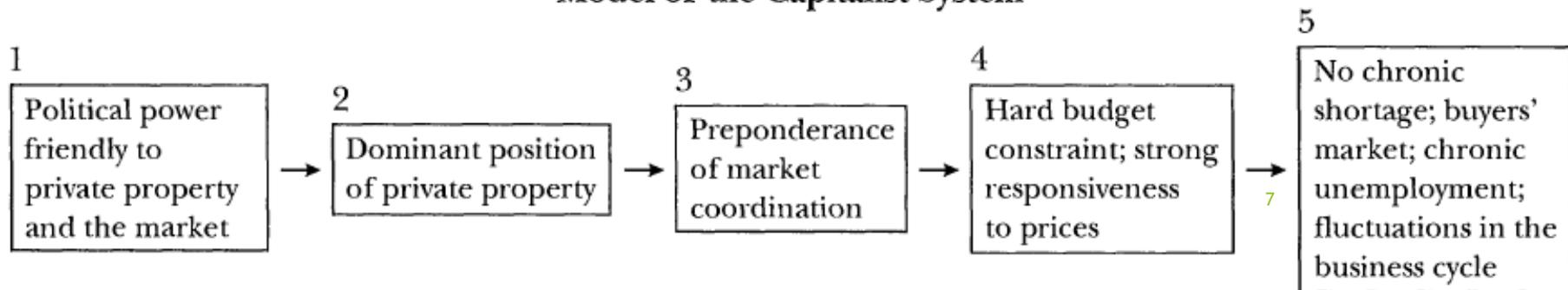
- ▶ All theories of socialist systems were based on a comparison with pre-existing theories of capitalism, Kornai included
- ▶ But Kornai made a great innovation by reconsidering capitalism backward through a comparison with the theory he had built about socialism, in the context of the change of system (Kornai, 2000)
- ▶ This move led him to the original statement that capitalism, as socialism, was based on a specific politico-ideological foundational block

Two models (2000)

Model of the Socialist System



Model of the Capitalist System



Political & ideological block

- ▶ Its preeminence in both socialism and capitalism
- ▶ The political power *adverse* or *friendly* to private ownership and market coordination
- ▶ The single party system is only one dimension of the political/ideological block
- ▶ It is the actual « base » of the system, the rest being a kind of superstructure (to borrow Marx image)
- ▶ Only its break marks the beginning of system change

An assessment of the surplus economy

- ▶ Surplus as a cause and an effect of competition
- ▶ Innovation and consequent rapid modernization: the *main economic advantage* of the surplus economy
- ▶ Surplus as « lubricant » softening the machinery of adaptation: *a secondary advantage* of capitalism
- ▶ Consumption: power relations ; the consumer is dominant(reverse of socialist system), even though subject to manipulation
- ▶ Inequality of income and wealth
- ▶ Competition stimulates corruption → sellers trying to influence buyers (reverse of socialist system)

A summary of great systems contrasts

Socialism	Capitalism
State ownership	Private ownership
Bureaucratic coordination	Market coordination
Soft budget constraint	Hard budget constraint
Paternalism	Rivalry
Conservative technology	Dynamic innovation
Sluggish change	Creative destruction
Shortage	Surplus
Seller's markets	Buyer's markets
Labor shortage	Unemployment
Restricted income and wealth inequalities	Large income and wealth inequalities

« Departures from the general scheme »

- ▶ Implicit notion of a « classical capitalism »
- ▶ Important “alterations” in the capitalist system
- ▶ Business cycles
 - ▶ Keynesian approach → excess production in the short period
 - ▶ ... insufficiency of demand as cause of *temporary crisis*
 - ▶ But capitalism is actually a *chronic* surplus economy
 - ▶ Effects of expansion and contraction are not all harmful, some are progressive
 - ▶ Anti-cyclical policy: double-edged sword

Historic changes and lasting tendencies (1)

- ▶ Growth of the welfare state
 - ▶ Islands of shortage economy in the sea of surplus (eg free public services or education)
 - ▶ Private health sector : regular surplus economy
 - ▶ Cf pharmaceutical industry: monopolistic competition, dynamic innovation, wide buyer choice, flood of advertising, manipulation of consumer, frequent covert corruption of medical practitioners

Historic changes and lasting tendencies (2)

- ▶ Softening of the budget constraint
 - ▶ Long-term tendency of capitalism
 - ▶ Bailouts: eg recent recession, automotive industry
 - ▶ But hard budget constraint remains dominant in general
- ▶ Globalization
 - ▶ Allocation of idle capacities is continually altering in an international frame
- ▶ Development of ICT
 - ▶ Internet: has strengthened the position of buyers
 - ▶ ... but sellers try to pass the burden of gaining information to the buyers

Some questions raised by the deepening of system paradigm in the Capitalism book, and its further extension

Money and finance

- ▶ (Explicit) abstraction made of money and finance
 - ▶ Dichotomous approach real/monetary economy
 - ▶ Money, time, uncertainty
 - ▶ The question of *instability* is set aside, as the role of crisis in capitalism
 - ▶ Aggravating role of financial markets on instability (Keynes)
 - ▶ Speculation not discussed
 - ▶ The « monetary economy of production » (Keynes) and surplus economy

Monetary production economy and surplus

- ▶ The monetary character of the capitalist economy → consecutive invalidity of “Say’s law” (that both Marx and Keynes pointed)
- ▶ Represents an essential factor of surplus, possibly at a more fundamental level than some real factors stressed in DRSE
- ▶ Keynes’ notion of an “active money” or of a “monetary production economy”, was associated to phenomena that may be related to forms of surplus, e.g. the possible failure of the anticipated exchange according to Marx, or the boom period in the cycle for Schumpeter, or the probability of unemployment for Keynes himself

The question of diversity within capitalism

- ▶ The important notion of a « family » of (national and historical) systems
- ▶ ... is explicitly not developed
- ▶ A more inductive approach of diversity of capitalist national economies in time and space would probably qualify some general theses
- ▶ The « golden age » of post-war capitalism is an important case in point : a number of « propensities » were mitigated or suspended
- ▶ Intermediate concepts of **phases** or **regimes** would allow to go deeper in historical and theoretical comparison

Opposite systems ?

- ▶ The concept of relative symmetry of shortage and surplus economies is linked to the notion that great systems combine virtues and faults
- ▶ But the dichotomic image of symmetry leaves aside the important question of common features of both systems families
- ▶ Islands of shortage economy in capitalism (health system, welfare state), a growing tendency to SBC in capitalism
- ▶ War economy in capitalism and shortage economy
- ▶ Islands of surplus economy in socialism ?
- ▶ → Mixed character of both systems families

Common features : money and wage-labour

- ▶ It has been rarely observed that the shift from socialism to capitalism, considered from a large historical and theoretical perspective, has been relatively ... easy and swift
- ▶ On the one hand: great hardship, suffering, difficulties (Kornai 2006)
- ▶ At another level, of wider observation : « straightforward » character of system change...
- ▶ Main economic institutions : money, wage labour, enterprise - changed forms, but did not emerge from nothing
- ▶ A great part of system change included transformation of institutional forms

One genus, two species : abstraction levels

<i>GENUS:</i>	Monetary/wage-labour systems	
<i>SPECIES (Family of systems) :</i>	Capitalism	Socialism
<i>INDIVIDUALS :</i>	National systems (given period)	National systems (given period)

Coevolution - in a system paradigm perspective

- ▶ An important - but somewhat underscored - dimension of the two great species of economic systems is their coevolution
- ▶ The evolution of each family interacted with the evolution of the other, under the influence of rival perceptions and performance
- ▶ The forms of coevolution were determined by belonging to a common genus
- ▶ Significant hybridifications were linked to coevolution, and may give insights into the « island » phenomenon

Fraternity or gemellity: the crumbling civilization perspective

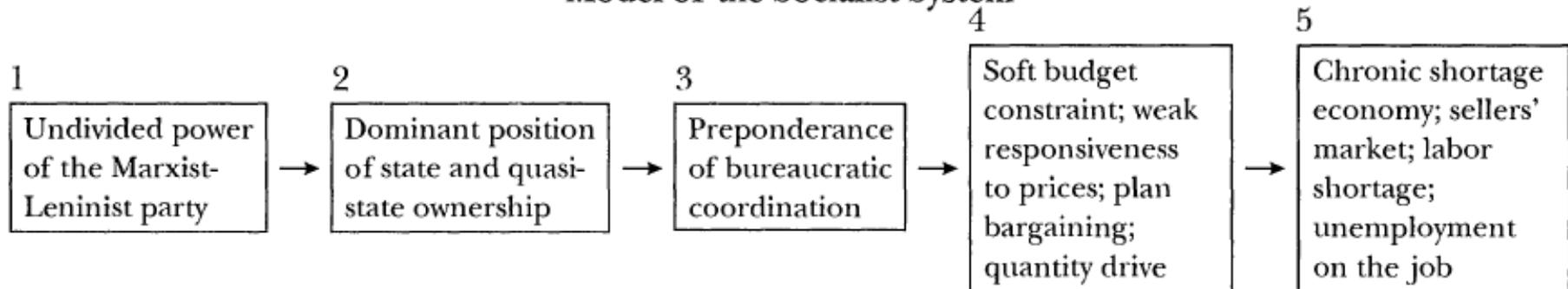
- ▶ An ironical reversal of Schumpeter's (failed) prediction about the coming end of capitalism, that was revealed as a remarkable anticipation of the end of... socialism
- ▶ « Crumbling walls » and « growing hostility ». The destruction of protective strata, the erosion of the institutional framework - specially the devitalization of (State) property, the decline of the system legitimacy, the loss of the ruling class confidence in its own future...
- ▶ The role of « objective and subjective, economic and extra-economic factors, reinforcing each other »
- ▶ Factors that « make not only for the destruction of the capitalist but for the emergence of a socialist civilization »

The « China puzzle »

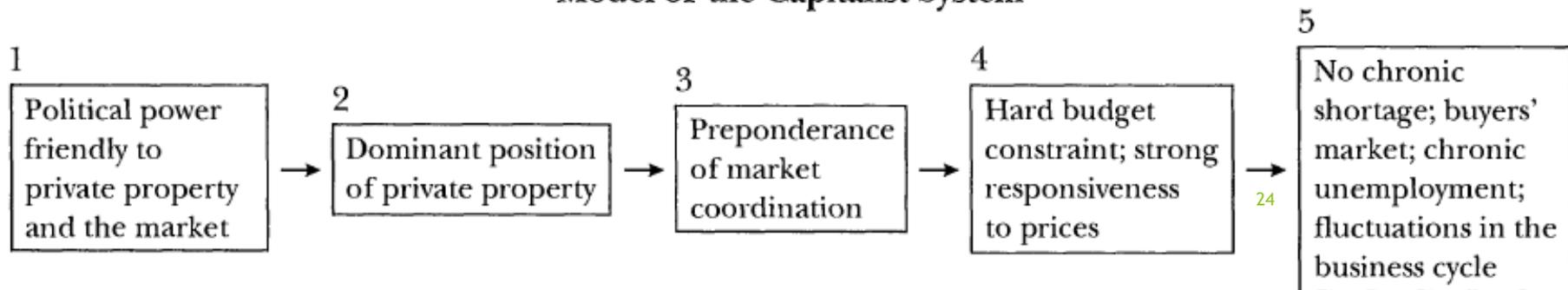
- ▶ The dynamics of reform/crisis questioned in China
- ▶ The loss of affinity, the lack of coherence, not as perverse destabilization, but as the very process of system reform and ... eventual transformation
- ▶ Kornai's initial analysis of a « reformed socialist system » (1990s)
- ▶ A later perspective (2004) :
- ▶ « The Communist party has shed its traditional opposition to private property and market and become friendly to them, moving from a vehemently anti-capitalist view of the world to one that favors capitalist values and principles. »
- ▶ « Looking at the actions of the governing party in China and Vietnam, it can be seen that they wear a Communist guise, but they are actually friendly toward capitalism and actively engaged in implanting it. »

Two models (1998)

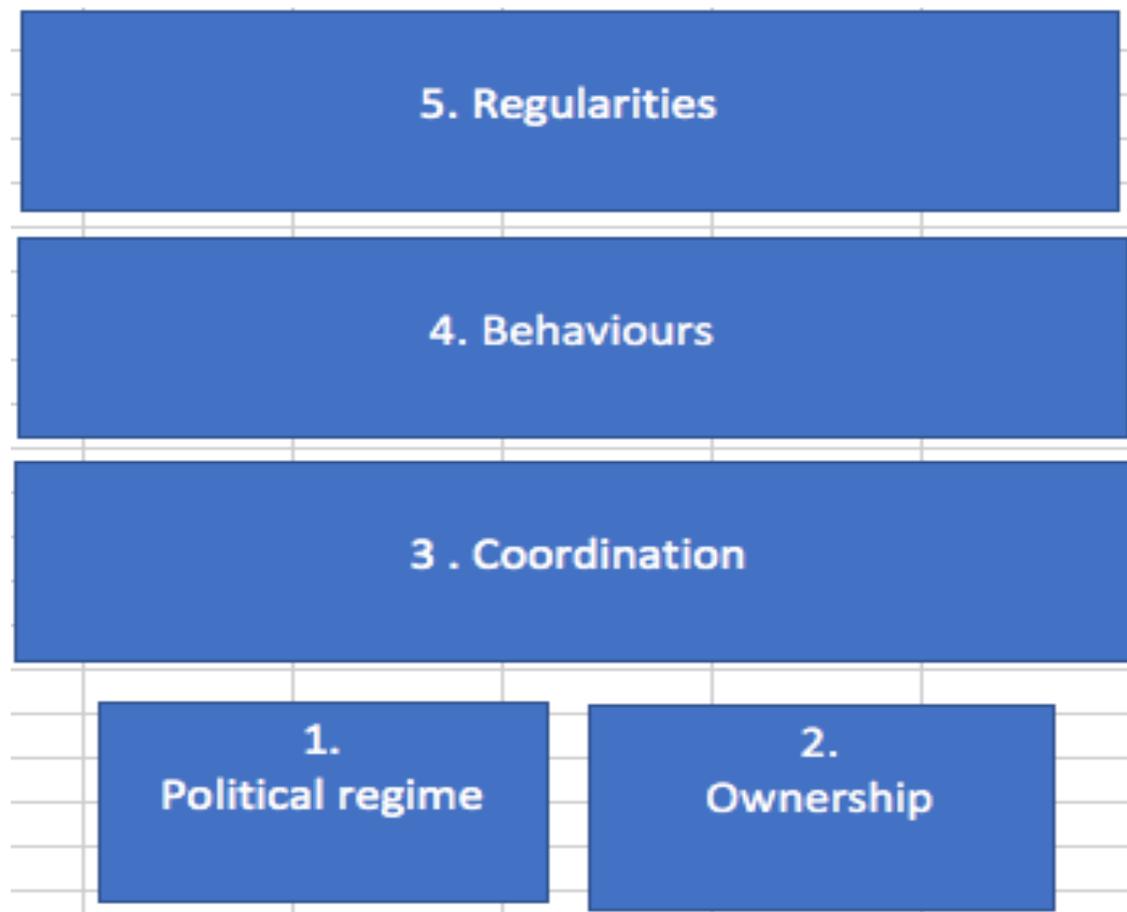
Model of the Socialist System



Model of the Capitalist System



Institutional base and superstructure: 2 ways of system deconstructing



A more general scheme to include the China puzzle

- ▶ The diverse history of national systems in the socialist family has revealed that their ultimate foundation was the combination of the political and the ownership block, ideology being the cement of this two-pillar base
- ▶ While real, sometimes significant changes could occur in the three other blocks, without ever reaching the base, which remained locked as the system foundation
- ▶ A modified base/superstructure metaphor
- ▶ → 2 different paths of system change
 - ▶ Eastern Europe and Soviet Union : the collapse of the political pillar breaks the system base, which rapidly dismantles the superstructure's coherence
 - ▶ China (and Vietnam) : transformation of the coordination block, concurrently with the gradual dissolution of the ideological cement, is followed by a shift of the ownership pillar from state to private dominance → the foundation is broken through the second pillar, while the first pillar remains solid, the superstructure is progressively transformed

Coherence, affinity or institutional complementarities

- ▶ Schumpeter (1942) : precapitalist forms had played a significant role in classical capitalism), so that their erosion was one factor of its declining viability
- ▶ Hodgson : “impurity principle”→“every socioeconomic system must rely on at least one partially integrated and structurally dissimilar subsystem to function”; “there must always be a plurality of provisioning institutions, so that the social formation as a whole has requisite variety to promote and cope with change”
- ▶ Szelenyi (2009) had observed, about “mixed economies and the elective affinity between forms of economic integration and property rights” for Kornai, that “it is far from obvious that the purer the economic systems are, the better they work.”
- ▶ *DRSE* calls for revisiting notions of coherence, affinity or institutional complementarities in great systems, particularly from an evolutionary perspective, that Kornai promotes for the system paradigm

Positive synthesis?

- ▶ Kornai's reflexivity on his own work → the social scientist's stance
- ▶ He writes that his references “spread across orthodoxy and heterodoxy, mainstream and out of mainstream”: “I handled this multiplicity of intellectual affinities ironically in my earlier writings, describing myself as eclectic”
- ▶ “Elements of positive synthesis” for the comparison of shortage and surplus economy : Marx, Schumpeter, Kaldor, Arthur, the Austrian school, the theory of imperfect competition, Keynes, Kalecki, the post-keynesian school, Stiglitz and Shapiro, evolutionary economics, Akerlof and Shiller, behavioral economics, new keynesian economists, Phelps...
- ▶ Stressing the variety of political or normative positions of different authors or schools

For a « broad synthesis »?

- ▶ Kornai maintains that “positive description and explanation of a well-defined scientific field is not only desirable, but also feasible; a broad synthesis of the theories, scientific explanations, and research methods can be achieved.”
- ▶ But while as a highly creative and rigorous thinker, Kornai can succeed in building a theory involving a controlled and reasonable eclecticism, in the sense of finding inspiration in different, sometimes opposed schools of thought
- ▶ ... the notion of a broad synthesis that would bring economics *as a discipline*, or a given field of it, to a shared theory seems problematic, and undesirable, even when limiting the project to positive analysis

Pluralism as an imperative in social sciences

- ▶ Economics or political economy actually belongs to social sciences
- ▶ ... its mainstream has strong and detrimental tendencies towards monism
- ▶ Pluralism doesn't imply that anything goes: there are various sound but situated procedures to explore and understand the world that have to be assessed with 'epistemic fairness' - actually admirably exemplified by Kornai's proclaimed eclecticism
- ▶ A defense of academic pluralism is warranted both for epistemological reasons and for democratic implications for the whole society

- ▶ Such are a few questions that Kornai's exceptional contribution to the system paradigm raise for its further advocacy and extension in economic thought

Political democracy : its primacy in normative evaluation

- ▶ Original and remarkable attitude of Kornai about the hierarchy of values within the system paradigm
- ▶ The capitalist economic system, while not a sufficient condition, is a necessary one for the existence of political democracy
- ▶ The defense of political democracy prevails over considerations of efficiency or dynamism of the economic system
- ▶ Keynes' assessment of the contradiction between morality and efficiency in capitalism was one of a necessary and possibly evolving compromise, Kornai's position in great system's assessment is one of priority of polity on the economy

- ▶ Thank you so much
- ▶ for everything, János