

## **Q&A with János Kornai on capitalism and socialism**

### **The economist explores the two systems from a unique perspective**

János Kornai's new book, *Dynamism, Rivalry, and the Surplus Economy: Two Essays on the Nature of Capitalism*, is the product of living under capitalism and socialism in his native Hungary as well as on and off for decades in the United States. We sat down with Kornai to discuss the two systems.

#### **What Can the reader expect from the book**

Rather than giving you a straightforward answer, I would rather tell what the reader must *not* expect from the book...

*Don't* read the book if your main interest is in the financial side of the economy. This work discusses the real economy: supply and demand of products and services, goods, stocks, and surplus capacity at firms, the unemployed and those yet to join the labor market or discouraged now out of it again. Problems in the financial sphere appear at most sporadically; in most of the discussion I bypass them, as have many other economists in the history of economic theory.

*Don't* read the book if you're out to know what caused the recession that broke out in 2008–2009, or whether governments and international agencies handled the problems rightly or not. This book is not “trendy,” in the sense that it ignores short-term fluctuations in the economy. Its subject is the *nature* of capitalism. Which are the constant, intrinsic, basic traits of a capitalist market economy that prevail irrespective of how well or ill the government of the day, the central bank, or other institutions affecting the economy operate? These basic features can be grasped best by comparing them with other systems – not with an *ideal* world that exists only in the head of a theorist or a utopian social reformer, but with a communist economy that *really* existed and can be seen in many ways as the opposite of a capitalist economy.

*Don't* read the book if you as an economist who dubs as scientific only a work of economics that employs mathematical models and/or analyses by econometric methods. I appreciate highly such methods and have used them myself in several research projects. This book alludes several times to the need for a mathematical model to express some idea or other more precisely, or for econometric examination of a large volume of data to confirm certain propositions. I proffer this volume in the conviction that the ideas it explores stand up, that even my propositions that count only as conjectures will manage to pass more stringent tests.

#### **What can you tell us about comparing capitalism and socialism?**

My whole career has shaped my thinking “comparatively.” I was born and sent to school under a capitalist system. Then came four decades of a socialist system, and then its collapse. I was not just a bystander, either. I took an active part in furthering the change of system and resurrecting capitalism. I was able to compare the two systems consecutively over time. In addition, I could place them side by side as well, as I lived alternately in the West and the East. Indeed for a couple of decades I almost commuted between Budapest and Cambridge, Massachusetts, between posts within the Hungarian Academy of Sciences and Harvard University. I could not describe my lifestyle in that period as being indigenous to one environment and a tourist or a temporary visitor doing field work as a guest researcher in the other, because I was at home in both and sensed from the inside the good and bad in them as well.

Those born, raised, and “socialized” in a developed capitalist country find many things natural that I do not. The stores and supermarkets are bulging with goods: that is not self-evident to me, because I grew up in a society where people were accustomed to finding store shelves empty, to queuing for bread, to waiting years for housing to be allocated to them. On the other hand, unemployment doesn't seem natural to me. I was well acquainted with executives constantly burdened by labor shortage, who dared not sack anyone for indiscipline because they would never be able to replace them.

#### **How do you look at capitalism?**

I don't look at it in the "trendy" sense --focusing on short-term fluctuations in the economy. I'm interested in the nature of capitalism. What are the constant, intrinsic, basic traits of a capitalist market economy that prevail irrespective of how well or ill the government of the day, the central bank, or other institutions affecting the economy operate? These basic features can be grasped best by comparing them with other systems -- not with an ideal world that exists only in the head of a theorist or a utopian social reformer, but with a communist economy that really existed and can be seen in many ways as the opposite of a capitalist economy.

**Despite its problems, such as in the recent financial crisis and continued short-term fluctuations in capitalism economies, what do you conclude about the differences between the two systems?**

I stand by capitalism. I stood by it when it became intellectually fashionable to scorn it, along with private ownership, the market economy, and the profit motive, and illusory ideas about socialism emerged again. But mine is no blind enthusiasm or uncritical admiration: there are unfavorable sides of capitalism, its repellent as well as its attractive face. Capitalism has more than one inescapable drawback, intrinsic to the nature of the system. Those advocating the capitalist system must accept this soberly. Effort must be put into limiting the damage and losses, and developing a more favorable version of capitalism.

**What do you think about the overwhelming role mathematical models and econometric methods play in contemporary economic studies?**

There are some economists who only dub a work as scientific when it employs mathematical models and/or analyses by econometric methods. I appreciate such methods and have used them myself in several research projects.

However, it is impossible (or I was not able to formalize) the essential general problems of comparing "great systems", like capitalism and socialism. Tjalling Koopmans, a Nobel laureate economist once wrote about the trade-off between relevance and rigor. I choose verbal discussion for expressing my ideas about the two systems. My current work presents propositions and conjectures. I am confident that it may nevertheless convince many members of the economist profession.

There are certain aspects of the themes discussed in the book which call for rigorous theoretical analysis and mathematical modeling. I hope that it will inspire economist to further research in that direction.

Some conjectures of the book are supported by empirical evidence, statistical data, survey etc. Again, I hope that econometric examination of a large volume of data will confirm certain propositions. I believe my ideas stand up.

**What is your position toward main stream economics?**

Most members of my profession accept the premises, research methodology, and scientific philosophy of mainstream economics. I usually describe my position as having one foot in the mainstream and one foot out. I await the reactions to this book with interest and excitement. How will those with both feet in the mainstream respond? How those with neither foot in it? If I achieve nothing other than widening the debates I will feel that this work of mine was not in vain.

\*\*\*

János Kornai is Professor of Economics Emeritus, Harvard University and Corvinus University of Budapest. He is the author of *Dynamism, Rivalry, and the Surplus Economy: Two Essays on the Nature of Capitalism*

<http://www.kornai-janos.hu>.

<http://global.oup.com/academic/product/dynamism-rivalry-and-the-surplus-economy-9780199334766>