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B R E A K I N G P R O M I S E S

Lecture at the conference convened by the Pan-European University,
Bratislava, February 8, 2013

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The paper is available at the author's website www.kornai-janos.hu
and at the Pan-European University's website

The structure of the paper

Introduction

Five types of breaking promises

Interaction

Moral judgment

Motives, incentives

Concluding remarks

Five types of promises

A. *Producers' promises to users*

B. *Users' promises to producers*

C. *Debtors' promises to lenders*

D. *Government (central or local) promises to citizens*

E. *Political promises*

Interactions

- Spillover effects of breaking debt-promises: „chain-indebtedness”, „circular indebtedness”
- Non-performing bank-loans → fall in bank lending → recession
- Recession → fall in liquidity of households and companies → further breaking of promises
- Frequent breach of promises → effect on public mood
- Spreading of bad examples. „Epidemy”

Public opinion: Do politicians keep their promises?

Country	Ratio of citizens who <u>doubt</u> the reliability of politicians (per cent)	Country	Ratio of citizens who <u>doubt</u> the reliability of politicians (per cent)
Italy	77.8%	United States of America	51.1%
Latvia	67.4%	Germany (West)	49.5%
Hungary	66.7%	New Zealand	47.9%
Russia	65.1%	Sweden	46.5%
Japan	61.0%	Great Britain	46.4%
Spain	60.1%	Australia	44.8%
Israel (Jews)	59.2%	Canada	42.4%
Germany (East)	59.1%	Cyprus	35.4%
Slovenia	56.6%	Norway	33.9%
France	56.6%	Switzerland	32.8%
Ireland	55.0%	Philippines	30.8%
Czech Republic	52.7%	Bulgaria	23.7%
Poland	52.5%	Israel (Arabs)	18.2%

Circumstances to be considered

1. *Bona fide* commitment?
2. Careful considerations of potential difficulties before commitment?
3. Compensation if promise not kept?
4. Motivation for breaking the promise?
5. If fulfilment not feasible – harmful consequences minimized?

Motives to fulfill or to breach promises

Moral incentives

Reputation

The enforcement of contract fulfillment by legal means

Final conclusions

Central role of promises of politicians in multi-party elections

Political promises broken regularly

– *undermines the foundations of democracy*

Central role of enforcing private contracts

Economic promises broken regularly

– *undermines the foundations of the market economy*
