

REVIEW

**OUTSTANDING ECONOMISTS FLOOD
INTO BUDAPEST TO CELEBRATE
JÁNOS KORNAI ON HIS 90TH BIRTHDAY
– CONFERENCE HIGHLIGHTS**

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The year 2018 began with a series of interesting lectures and workshops given by prominent economists at the Corvinus University of Budapest. The events were addressed to celebrate the 90th birthday of János Kornai, Professor Emeritus of Economics at Harvard and Corvinus University, mostly known for his analyses of command economies. The most essential episode in the series was the “Kornai90” international conference held February 21-22, 2018, with keynote speeches given by prominent academics. In addition, the event was preceded by a public talk between Adam Michnik and János Kis, two iconic figures from the time of the Eastern European transitions, about the nature of systemic changes.

The conference was launched with an opening speech by the Nobel laureate Erik Maskin from Harvard University, who was a colleague of János Kornai and co-author of several papers. Maskin discussed the concept of the soft budget constraint – when loss-making enterprises can rely on a funding source that provides them with financial rescue – which was introduced by Kornai at the turn of the 1970s and 1980s. Maskin highlighted that the presence of this phenomenon was a major reason why the centralized economies of the Soviet Union and Eastern Europe were so inefficient, as soft budget constraints are usually associated with the protective role of the state towards companies and institutions, or even households. However, Maskin, surprisingly, did not cover the recent applications of this concept in his overview, such as – for example – the selective soft budget constraint, when only a particular group of entities benefit from the protection of the state; a situation that is absolutely relevant nowadays to the situation in China and also in Hungary. Nevertheless, he established a

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very cozy and friendly atmosphere that lasted throughout the conference.

The conference program was significantly focused on the recent processes in China, which is a very interesting place to investigate how the theories of János Kornai may be applied. Kornai and Maskin had several Chinese Ph.D. students at Harvard University who now hold influential academic positions in China, many of whom were invited to give speeches and to participate in a roundtable discussion. The general session about China on the first day of the conference began with a presentation by David Ddaokui Li, Director of the Center for China at Tsinghua University. He claimed that theoretical argumentation has to be supported by empirical evidence, so instead of arguing, experiments should be done to clarify the objective background needed to resolve the Chinese puzzle.

Then Chenggang Xu, Professor of Economics, Cheung Kong Graduate School of Business, focused on the Chinese proceedings of the 2000s from a critical point of view. He reminded the audience that it was the fast growth of the private sector that led to a decline in the number of members of the Chinese Communist Party. In addition, entrepreneurs who went to the West to gather ideas became critical of the ruling Chinese regime. To meet these challenges, the party developed two basic instruments, according to Xu's disquisition: 1) giving subsidies to loyal people (or in other terms, buying some entrepreneurs out) – but this is an expensive method; 2) repression. The presentation of Yi Jiang Wang, Associate Dean of Cheung Kong Graduate School of Business, was strongly related to these issues, as he emphasized that the best way to get rich fast in China is to benefit from the redistribution of wealth undertaken by the state.

The most notable speech from the session was given by Chong-en Bai, Executive Associate Dean of Tsinghua University's School of Economics and Management with the title "Selective Helping Hand". Bai referred to the selective soft budget constraints that Maskin did not cover in his speech, and analyzed the presence and the consequences of this phenomenon in China, also giving a pronounced context for the recent actions of Xi Jinping. He focused on the selective aid offered by local governments to companies that are trying to operate on their territory, as it is still difficult in China to launch a new business because there are barriers to getting loans and navigating administration. Bai revealed the paradoxical nature of this situation: there is regional competitiveness in China because regions compete for companies. But if regions compete, they should have attractive institutions; however, the indicators show that such institutions are of poor quality.

Bai referred to a personal story. One of his friends set up a business in China with the collaboration of a foreign investor. The aim was to launch the business, complete the project and finally take out the profit from the company. This could

only have been done if it were proven that there were no pending taxation duties. But there are several tax authorities in China at different levels of administration: not only at the central level, but also local tax agencies, and all of them have to declare that duties have been paid. But they do not acknowledge each other's certificates, so local governments have the capacity to select the enterprises they like. Finally, the businessman had to call a friend in the local administration to ask for help, otherwise the problem could have not been resolved.

In addition, Bai emphasized that local governments can create incentives for preferred enterprises and can do a lot of other things to favor businesses. New firms will be only helped if they are far more profitable than old ones because it is costly to establish new crony connections. Bai ended his interesting presentation by drawing attention to the need for evidence about the relationships between the cronies and the local governments and their effects on economic growth.

The conversation about China continued on the second day of the conference with a roundtable discussion with moderation by András Székely-Doby, an associate professor at Corvinus University who is deeply involved in the analysis of the Chinese economy. The first topic was the nature of the Chinese capitalism, which is a very interesting issue as the government still controls very important sectors of the economy. Former students of Kornai emphasized that private ownership exists but so does the coordinated economy, so one fundamental issue is the relationship between the government and private enterprises. The government has lots of leverage and owns shares in big private companies like Alibaba.

The discussion revealed the fact that land in China is completely state-owned, and the landlords are local governments. So, if a company needs land, then it has to negotiate with a local government – as for the concept of the soft budget constraint, it comes into the picture here, because local governments are in a position to select which firms get land, which is mostly the basis for borrowing money.

Another important topic from the roundtable discussion was the structure of the Chinese financial sector. Participants raised the problem of shadow banking which fuels investment and is assumed to be creating a bubble. Also, as most financial assets are monetary, potential devaluation of currency creates a significant risk to the economy.

During the conference not only Chinese but also Hungarian trends were deeply discussed from the perspective of Kornai's work. Philippe Aghion, a professor at the Collège de France, Harvard University and the London School of Economics cited the events of the current decade in Hungary in his keynote speech which was partly about the concept of simulated democracy – when democratic institutions exist but their operation is hampered. But there were

also sessions that addressed centralization and sought to assess the troublesome consequences of recently centralized public education, higher education, and health care. The potential reasons that the populist threat had become a reality (and how) in Hungary were deeply discussed too, and in addition a session was dedicated to the attitudes of the Hungarian political elite and the emergence of a new crony economic elite. In addition, presenters discussed the impacts of certain further extraordinary measures by the Hungarian government, like the seizure of the private pension fund system, the bail-out of municipalities, and changes in the welfare system in Hungary.

Apart from adapting Kornai's theories to recent political episodes, there were also several presentations which approached them from theoretical and historical points of view. The keynote speeches of Iván Szelényi, Professor Emeritus of Sociology at Yale University and Geoffrey Hodgson, Research Professor of Business Studies at the University of Hertfordshire, were also thought-provoking events from a more abstract perspective. But, in my view, the practical applications of Kornai's life work to present trends were the most interesting and accented parts of the conference.

Finally, the conference closed with the thoughtful remarks of János Kornai. The scholar has recently published several significant articles and books and given dozens of interesting interviews about the construction of modern autocracies. During his speech, he promised to engage himself in his next academic endeavor: reviewing all of the conference papers in order to organize them into a volume which will be a great honor to the presenters.