

KORNAI JÁNOS
Preface to the Japanese publication

After the publication of the original Hungarian version of the present volume I gave a series of lectures for graduate students at the Corvinus University of Budapest, in which I attempted to highlight the main propositions in the work. In order to illustrate the concept of shortage economy, I projected pictures taken in Poland and the Soviet Union, which illustrated the almost endless queues of people waiting to buy food, and the empty shelves in the stores. In contrast, to demonstrate surplus economy I showed a short video which I made myself during one of our trips to Tokyo. My wife could be seen walking along the ground floor of a huge shopping mall: the supply of masses of products competing with each other on rows and rows of shelves seems almost endless. Beside each row a shop assistant stood. And as my wife walks by, so the polite assistants bow to the customer one after the other – even if she does not actually buy anything. With these two images I tried to illustrate to the university students that this is not just about two different market states, but about two different social conditions, two types of systems: in one the customer is subjugated to the assistant, in the other the assistant bows to the buyer.

The volume which will now become available to Japanese readers makes an attempt at describing and analyzing the two situations. It discusses in detail the roots of phenomena and consequences which appear in a variety of forms. It does not deal in details with one country or the other, but strives to make *general* statements about the socialist and capitalist systems. In a few tables, which show data about many countries, Japan appears as well, but naturally I does not discuss the unique characteristics of Japan that make that country different from any other. I hope that by the time the Japanese reader reaches the end of the volume, she or he will think ‘Yes, those shared, general characteristics of capitalism that the book has introduced are to be found in Japan as well.’

My primary aim with this volume, both with the original Hungarian version and the translations published in several languages, now in Japanese too, is to reach out to the younger generation, to university students studying at advanced levels. I am confident that many of them are ready to read the usual syllabus with a critical eye, and to become acquainted with alternative theories and heretical views as well.

I must add that it would be good if the book were read not only by curious students but also by their teachers, irrespective of whether they sympathize with my way of thinking, which they might have got to know from other works. And while I am expanding the circle of my possible readers, I hope this little volume will reach scholars engaged in other social sciences, especially sociologists, political scientists and researchers into contemporary history. I have tried to word my studies in such a way as to make them accessible to the educated reader with an interest in economics and public affairs, but without prior qualifications in the field. If such a reader comes across one or two more difficult sections with a more professional focus, she or he will be able to skip them and still follow the main line of thought and understand the conclusions.

Half in, half out – my relationship with the ‘main stream’

In every part of the world, presumably including Japan, the ideology and methodology usually referred to as ‘main-stream’ has become dominant in the teaching of theoretical economics

(theory of economics, micro – and macro economics) in higher education.¹ There are some research and teaching establishments in which this school enjoys a monopoly; in other places rival approaches are allowed, but their influence is minor besides the effect of the ‘main stream’.

Many factors have contributed to the quick diffusion of the main stream – I shall mention some without ranking and weighting them. The most important are the great explanatory power of the theories classifiable into the main stream, the strict logic of their mathematical models, their elegance, their intellectual ‘beauty’, their convincing empirical proof of numerous statements using state-of-the-art mathematical-statistical methods, in other words the intellectual attraction of the main stream. The example of the economics faculties of great American universities has exercised a powerful influence; in these centers the main stream has become dominant.

In the case of more than one academic economist, true conviction is further fuelled by intellectual arrogance. They despise those who are outside the main stream; their marginal status is explained (often legitimately) by claiming that they have been unable to obtain up-to-date knowledge and methods of analyses, that basically their ignorance is camouflaged with ‘alternative’ sophistry. The zealous followers of the dominant doctrine do not hesitate to exclude those who dare to differ from what the main stream preaches.

So how do my works, among them this new volume, relate to the main stream? I tend to describe myself by saying one of my feet is in the main stream, but the other is already out of it. I respectfully recognize the great explanatory power of its theories. I consider its analytical methods widely applicable. At the same time I reject the idea that with this theoretical approach *every* important economic phenomenon can be well explained; I refuse the exaggerated claim according to which the followers of the main stream possess a *universal* power of explanation. Works born in the spirit of the main stream are able to shed light on many important connections, but their findings are only *partial* truths.

In my work I integrate many ideas from the main stream, but there are essential points where I differ from it. In present volume the reader will find examples of both cases. I do not for one moment want to make the reader believe that – if I may borrow a term from the world of cards – I am trumping the main stream of economics. All I am trying to do is to replace some of its partial truths with other (I believe more convincing) partial truths, or to give new answers to questions that are left open and unresolved by the main stream.

I shall try to summarize some important aspects of the academic attitude expressed in this volume.

1. THE COMPARISON OF SOCIALISM AND CAPITALISM. The study of the socialist system was not simply a research topic for me, as it might have been for western Sovietologists or experts on China. I lived in the system as a citizen of one of the Socialist countries, first as its keen advocate, then as a disillusioned critic, an intellectual rebel. I had first hand experience of how it functioned, and this is complemented by the amount of knowledge that I have accumulated as a researcher of the system. From the 1960s onwards I spent a lot of time in various capitalist countries, not as an occasional visiting tourist but as a teacher and researcher. For example I was resident in the United States for almost two decades. During these extended periods, I had the chance to experience the capitalist system

¹ The present introduction cannot undertake to describe the main characteristics of the ‘main stream’. Even if we tried, we would be on uncertain ground, as there is no agreement even within the profession as to where the borders lie between ‘orthodox’ and ‘heterodox’; what is within the main stream and what is pushed outside. While reading the book, the reader will find clues about where the author draws his own borders.

Previously the expression ‘neoclassical theory’ was used to tag the school of thought that nowadays is called ‘main stream’ in a broader sense.

from within. For me, the comparison of socialism with capitalism, capitalism with socialism from numerous points of view became a deeply ingrained routine of thinking. This opened my eyes to certain similarities and differences, symmetrical and asymmetric properties which go unnoticed by people who live within only one system. For the economists of the main stream capitalism is *the* economic system, and not one of the systems that has existed in history. In their daily papers they might have read news items about the world behind the iron curtain or the cold war, but for their researchers' brain this part of the world was without any interest. Although at its peak one third of the world's population lived under a socialist system, for the typical western economist socialism was no more than a degenerate creation, a monstrosity which, for a scientist engaged in the study of the normal world, did not merit attention. It is my belief, and I hope this will be illustrated by the present volume, that worthwhile lessons will be derived from the systematic comparison of the socialist and capitalist systems, even today, when the former system belongs to the past, and only the latter has a future. These lessons *can contribute* to the sum of knowledge so far accumulated by researchers living within capitalism.

2. WRITING UP THE LESSONS DRAWN FROM THE POST-SOCIALIST TRANSITION.

I consider myself lucky to have experienced the collapse of the Soviet empire and the transition from socialism to capitalism. Of all the numerous 'great transformations' – Polányi's expression - that have taken place in world history so far, this was one of the most important and most exciting. We Eastern European economists were not only (profiting or suffering) subjects of a unique historical experiment, never to be repeated at the same time we were observers and analysts as well. The experiment took place not in a laboratory, an artificially set up environment, but *in vivo*, on live humans, in a living social organism. Members of the main stream were not really interested in this experiment; they have produced barely any works which refer to its experience. As for me, I tried to keep my eyes open: to follow how the balance of market power developed, to observe the open and hidden forces of motivation, the interests and behavior of people, the network of relationships they established with other people. These are changes which the typical main-stream theoretical economist studies through theoretical models, simulative calculations or artificial experiments, but we were able to analyse empirically, on the basis of direct observation. I do hope that the analysis of this fantastically exciting, unique experiment will enrich not only economics, but the sum of knowledge of the whole field of social science, with new insights.

3. SYSTEM PARADIGM. Just as in my previous works, in the scholarly articles in this present volume the 'big' systems are in the foreground of my studies. In one of my previous studies I called this approach *system paradigm* (Kornai, 2007, chapter 8). I quoted the title of a book by Charles Tilly, the outstanding historical theorist, which summarizes concisely the main topic of his research: *Big structures, large processes, huge comparisons* (Tilly, 1984). Big structures, processes of great force, comprehensive comparisons are what I am especially interested in as well. In the works of the main stream, especially in its diluted versions, in pale course books it is precisely these 'large' pictures and strong contours that fade, while the students' brains are bombarded with finely drawn details.

4. RECONSIDERING THE DESCRIPTION OF THE MARKET. In my works I pay special attention to the relationship between the producer and the consumer, the seller and buyer. I consider the picture of the market that is beaten into students' heads at microeconomics courses to be excessively simplified. The problem is not that that teachers project abstract models on the screen, for all theory tends inevitably towards abstraction. The trouble is that standard models disregard essential features, and as a result a distorted picture is fixed in the students' minds. Complementing the teaching of the main stream, and at various points

arguing with it, I attempt to draw a more realistic picture of the market. I am able to undertake this because I have a different kind of life experience behind me. I got to know the shortage economy of socialism, and so I perceive the abundance created by capitalism differently. I know what the competition between private producers-sellers means in terms of how the market functions, because I became acquainted with the mechanism of allocation in which a bureaucracy allocates the goods and services.

5. THE 'POSITIVE *VERSUS* NORMATIVE' APPROACH. As far as possible, I try to differentiate the *positive* description of a situation, analyzing its structures and revealing the cause and effect connections, from the *normative* approach. Basically this is not incompatible with the main theoretical starting point of main-stream thinking. Still, the majority of economists belonging to the main stream avoid the regular use of the 'positive-normative' thought rhythm in their works. This avoidance is usually excused, for example by arguing that only a positive study is 'scientific'; the normative approach must be left in the hands of politicians and philosophers. Others honestly confess that they consider it boring and slightly out of date to describe their views in terms of this duality, so they would rather dispense with it. There are economists who do not dare to face the ethical conclusions that their train of thought leads to. Or, even if they have become aware of their own normative standpoints in the quiet of their studies, they lack the moral strength to write them up. I have set an obligatory rule for myself: to think through the consequences of positive analyses in terms of the realization of higher values.

Naturally no-one can be expected to include the normative standpoint as a sort of refrain in each of their publications. My own work is not structured like that. I have found it important, however, to introduce the ethical basis of my opinions in a few of my works: in those which I regarded as especially important and suitable for expressing ethical considerations. I hope that after reading this volume the reader will recognize the value system on which I base my normative evaluations.

6. THE REQUIREMENTS OF RIGOR. In the first few decades of my career as a researcher mathematical models and calculations using great masses of data were in the foreground of my work. In contrast to this, in the second half of my career my work has been characterized by verbal exposition, although from time to time mathematical models and econometric calculations still appear in my writings. I would like to make it clear that my intellectual respect for theoretical mathematical models and econometric methods has not lessened, nor has the recognition of the role they play in getting to know reality. I would like to draw a sharp line between myself and those who voice 'anti-mathematical' slogans, and who speak ill of these necessary methods of research in economics.

Significant new ideas usually emerge when the problem is recognized: the pioneer researcher perceives a *question* where others believe the answers are well known. This first phase of research usually takes place 'in prose' in the head and writings of the creating economist.

The recognition of a problem, and the first theoretical statements that intertwined with this recognition, are often imprecise; in retrospect they seem more like suspicions. But even if in the first draft of a new, significant recognition, at the *cutting edge*, there are inaccuracies, the important thing is that they were born! They provoke other scientists, the greater and the lesser, the main body of the 'research industry', to debate and to do further research. The mathematical model becomes especially important in this second phase, as well as the comparison of the statement with actual experience, through mathematical-statistical checking among other means. These methods offer great assistance in the more precise, more distinct wording of the initial conjectures, and to a more thorough understanding of interconnections.

The third phase consists in interpreting the results of theoretical research, and maybe drawing practical economic-political conclusions. Here again we must depart from the world of abstract mathematical models. The closer we want to get to reality, the more we must incorporate features that were intentionally disregarded previously into the picture drawn by the researcher.²

The fact that I expound my ideas verbally can primarily be explained by what was discussed in the previous point: I am increasingly interested in ‘big’ systems, ‘big’ connections and ‘big’ processes. I do not consider myself able to express my present thoughts with the methods of mathematical modeling. I would be very happy, however, if the structures and processes described in the present volume were to be explicated - at least partially focusing on a few features - with mathematical models by other researchers.

It is a grave mistake to believe that the language of mathematics is sufficient and adequate for the accurate expression of a train of thought. When János Neumann, that giant of mathematics, started dealing with economics, he concluded: ‘What seems to be exceedingly difficult in economics is the definition of categories (...) it is always in the conceptual area that the lack of exactness lies.’ (Neumann, 1955 [1965]). More than one economic-mathematical model only gives the impression of being exact; as soon as we scratch the surface of the concepts that appear in them it turns out that their definitions are blurred. In my own works (including the studies published here) I use well-known economic expressions again and again and I try to delve into their interpretation, to clarify the concepts. Many readers may find this constant clarification of concepts boring; however, for me it is a fundamental part of striving for rigor.

The other necessary requirement of precision is rigorous logical reasoning. What are the directions of cause and effect, where are the interactions, what can be rightfully juxtaposed and so on. Mathematical models often help to arrange thoughts logically, but not always. In order to be able to solve a mathematical problem, the creator of the model disregards elements from the thought-structure which would be necessary to comprehend reality. In such cases, even though within the world of the model the logic is faultless, the train of thought is basically off-track. Both mathematics and ‘prose’ are only languages, which can be used to describe certain connections, but neither language guarantees that the reasoning possesses an adequate force of explanation. Whether we expound our thoughts with or without mathematical methods, their articulation can be logical or unclear.

It is for my readers to decide whether my studies come up to these requirements of rigor. I hope it will at least be recognized that I made great attempts to achieve them.

7. INCORPORATION INTO THE HISTORY OF ECONOMIC THOUGHT. When outlining the results of my research I try to sketch the antecedents in the history of economic thought. I do not only refer to writings that have been published in the last few years in important periodicals. Everybody does this: it is almost obligatory. I strive to dig deeper; if necessary, going back 100 or 150 years, in order to find the thought of school whose tradition I am following or with whom I am in contention. This is no longer in fashion. Many authors are satisfied merely to relate their own work to trendy works quoted by everyone. ‘If it is not on the net it is not worth reading’ – I have heard this statement, which I find shocking, time and time again. I am not ashamed to take on the sad role of the ‘species sentenced to extinction’. I am still intrigued by what I accept from the teachings of the founding fathers of our science; in my mind I argue with Adam Smith, Marx, Walras, Hayek and other long-dead economists. The attempt to clarify the intellectual relationship between the different schools and

² The *three* phases in the above description are often not sequential, but happen in parallel. I am aware of the fact that counter-examples can be brought from the history of science against this triple pattern: there are revolutionary realizations which pop out from their inventor’s brain already clad in full mathematical armor.

tendencies of the history of economic thought and my theoretical conclusions can be perceived best in the second study.

8. THE PERSONAL TONE. The studies published in this volume use a personal tone here and there. My writings do not only differ from standard economic studies in a few aspects concerning content and methodology; in some places they also differ in tone and style. The editors, referees and authors of leading periodicals consider it a matter of etiquette that the essay should be devoid of feeling, like a study in mathematics or chemistry. The drier it is, the more academic it is. If it is not adequately impersonal and free of emotions, then it is no longer an academic piece, but an ‘essay’ – and, let us face it, whoever uses the word ‘essay’ in this context will pronounce it with a tone of contempt.

I do not wish to go into what makes a text ‘scientific’.³ Here we face one of the most difficult problems of the philosophy of science, especially in social sciences which have trouble with conceptual clarity and empirical proof. As for my own works, I consider them, maybe immodestly, scientific studies, ‘academic’ pieces which operate with concepts that are clarified (within the framework of the study), and which try to support their statements with complex lines of thought, logical reasoning and experimental observations.

In the previous paragraphs I have compared eight characteristic features of my work with the typical traits of the main stream. If we look separately at each of the items in the above ‘self-description’, none of the features can be said to be exclusively mine. Fortunately, in the case of all eight I have partners. If, however, we take a look at the *group* of eight features, then I do not really find close counterparts; few share this ‘collection of specialties’ with me. I might even be proud of this: my life’s work is not easy to place in a ready-made compartment of the history of economic thought; the intellectual material, research methodology and style that are characteristic of me cannot be subsumed into any well-known currents. I have to confess, though, that there is something sad in my situation. Among the researchers of the main stream there is a certain intellectual solidarity. Even if they argue with each other, the main pillars of their intellectual edifices are more or less identical, their research toolbars are the same. They speak the same language. The world of ‘heterodoxy’, on the other hand, consists of little isolated cells; one group pays no attention to what the others produce. They are allies in the end, and yet each of them is lonely (on this see also Colander and co-authors, 2004, Rosser and co-authors, 2010.)

While the course books and other works of the main stream are prescribed as required reading for regular classes, I would like to think that teachers of economics will have the grace to suggest this volume and of course other, only half-orthodox or fully heretical works as recommended or optional evening reading.

With critical eyes – taking a stand for capitalism

Nowadays many people are afraid to come out and declare that they believe in the capitalist system. Maybe they try to find ways around, use another term. They think it is less offensive to talk only about the ‘market economy’. The term ‘social market economy’, introduced in Germany after the war, sounds even better: it creates the illusion that instead of socialism and capitalism they chose a third way. In fact, in Germany and in the other developed economies a modern capitalist system is in operation, which is characterized, among other things, by powerful redistribution and a wide scope of state-run public services.

There are various strongly influential currents that do not only wish to give capitalism a more agreeable name; they really do want to lead society on a third path. They strive to

³ See for example the writings of McCloskey (1998), (2002).

build a system in which the favorable features of socialism and capitalism would be combined and the disadvantages of both would be avoided.

There also exist ‘radical left’ currents, which sharply oppose capitalism, and wish to establish a socialist system in its place. Their followers tend to consider it necessary to declare that they want to establish a socialist system that is free from the grave forms of abuse of the one-time socialism marked by the name of Stalin or Mao Tse-tung.

As far as I am concerned, I am prepared to declare that I do not belong to any of the above trends, I *unambiguously* favor the capitalist system. I am not a bigoted believer who can only see the advantages of the system. I do not consider it a ‘good society’; indeed, in many ways I think it is ‘bad’, but – just like Churchill’s views on democracy – I find it the least bad of all the feasible alternatives. Most importantly, I judge capitalism to be much better than the only alternative that *has been put into practice*; socialism.

One of the main tasks of the volume is the introduction of the *true* great virtues of capitalism. The course books of the main stream only draw a faint sketch of this when they focus their analyses on the coordinating and balancing role of the market. Of course this is also important. However, the conclusion that is the main message of the first study is much more important: capitalism is the motor of innovation, technical development and modernization. Almost all the innovations which we now take for granted in our everyday life have been created by capitalism.

The description of the system’s virtues is easily compatible with its criticisms. Many economists of the main stream discuss at detail the controversial features of capitalism. Most of them are filled with a kind of naïve optimism when they pass their judgments. They consider problems as ‘mistakes’, or ‘weaknesses’ which can be eliminated, even prevented, by appropriate state regulations, or maybe with *ad hoc* interventions. This is presumably the case for some of these issues. But I am not interested in these kinds of faults. I am convinced that all systems, capitalism included, have their *innate* problems. These are ‘*encoded*’ in the cells of the system. Such problems can be alleviated by appropriate regulations, but they cannot be eliminated. A recurrent topic of my studies is *system-specific characteristics*, which is the description of both advantageous and disadvantageous permanent, immanent and innate features, complemented by the analysis of the mechanisms which create these system-specific characteristics. As readers move further through this volume, they will have an increasingly clear understanding of the difference between the naïve-optimistic approach to problems and faults – ‘*Fault? Then let us correct it!*’ – and the level-headed, often bitter acknowledgement of the fact that there are problems that cannot be solved, troubles that cannot be avoided but, at best, somewhat softened. It is a meaningful and rewarding effort to improve the system, dumping its harmful effects, alleviate the pain caused by the bad system-specific properties of capitalism. But ultimately capitalism is the system with which one must come to terms.

The incompleteness of the work

It was not easy to let this book go to print. I would have preferred, instead of a 240-page two essay volume, to publish a 670-page monograph entitled *The Capitalist System*. That could have been a counterpart to my 670-page book *The socialist system*, published in 1993.

I wrote the papers in this volume in the last few years. But the ideas expressed here had matured over a long period. Their stories go back to my doctoral dissertation, *The Overcentralization in Economic Administration* (1957), the manuscript of which I completed exactly fifty years ago. In the present book, especially in the second essay, I keep returning to matters in the focus of my books *Anti-Equilibrium* (1970) and *The Economics of Shortage* (1980): a revision of the basic concepts of microeconomics, the critique of the market

equilibrium model, the description of asymmetric states of the market, and so on. When I am writing about socialism, its counterpart – capitalism – has always hovered in front of my eyes. The latter is often mentioned in my works, but now it was time to write a work in which capitalism is not only a standard for comparison, but the *topic* of my work. Thus I have come a *full circle*, returning to the starting point.

I am convinced that the paradigm, the scientific perspective, the question formation, the conceptual framework and the methodology developed and presented in my works are not only capable of describing and analyzing the socialist system and post-socialist transition, but also of describing and analyzing the working of capitalism. They provide something *extra* as compared to the paradigms, conceptual systems and methodologies used by others.

What I contribute here is a torso. It is a statue only partly carved out of a block of stone. The world has been plagued by a severe economic crisis, and this volume does not provide a crisis theory. While recently the attention of the economics profession has been focusing on monetary and fiscal policy, the operation of banks and other financial institutions, I did not include a study on the financial system, either. I could go on listing what else is missing –the topics that would fill the difference between 240 and 670 pages.

I am concerned about the problems vital to understand the working of the capitalist system, which are absent from the volume – and certainly the reader is too. I am also worried that it does not form a closed structure. What the reader will read are two separate essays. I do not call them chapters, to clearly communicate as early as the table of contents that they are separate essays. They are connected by their common approach, described earlier in the Preface; their relationships are indicated by the cross-references. But even their genres are not completely homogeneous; and it has not been possible to completely eliminate some overlap and repetition.

This is what my present capacity allows me right now. By the time the Japanese volume is out, I will have turned 87. It would be unrealistic to promise myself to write the “great”, 670-page work, and I would like to honestly admit it to the readers in this Preface. That is what I tried to indicate in the subtitle of the book: it is not ‘*The Capitalist System*’, but a much more modest expression: *Two essays on the Nature of Capitalism*.

It is my hope that maybe this fragmented work, incomplete as it is, will still generate thought in the reader. That there will be some who will start to look for answers to the questions raised in the essays, and to work out the modeling and empirical testing that is described only verbally here. All I can promise is that I will try to add a few more chapters to the unwritten “great” work.

The above is included as an introduction to the volume. I would like to suggest to the reader that, on reaching the end of the book, s/he should return and read this Preface again. Probably much of what I have written here will make more sense when one is already familiar with the two essays.

Budapest, May 2015

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