

## János Kornai: A Memorial Sketch

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János Kornai died on October 18, 2021 in Budapest. He was 93 years old. Kornai was probably the foremost scholar in our time of the economics of central planning and the comparison of socialism and capitalism. In the 1990s, when the former Soviet-bloc countries began their reorientation toward free markets, he also became a leading figure in the economics of transition.

Kornai received a great deal of recognition for his work, including the Humboldt Prize, the Leontief Medal, the Seidman Award, and fifteen honorary degrees. He served as the president of the Econometric Society in 1978 and of the European Economic Association in 1987.

János Kornai was born in Budapest in 1928. As Jews, his father and an older brother were interned when the Nazis occupied Hungary in 1944, and they perished in the Holocaust. János managed to avoid their fate only by going into hiding.

The Soviet Union liberated Hungary near the end of the war, and as Kornai notes in his autobiography *By Force of Thought* (2006), that fact predisposed him to think well of the Soviet system. After the war he joined the Communist Party as a fervent believer and, in 1947, became economics editor of *Szabad Nép*, a party organ and the most widely read daily newspaper in Hungary. Once he became fully aware of the brutality of Stalin's regime, however, he quickly lost faith in Stalinism and became an outspoken critic of Soviet-style central planning — an apostate in the eyes of his former comrades.

Kornai was largely self-taught in economics. He took the equivalent of a Ph.D. from the Hungarian Academy of Sciences in 1956 (he never obtained a bachelor's degree, though he had earlier studied philosophy at university). His dissertation, entitled *Overcentralization in Economic Administration*, caused a sensation. It marked the first time a citizen of a communist country was overtly and publicly critical of socialism – and provoked a public demonstration against the system.

When *Overcentralization* was published in 1957 (an English version appeared in 1959 to great effect in the West), Kornai lost his position at the Institute of Economics, was barred from traveling outside the country, and faced threats of imprisonment for his incitement of “counterrevolution.” It took years before political repression in Hungary eased to the point where he could regain his Institute job and travel abroad.

In the meantime, he pursued his academic work, including the treatise *Mathematical Planning* (1967), which he hoped would improve the way that the Hungarian economy was run. A summary of his approach, written with T. Liptak, appeared in *Econometrica* as “Two-Level Planning” (1965).

By the late 1960s, however, Kornai had become disillusioned with planning, and now turned to general equilibrium as a source of illumination. Although he was on the whole sympathetic toward GE, he could be critical too — and his complaints were voiced in the book *Anti-Equilibrium* (1971), which took the field to task for omitting bounded rationality and the possibility of persistent disequilibrium.

Kornai's two most influential works appeared within six years of each other in the 1980s: *The Economics of Shortage* (1980) and “The Soft Budget Constraint” (1986). He summarized much of his thinking along these lines in *The Socialist System* (1992).

In Kornai's formulation, a soft budget constraint (SBC) arises when an enterprise is allowed to continue operation despite chronic losses (i.e., it is "bailed out"). Of course, such a phenomenon can occur in any kind of economy. But Kornai observed that SBCs are far more widespread in socialist than capitalist countries and argued they are central to the high degree of economic inefficiency – including shortages – that socialism engenders.

Kornai refused to attribute SBCs to a single cause. Among the various sources he pointed to were (1) the political pressure to avoid unemployment (he argued that because socialist governments are responsible for their economies' productive enterprises, they fear being blamed when workers lose their jobs due to shutdowns), and (2) the centralization of credit in socialist economics (as Dewatripont and Maskin 1996 show, such centralization makes the threat not to refinance a floundering enterprise more difficult to carry out).

Similarly, Kornai adduced multiple ways in which SBCs can cause the chronic shortages that were endemic in Soviet-bloc economies. One avenue was direct: a soft budget constraint creates inefficiencies that reduce the supply of consumer goods. A second route is more subtle: bureaucrats may deliberately create a shortage because of the power it gives them to ration goods. A still more complex mechanism is elaborated by Qian (1994): a central planner may deliberately keep prices of consumer goods low (thereby causing excess demand) in order to deter low-quality enterprises from entering the market (since shortages will prevent them from acquiring consumer goods that also serve as their inputs to production).

Kornai received many invitations for academic posts in the West, but didn't seriously consider taking a permanent job until the mid-1980s. Then, in 1986, he accepted an offer to join the Harvard economics department. Even so, he didn't want to cut his Hungarian ties, and thus

the Harvard position was half time — Kornai and his wife, Zsuzsa Dániel, alternated between Cambridge and Budapest every six months.

At Harvard, Kornai offered courses on the centrally planned economy, the comparison between socialism and capitalism, and, starting in the early 90s, the economic transition toward markets in Eastern Europe and Russia. It was generally recognized that he was the world's foremost expert on all these topics, and so the courses were very popular.

But Kornai had an even bigger influence as a PhD advisor (he had had a similar effect in Hungary even without an official faculty position there). Interestingly, many of his advisees were Chinese. These students had come to Harvard with a deep determination to understand the remarkable and unique path that the Chinese economy was taking after Deng Xiaoping's market-oriented reforms in the late 1970s. Kornai was the ideal mentor, with his unsurpassed knowledge of how state-directed economies work. Indeed, building on what they learned from him, a number of these students have played leading roles in Chinese universities.

Kornai retired from Harvard in 2002 and moved back to Budapest full-time. He initially was based at the Collegium Budapest, a research outfit modeled on the Institute for Advanced Study in Princeton. However, in 2011, Viktor Orbán's government, in effect, destroyed the Collegium, and Kornai then made Corvinus University of Budapest his primary academic affiliation.

In his final years, Kornai was deeply saddened by the political transformation of his beloved Hungary. In his youth, he had spoken out courageously against repression by the communist regime. Understandably, he was overjoyed when communism collapsed, and the country became a liberal democracy. And so it was an especially bitter disappointment for him to

see the Orbán government bring autocracy back. Kornai publicly denounced the government's many restrictions on liberty, but to little avail.

Let me end this obituary on a personal note. I first got to know János when he joined Harvard and we would get together for lunch to discuss economics. He thought that I, as a theorist, might help him formalize some of his important ideas, such as the soft budget constraint. And, in fact, I got so interested in soft budget constraints that I ended up writing a series of papers on the subject, including one with János himself and Gérard Roland (2003).

But, to me, the most important outcome of those lunches was the friendship I developed with János and Zsuzsa. We bonded over our shared affinity for music, movies, and politics. And we also loved to argue.

One of my last arguments with János was an email exchange we had a couple of years ago. He had written a forceful op-ed for the *Financial Times* criticizing Western economists (including himself) who had advised the Chinese government after Deng Xiaoping. He blamed them for helping to strengthen China, so making possible what he called the “monstrous turn” of Xi Jinping. I didn't agree with this position, but had to acknowledge that it couldn't be ignored.

Now that János is gone, I sorely miss his honest, blunt, and clear-eyed opinions. And I expect that the world will miss them too.

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