

## Foreword to the Polish edition

It is hard to imagine a better time to read the latest book by János Kornai. The world is overwhelmed by a global crisis which is not likely to end any time soon. Efforts to mitigate it are fairly effective, but it is difficult to discern actions leading to the overcoming of the crisis itself. The reason is that it is systemic in nature. It is not a cyclical crisis, a crisis that affects the global capitalist economy, but a structural crisis, a crisis that affects the system. As a result, standard methods of crisis management fail, whereas the intuitively conventional methods applied by trial and error turn out to have only palliative effects.

The duration and spread of the crisis that affects the current form of global market capitalism undoubtedly threatens to explode into a large-scale anti-liberal, anti-market revolution and the recurrence of national or international instances of totalitarian rule, which will lead to certain forms of nationalization of the economy.

In his work Kornai does not deal with the causes of the current crisis and ways of resolving it. On the one hand, he directs his intellectual effort to explaining the mechanism of operation of the socialist (statist) economy, which inevitably becomes a shortage economy. On the other hand, he discusses the capitalist (market) economy, which inevitably constitutes a surplus economy. He does this in order to demonstrate that the surplus economy – from a general, societal point of view – is far more advantageous than the shortage economy.

The shortage economy is a system in which shortages are common, chronic and intensive. There may be instances of surplus, but they are isolated, transitory and mostly not intensive.

Conversely, the surplus economy is a system in which surpluses are a common, chronic and intensive. There may be instances of shortage, but they are isolated, transitory and mostly not intensive.

Kornai adds two other important observations to this fundamental argument: (1) we have no choice between a state of equilibrium and a state of disequilibrium in the economy; we are doomed to choose between different states of disequilibrium, (2) innovation, and hence beneficial civilizational change, is a feature of the surplus economy that disappears in the shortage economy. These statements acquire a special significance particularly now that the basic principles of the market economy are being challenged again.

At the same time, Kornai does not try to prove that the capitalist economy is characterized only by advantages. He clearly describes its weaknesses, such as those related to unemployment and inability to fully utilize the labour resources. He believes, however, that such weaknesses cannot be completely eliminated without undermining the positive qualities of such an economy, without compromising its innovation and dynamism. Someone might say that we need less innovation and dynamism along with more balance and stability. It is not that simple in a world of constant change caused by numerous factors, not just the economic ones.

This does not mean, however, that the negative features of a market economy should not be neutralized. Doing so is reasonable and possible, but they cannot be eliminated altogether. Indeed, excess supply constitutes a permanent feature of the capitalist economy. However, both on the micro level (e.g. the just-in-time strategy) and on the macro level (e.g. anti-cyclical economic policy) surplus in a given economy can be reduced, which entails smaller losses. Kornai emphasizes, among others, that the fiscal and monetary policies may exacerbate or alleviate the symptoms of the surplus economy, but since they do not constitute its sources, interventions in these areas cannot eliminate them. Such interventions are even less likely to be successful given the fact that their roots lie in the micro-scale mechanism typical of the capitalist economy. In order to suspend its operation, the economy must be consistently destroyed.

Kornai accurately recognizes those characteristics of the market economy that are responsible for its innovativeness and dynamism. Generally, he associates them with entrepreneurship and competition. Particularly important are his observations related to entrepreneurship, which he understands as decentralization of initiative and experimentation on a large scale. Such entrepreneurial behaviours are widespread only when the economy has sufficient capital reserves, which provide flexibility in funding entrepreneurial activity. There is no 'live' entrepreneurship without access to

financial capital, including credit. In this context, one should highlight the importance of funding manufacturing operations – the real sphere of the economy. Limitations on such funding – among others, due to the rapid development of investment banking – are one of the sources of the current crisis.

Kornai does not deny the importance of funding research and development activities by public or civic organizations, but points out that most key innovations are born in the domain of private enterprise. As a result, technological change in the capitalist economy is very intensive, while in the socialist economy it is weak, delayed and secondary.

No economic system is perfect or devoid of weaknesses. No system is free of serious problems or capable of solving all of them. And all the while none of them is immutable – each constantly transforms itself and evolves. In no economic system is it possible to achieve a sustainable equilibrium. Constant change is a feature of modern societies; consequently, no equilibrium can be permanent. Each state of balance is temporary and fragile.

Certainly, it is possible to try and preserve a system's balance by means of far-reaching state interference in the market and in the economy as a whole. However, it invariably leads to the centralization of economic power and nationalization of the economy. A balance thus achieved hinders innovation and development, and, in consequence, undermines democracy. Such a route has always led to the backwoods of history.

We can also assume that we are doomed to disequilibrium, however, we can opt for its manifestations that together contribute to development and reasonably limit the consequences of those which are socially painful. This is an area where institutional solutions, clearly favoured by János Kornai, are to be sought. In his opinion, a sober perception of inherent weaknesses of capitalism can be combined with a practical reflection on appropriate solutions and reforms. These explorations make sense only when they respect the fundamental principles and characteristics of the market economy. We can contribute to the overcoming of the current crisis if we uphold these central tenets. Undermining them will only aggravate the situation.

Reading this book, which we decided to make available to the Polish Reader, and understanding the arguments put forward by its author is not intended to support an apologetic and unreflective understanding of the market economy. Now that it is being affected by a deep global recession, it is particularly important to remember what primarily stimulates its innovation and dynamism, what determines its social advantage over other economies in order to ensure that reform attempts do not undermine its essence, to warrant that rash judgments do not lead us astray again.

In the intellectual area charted by Professor Kornai, there is no such danger. At the same time, the Reader will find in his book inspiring arguments that challenge numerous commonly held views (e.g. those concerning market equilibrium) and encouragement to look for remedies that address genuine problems. The author first and foremost makes us think. He does not dissuade us from acting, but he wants us to act with our eyes open, not blindly.