

PREFACE

“János Kornai is sort of gentle Jonathan Swift: a humane man who knows Western economics, lives in an Eastern economy, and observes clearly. Just think: next time he might write about us.” So wrote Robert Solow, one of the great economists of our time, in a kind recommendation on the cover of my book, *Contradictions and Dilemmas*, which appeared in English in 1986.

“Next time” has been quite a while coming: twenty-six years. I began to delve into the attributes of the *socialist* system over half a century ago, and from the outset I compared it with capitalism—in my mind and in my works—but for decades my examination remained focused on the socialist system. My constant comparisons were enriched on increasingly frequent visits to the West, and intensified further in the period when I came to spend half my time there, commuting between Hungary and the United States, which allowed me to be acquainted with capitalism personally, not just through reading matter and statistics. That continual juxtaposition of the two systems deepened my knowledge and understanding of both.

Those comparisons gained new force as the Berlin Wall was pulled down and the Iron Curtain drawn aside. Now I could not only compare the socialist and capitalist worlds separately, but experience the drama of the change of system, with all its joys and sufferings. I have witnessed in my life how the two great systems follow each other over time: first socialism replacing capitalism, then capitalism superseding it again.

Such experiences take time to digest. I kept putting off the task of describing how I see the capitalist system. I cannot deny that I was held back from expressing my ideas by the immensity of the literature on the subject, and by the intellectual warfare between the superlative minds of excellently prepared experts on the subject. “I still have to read this book,” I would think. “I have to wait out the course of this fresh development.” Such considerations hindered me in expressing my thoughts.

Now I fear I am running out of time. “Next time,” as Solow put it in 1984, cannot be postponed any longer. I have often imagined producing a comprehensive new work, a pair to *The Socialist System*, to summarize methodically all I know and think about capitalism. I do not have the strength for

that. I must content myself with a publication that is a far more modest undertaking.

This volume contains two separate essays, with little overlap between them. Each can be read separately. Better still, they can be read one right after the other, for there is a close, complementary relation in their content.

The volume covers several themes, of which I would like to emphasize three in this Preface:

1. Most economists agree that the socialist system was dominated by a shortage economy with chronic excess demand. However, most discern in the capitalist system a balancing out of supply and demand, with fluctuations around the equilibrium. The view taken in this book is that capitalism is marked by chronic excess supply, a continual state that I have termed the surplus economy.
2. The mature socialist economy exhibits a shortage not only of products and surpluses, but of labor as well. The capitalist economy exhibits in parallel abundance of goods *and* unemployment—permanent underutilization of physical capacities and human resources. There is no elimination of chronic shortage on the goods market without a chronic surplus appearing on the labor market.
3. The explanation for both types of asymmetric state can be found on the micro level, in the motivations, driving forces, and behavioral regularities of the economic actors. These shape the propensities of the system, making up its immanent, innate “genetic programs,” and ultimately *the nature of capitalism*, as the subtitle of the book makes plain. The natural propensities of the system may be strengthened or weakened by fiscal and monetary policy, the macroeconomic policy of the government, but given the political structure and the ownership relations of the system, the natural propensities of the system are given as well.

The title of the book emphasizes three phenomena. It sets out to convince readers that these very three phenomena (interdependent in many respects) are the most conspicuous and have exceptionally important explanatory force in illuminating the way capitalism operates. The capitalist system is innovative and *dynamic*, whereas the socialist system is slothful, just tottering along the path of technical progress, and inclined, rather, to copy the innovations made in the capitalist world. In a capitalist economy there is *rivalry* among producers and providers to gain the market. Furthermore, as I have noted in point 1, there is a *surplus economy* in the capitalist world, with instances of surplus supply found almost constantly. The surplus economy and the rivalry of sellers for buyers are almost interchangeable expressions, highlighting two sides of the same phenomenon. The first refers to the underutilization of resources and the second to the relations of the producers and sellers acting within the economy.

Preface (xiii)

Examination of these phenomena forms a leitmotif throughout the two essays in this volume. This provides a chance to rethink some fundamental questions of economic theory, clarify some important concepts, and take a fresh look at some aspects of the measurement of economic phenomena.

These two longer studies appeared in Hungarian along with two shorter ones. I dedicated the Hungarian edition to an outstanding intellectual workshop of the young economists of Budapest, Rajk College, in the hope that their thinking had not yet ossified and they would be prepared to look critically at the syllabus they are taught at the university. I would very much like to see the English edition also reach young people still at university or just beginning their careers as economists. The better prepared the teachers who teach them and the more gripping the textbooks they read, the greater their gain from reading a work that takes a critical approach and discusses some big issues of economic theory from an angle unfamiliar to them.

Of course I will be delighted if not only the young, but also older colleagues take up this book. I fear more from them, because, in my experience they find it difficult to step out of their accustomed schemes of thinking. What if my anxiety is unfounded, however? After all, doubts arise in the minds of many experienced, learned economists about the dogmas that have impressed themselves most on us. Perhaps some of them at least may meet me on the same wavelength.

Let me underline here in the Preface that the subject of this volume is *not* the current financial crisis or the associated depression or recession. The book does *not* set out to take a stance on the Euro zone, American monetary and fiscal policy, or the Chinese rate of exchange. It does *not* attempt to advise governments or international organizations. Those interested in these questions (or solely interested in them) need read no further.

Luckily there is a division of labor among the researchers. These two studies set out to view the economy of today from a greater distance. I seek to understand the *lasting* features of the capitalist system. To the extent that I succeed in penetrating them, I do my best to convey my understanding to the readers—not just to the economists' profession in the narrow sense, but also other educated readers intrigued by the basic questions of capitalism. Though noneconomist readers may skip some pages that are harder to understand, I am certain they will manage without great difficulty to follow the book's line of thought and most of its arguments.

Readers now encounter a Gulliver from another world, a visitor from afar, who marvels at the lands of dwarfs and giants, absent-minded scholars, and honest horses, and describes how he sees capitalism, not, sadly, in the engaging style or acerbic irony of Swift, but in the dry language of economics.

*

Several people helped me both in my research that this book is based on and in the final formulation of the studies. The first footnote of each essay lists those

(xiv) Preface

supporting its preparation. I owe thanks not only to people whose names I know, but also to the four anonymous referees who my publishers called on to read the manuscript. From them, too, I received much valuable advice.

Here, at the end of the Preface, I would like to express my gratitude to those helping me the most in preparing the present volume. First let me mention my two assistants, Rita Fancsovits and Andrea Reményi, who contributed their continuing efforts and conscientious work in editing the text. I am grateful to my old friend, Brian McLean, translator of most of my works, who translated the texts with full attention and patience. My thanks are due to Hédi Erdős, Klára Gurzó, Boglárka Molnár, Anna Patkós, Ildikó Pető, Éva Szalai, Katalin Szécsi, and László Tóth for their help in various ways. And as always, I thank my wife, Zsuzsa Dániel, for her encouragement (much needed in my moments of discouragement), the many constructively critical remarks, and her good advice.

While it was still alive and its doors did not close in 2011, Collegium Budapest Institute for Advanced Study guaranteed ideal working conditions and an inspiring intellectual environment. I feel deep gratitude toward Corvinus University of Budapest for welcoming and helping me in continuing my work in the intellectually encouraging milieu of its faculty and students. My thanks are also due to Harvard University, where I taught and did research till my retirement in 2002; discussions with colleagues and students there inspired several of my ideas.

It is a great pleasure and honor to have this volume brought out by Oxford University Press, a publisher to which I have strong personal ties. It was Oxford who took on my first work, as an unknown author, in 1959, not long after the Hungarian edition. It placed in the hands of Western readers my book *Overcentralization of Economic Administration*, which, having been written to the east of the Iron Curtain, had to be smuggled out of Hungary in those difficult, stormy times. It was on the initiative of Oxford University Press that a second edition of this first book of mine appeared 35 years later. In 1993, Oxford, in conjunction with Princeton University Press, published my book *The Socialist System*, in which I summed up several decades of my work on socialism. I feel that now, having my two essays on capitalism published by Oxford closes a circle that has been drawn over half a century. My sense of familiarity was reinforced by the encouraging openness with which my manuscript was received. I am deeply grateful to Terry Vaughn, Scott Paris, Cathryn Vaulman, Michelle Dellinger, and their colleagues, and to the four anonymous reviewers. Their all-embracing attention and thoroughness, and their many valuable pieces of advice, have been of invaluable help to me.

Budapest, February 2013