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**ABOUT THE VALUE OF DEMOCRACY
AND OTHER CHALLENGING RESEARCH TOPICS
Closing remarks at the conference on February 22, 2018**

Dear Friends,

Our chairman has just said that I will say a few words. I will say more than a few words, if you forgive me.

I would like to thank the organizers; they did a fantastic job. The first expression of gratitude goes to Miklós Rosta, who was the main engine of the whole process, really kept a rigorous centralisation. He personally did a huge part of the organisation tasks, and devoted much time to that. And also, I'm very happy to thank the team who gathered around him, who, for weeks and weeks, or maybe I can say for several months, has worked on bringing all these people together, and this wonderful collection of interesting lectures and interesting debates. And when I say these words, I think not only of the February conference, but of all the other events which were related to my birthday. It started in January with another extremely interesting conference, and there is also an exhibition, and - what I must mention - there are two journals, *Köz-gazdaság* and *Acta Oeconomica*, which devoted whole special issues to discussing the impact of my work or thoughts related to my work. Also, a paper in *Közgazdasági Szemle* by László Csaba; an important article. Behind the papers there is also the work of editors, and of course all the authors of the papers. I have to thank all of you who made contributions to these collections of works.

Here I could end my closing words, saying that I am grateful for all that. Personally for me it was a great, great pleasure to attend -- but I don't want to finish here. I got a lot of praise, and everybody knows from his or her own experience that to be praised is a pleasant feeling, and usually people don't reject laudations. But I recognised that it is not only praise which I got, but one or two, or three, or maybe more people included criticism and disagreement, and criticism of or disagreement over important issues. So, instead of resting on my laurels, which is a comfortable position, I can promise you that I am not going to do that. And the first thing that I want to do is to read everything that was presented. I tried to listen to many of the presentations, but I didn't attend, for instance, debates in this conference section. Due to health problems I cannot sit here from early morning till late in the evening. I am, by the way, more of a reading type, who perceives ideas better by reading than listening. So, for the next few months, I need one or two or maybe more months, for the reading process, since in the meantime other obligations will certainly appear. If possible, I will react to some papers in publications of my own, or I will send a letter to some people. I also hope that with at least a few of those who are residing in Budapest I will have personal conversations.

For me, reading the conference material is a learning process. And this is not the first time in my life that I start to learn from the reactions to my contributions. I have spent much of my time in the world of academia, learning. From the very first day until today, I proceeded with learning. Let me be a bit more specific about learning. In my first book on overcentralization, I already touched upon the problem of shortages. If anyone reads this first book of mine again, they will discover that I already had the feeling that it is one of the central problems of an economy, especially of a socialist economy. And then, throughout my life, that problem has excited me. And each period led to new experiences. I got rejections after the overcentralization book. Part of the disagreement was expressed in a rather harsh way by firing me from my workplace. Later on, there were not so rude but more civilized voices of disagreement. A part of the later discussions were fruitful, and I

was ready to revise my ideas. I repeatedly altered the wording, the labels of the non-equilibrium situations. But that is not the most important part of the revision process. I tried to refine the analytical methods, the way to study the phenomena of market disequilibria. At a rather early stage in research on equilibrium, I became interested in comparing capitalism and socialism, What kinds of departures from Walrasian equilibrium exist in these two types of systems? Are excess demand or excess supply only random fluctuations, or is there something systemic? Is there some kind of a fixed point in a dynamic system, characteristic of a special type of system? Does some kind of normal shortage or normal surplus exist in various socio-economic systems?

My most recent research results on this subject are summarized in my latest book, *Dynamism, Rivalry, and the Surplus Economy*. My feeling today is somewhat similar to that of a student when he gets grades for his work. This conference meant to me some kind of grading of my performance by checking the impact. And I see that this part of my work has had much less impact than, for instance, the soft budget constraint issue. It's somehow less fashionable. Or people are not interested in the shortage versus surplus contrast since most economists are living in a market economy. People are used to a surplus economy and find it self-evident that everything is available on the supply side. But I have had a long life, and lived through long decades of a shortage economy, so for me it is not self-evident that today the situation is the opposite one. And while I have many co-workers in other subjects, I feel -- and I regard this as a failure of my own work --- that I was not able to motivate others to work seriously on the non-Walrasian equilibrium theme. There are exceptions, luckily. At this conference an exception was Yingyi Qian's talk. I'm not saying that I'm alone in this direction of research: I have a few allies. However, I would like to see more work on the subject.

Now let me move on to research on the soft budget constraint. For me, it was not simply a kind of discovery, but it was from the first day onwards a learning process. I gave my first talk on that. I remember the day, it was at the Stockholm School of Economics, where I gave a course on socialism. I explained this idea of the soft budget constraint, and then two of the graduate students who attended the course came to me and told me: 'That sounds very interesting.' Both graduate students have made great careers since then. But that was a crude first approximation. When I realized that people misunderstood me, I felt that I'd have to write it again, and explain it better. Then to my great fortune along came Erik Maskin, and produced a game theoretical model together with Mathias Dewatripont on this phenomenon. Their model, by the way, captured only one aspect of it; soft budget constraint is a richer concept. Then came many empirical studies; all of these efforts are very instructive, and I tried to learn from them. Today's panel, right this afternoon, was a very insightful event. Here the Chinese participants were not satisfied to consider concepts of private ownership, or public ownership, or market, or bureaucracy, exclusively at an abstract level. Let's look at the facts! I would like to learn from experience. I don't think that now the problem of the soft budget is solved, and it's time to close research on soft budget constraint. On the contrary, I feel that we are, of course, not at the beginning, but we are in the middle of the way, and a lot of work has to be done in the future, both in pure theory, because there are many aspects of the problem which require pure theory. Serious further research should be done in the empirical field as well. And what is missing very much is an attempt to unify these two lines of thought, the soft budget constraint and persisting, non-Walrasian equilibria. There is certainly a relationship between them. For instance, Chengang Xu and Yingyi Qian, and perhaps other friends and colleagues started to work on this issue. I tried, but up to now I haven't succeeded. I will continue my personal efforts, but I must be realistic. You came to my ninetieth birthday. Age ninety is not the time to complete such a tremendously difficult task, which we all, who are interested in the subject, didn't get through yet. So I rather want to encourage at least those who are here, or those who will join us, to work on that. And maybe I'm biased, but I think a unification of these two theories would be an extremely exciting task for a whole generation to come.

There is also a third subject deserving special attention. I'm sorry, but maybe it is a sign of lack of gratitude that I mention problems where I didn't get satisfaction at this conference, nevertheless, I just feel I must say it. The third theme is related to politics and values. True, somebody who studies a large part of my life-work seriously could draw the following conclusion. Our job is description, analysis, understanding in a positive way. I use here this term "positive" as it is used in the philosophy of science. Positive knowledge means understanding the real world, and that's it – we may abstain from normative thinking and from value judgements. Everyone has the right to do that. And I especially don't urge anyone to go on the barricades with a flag and announce his political program, or give suggestions for the next government. I understand people who don't do that. But everyone has a mirror at home and can look in the mirror, and check his own conscience. He or she may speak to himself, or speak to his wife or husband confidentially. And think over the relationship between ultimate ethical values, social values, politics on the one hand, and the economy and economic policy on the other. At least in our thoughts, we must not evade this problem. And that is a very, very timely warning.

Let's come back -- it was a favourite subject during the whole conference -- to our thinking about China. Making judgements about China's performance one cannot sidestep serious consideration of fundamental ethical issues. China has produced quite incredible performance in growth. That can be shown in tables and graphs, and everyone will be impressed. I'm always impressed too. And not only impressed, but in my modest way I tried to exert a certain influence on Chinese policy-makers to promote an economic institutional framework, which is favourable for growth. But now, after we see this giant China, we have to consider what China will do in the future. Two of our Chinese friends here at this table a few minutes ago tried to guess whether it can maintain a six per cent growth rate or it will slow down. I want to be quite frank: my main concern is what China is going to do as one of the giant powers of world politics. The question is not only intellectually exciting. Simply as a citizen, and as a father, and grandfather, and great-grandfather, I am worried what will happen in a world where China is becoming one of the great players. Of course, it's already a great player, and will keep becoming even greater and even more powerful, a country with a peculiar ideology. Ideology – again an issue not discussed sufficiently at this conference, and at the earlier conference, and in the papers. The official Chinese ideology is very much influenced by nationalistic ideas. Now, if China were the only nationalist power in the world, then one can think about isolation. But that is not the case. There are other giants, which are also nationalist. There is the USA, where the president is announcing "America first". Not the globe first, not the international community, not the future of the international community first, but America first. And then we have Russia, where the leadership again is explicitly and emphatically nationalistic.

I always thought that I was talking and writing about political economy. My book *The Socialist System* has the subtitle *Political Economy*, and when I gave it this subtitle, I didn't think about Marxian "politecon" as it was taught in the classes of, say, the old Karl Marx University. I was always interested in the relationship between politics, ideology, economy, and the whole society. And for me it's important to emphasize in these closing remarks that at least people who have no limitations on the expression of their views, (because there are countries where it is not so easy to do that, I know that very well: I know from past experience that there is such a thing as the limitation of free speech and free writing,) but at least those who don't suffer from these limitations have to think about the interconnections between politics, ideology and economy.

This train of thought leads to some kind of ordering or ranking of values. It is always an individual choice what kind of value system you regard as your own. I don't accept a simple trade-off, saying that an X thousand dollar increment in growth is equivalent to the imprisonment of a freedom fighter. That is not acceptable for me. I do have a ranking, or more specifically, a lexicographic ranking, where my top priority goes to freedom, liberties, liberty of speech, liberty of free expression of thoughts, liberty of the press, autonomy for the individual and for voluntary

communities, democracy, state of law. That is a group of values which are very strongly interconnected. I didn't arbitrarily select these desiderata. In my political ethics, this group of values has a higher priority than the increase of the growth rate.

It's not mandatory to share my value system. Other people have other value systems. I must confess that for a long while I didn't think over this dilemma with all its implications. And I was just looking in amazement at the Chinese miracle. And I didn't think with sufficient depth about the contradiction, that the political system basically didn't change in parallel with the economic miracle. True, there were changes. It shifted for a while from a brutally repressive system to a less brutal, somewhat milder repressive system. Of course that's important. I don't deny that the degree of the brutality of repression matters. Whether there is torture in prisons, or whether there is no torture. That matters a lot. But it's still basically the same system. And here I use the term "system" in my own interpretation. Repression in that society is systemic.

The formation of my order of ethical and political preferences was strongly influenced by lessons I learnt in Hungary. We know from research in behavioural economics that gaining something is not identical with losing something. Behavioural economists can rigorously prove that a hundred dollar gain brings more utility to the individual, or a more intense feeling of well-being, than the same hundred dollar's loss from a given level. Now, China has never experienced democracy, and therefore they don't know from personal experience what the value of democracy is.

Eastern Europeans got democracy mainly as a gift. There was a fight for democracy, and I have genuine respect for people like János Kis and Adam Michnik, who talked here two days ago, and who, taking serious risks, fought for freedom and democracy. But even they admitted that their fight was only one of the contributing factors, and there were many other contributing factors. So, it's not an exaggeration to say that to a large extent we got democracy almost as an additional gift when transition to a free market started. We, the citizens of Eastern Europe, immediately adjusted to that, and started to be discontent with all the imperfections of democracy and began to say nasty words about all politicians. The historical period of democracy started with a certain disappointment in democracy. And it is only now, in the last few years, when we are losing democracy, that at least a part of the Hungarian population has started to feel what the genuine value of freedom is. Therefore, I suggest that everyone who is not Eastern European should study the recent Eastern European experience, should study what is going on in Hungary, what is going on in Poland. These are two remarkable countries, which could serve as laboratories demonstrating the procedure for liquidating the great achievements of democracy.

In any case, even if you are working in other fields of economic analysis, at least in your way of thinking don't become apolitical. At least in the back of our minds, all of us should be political economists. And in that capacity it is our never-ending task to think about the complex dilemmas of choosing fundamental values. That is not simply a suggestion for others, it is also an ambition of my own. I feel that I didn't succeed in convincing my colleagues to do that. I tried, but in practice my words reach very few people. I wouldn't say that all of those whom my words reach are here, but still, it is a small group. It would be interesting to know what these people are teaching in their classrooms and to hear how much of my message is getting through in their teaching. So, there are a lot of things to do. I promise you that as long as I can, I will not rest on my laurels, but try to continue: the work is still far from completion.

Thank you again for coming to the conference, and thank you for giving me further tasks.

The transcript was made by Eszter Mohácsi. The above text is consistent in its content with the spoken text, only minimal changes to facilitate understanding and to avoid misinterpretation have been made.