

KEYNOTE ADDRESS

Ten Years After *The Road to a Free Economy*: The Author's Self-Evaluation

János Kornai

Ten years have passed since the publication of my book *The Road to a Free Economy: Shifting from a Socialist System—The Example of Hungary*. It was the first book to offer comprehensive proposals for the postsocialist transition. This article assesses the book as I see it 10 years later.¹ Is this not an extremely self-centered undertaking? An advertisement for an old book that no one is buying these days? No. There are good ethical and intellectual reasons for assessing the book, as will be made clear.

Customary measures of success in the academic world try to measure a work's impact on its author's colleagues. Here I could be satisfied. Several hundred references have been made to the book—including by scholars who disagreed with what I said. Authors are gratified if their work proves controversial.

But here citations are not a sufficient measure of success. Because the book offered policy recommendations, a far more serious question has to be asked: what impact did it have on the outside world? I am not like a meteorologist, who makes a forecast but then sees the weather develop of its own accord. When I wrote *The Road to a Free Economy*, I expected it to have at least a modest impact on public opinion and political decisions, and ultimately to influence the course of events.

History is not shaped by blind forces. It is influenced by conscious people who bear responsibility for their actions. The main historical responsibility falls on politicians, but in the second rank stand advisers from the academic world. They too are accountable for what they say.²

Heated debates broke out in the early 1990s on what strategy should be adopted for the transition. (For a summary, see Roland 2000, especially chapters 4 and 10.) I will return to those debates, though not in a combative form. I will contrast my

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views with those of others, but without pointing fingers. I hope that this approach will prevent today's debates from becoming personal and direct attention to the problems themselves.

The focus here is on self-evaluation. I will avoid self-justification and self-congratulation, and I will be self-critical. But modesty will not keep me from endorsing my earlier views if I believe they are still legitimate.

How can it be established whether the book's messages were right or wrong? It is not enough simply to compare it with the facts. A case where the course of events coincided with my advice could be unfortunate if my recommendations were wrong. And it could be fortunate that events did not coincide with my recommendations if they were mistaken.

Whatever approach is used to judge the recommendations, the real task is to assess the events themselves—the actual course of history. That cannot be done without making value judgments. I will refrain from stating in advance the values through which I view the events, but will reveal them step by step. Ultimately, my conscience is the judge.

My book was originally written for the Hungarian public. The Hungarian edition appeared in 1989, before the country's first free parliamentary elections, and eventually appeared in 16 other languages with minor alterations. The foreword to the foreign editions warned that the recommendations could not be applied mechanically to other countries. Although I considered many aspects of the recommendations to have universal validity, they needed to be adapted to conditions in each country. So it seems expedient to focus here on Hungary's experience, augmenting it with references to developments in the Czech Republic, Poland, and Russia.

A complete account would have to cover the 15–20 issues discussed in the book. In hindsight, I see that I was right on many but wrong on quite a few others. I hope that someday I will have a chance to make a more detailed assessment, but here I will confine myself to just two issues.

The first issue is ownership reform and private sector development, where I believe that my recommendations were fundamentally correct. The second is macroeconomic stabilization. Here my report card is mixed: I was partly right and partly wrong.

Ownership Reform and Private Sector Development

The Road to a Free Economy took issue with the basic concept of market socialism. It rejected the idea that dominant state ownership should be retained but linked to market coordination. This position irritated advocates of market socialism—particularly many reform economists in Eastern Europe and many old-style social democrats in the West.

The book reflected its author's credo, supporting an economic system in which private ownership would dominate. In this respect the book did not differ from many proposals originating in the West. But this broad agreement left open important questions. What is the best road to such a system? Once the transition is over,

what will be the economy's ownership structure? Of the many variants of capitalism based on private ownership, which one should be sought?

Many ideas arose for private sector development. Here I briefly set out two pure strategies. Most of the detailed, practical proposals of the early 1990s came close to one or the other, and conflict between them lay at the center of the debates.

The Organic Development Strategy

The first strategy, which I call the strategy of organic development, has five main features:

- The most important task is to create favorable conditions for bottom-up development of the private sector. Mass entry of new firms is the main impetus for private sector growth. This process must be assisted by breaking down barriers to free entry, by guaranteeing the security of private ownership (with institutions created to enforce private contracts), and by applying “affirmative action”—with caution—to promote private sector development (as in tax and credit policy).
- Most state enterprises must be privatized. Sales are the basic technique for doing so. State assets have to be sold mainly to outsiders, giving preference to those who are willing to pay a fair price and commit to investing in the company. If the buyer is an insider, a genuine price must still be paid. Insider privatization cannot be allowed to degenerate into a concealed form of giveaway.
- The third characteristic of the organic development strategy follows from the second: any giveaway of state property must be avoided.
- Preference must be given to sales that produce a dominant owner. This may be a businessperson, a group of owners, or a privately owned company (domestic or foreign) with a history of private ownership. A particularly desirable owner is a strategic investor who is prepared to inject significant capital into the company. Where the form of a public limited company is chosen, there is no need to avoid dispersing some of the shares. But wherever possible, every company should have a core owner.
- Companies must face harder budget constraints to ensure the financial discipline essential to a market economy. New laws will have to be passed—including for bankruptcy, accounting, and banking—and consistently enforced. The trinity of privatization, liberalization, and stabilization will not ensure a successful transition. Harder budget constraints are just as important.

State enterprises with chronic losses do not need to be privatized at all costs or sustained artificially for too long. As the budget constraint hardens, it performs a process of natural selection among them. Profitable enterprises can be sold sooner or later. Enterprises that cannot be sold, because they have zero or a negative value, must enter bankruptcy proceedings, not be given away. Privatization

through bankruptcy and liquidation is one of the main techniques for changing ownership.

The private sector's share of gross production will grow as new private businesses emerge and the state sector shrinks. The state shrinks in two ways: state enterprises are sold to private owners, or they go bankrupt and exit.

The Accelerated Privatization Strategy

The second strategy I call the strategy of accelerated privatization. It has three main features:

- The most important task is to eliminate state ownership as quickly as possible.
- The main privatization technique is some form of giveaway—such as a voucher scheme—that distributes freely and equally among the country's citizens the property rights to the state companies being privatized. This approach may tolerate or even encourage takeovers by managers. In many cases this turns out to be a pseudo management buyout because the managers pay a very low price, which is almost tantamount to receiving the property rights free of charge.
- There is no need to avoid dispersed ownership. In fact, it may be preferred. What needs to be emphasized is that all citizens will share in the property rights of former state enterprises so that “people's capitalism” develops.

This strategy has two fewer features than the strategy of organic development. Advocates of accelerated privatization also approved of bottom-up private sector development, but they did not emphasize it in their proposals—while it was placed at the fore of ownership reform by advocates of organic development. Similarly, supporters of accelerated privatization would have approved of hardening budget constraints in principle. They did not press for retaining soft budget constraints, but the requirement of a hard budget constraint got lost in their proposals, and not by chance. I will return to this in the context of the Czech and Russian experiences.

The most important differences between the two strategies are not the items in each group of features, but the items that receive greatest emphasis. That is, where do the strategies suggest focusing political attention, legislative and administrative capacity, intellectual interest, and research activity? The two strategies are very different in this respect. The organic development strategy emphasizes healthy growth of the new private sector, while the accelerated privatization strategy pushes for rapid liquidation of the state sector.

The Road to a Free Economy and other writings of mine that appeared at about the same time outlined and recommended the organic development strategy. I was not alone in doing so: quite a few other analysts offered similar views. I greatly appreciate the positions taken by Andreff (1992), Bolton and Roland (1992), Brabant (1992), McKinnon (1992), Murrell (1992a, b, and c), Murrell and Wang (1993), and Poznanski (1993). But supporters of organic development were limited

to a small minority of Western academic economists. Most of the profession supported the accelerated privatization strategy, often using aggressive arguments to do so. Today I am certain that the organic development strategy was correct. The accelerated privatization strategy was inferior at best and harmful at worst.³

Intellectual Underpinnings of the Strategies

What were the intellectual inspirations for the two strategies? No one offered a strict line of thinking or produced a model that drew conclusions from precisely formulated assumptions. Advocates of both strategies blended knowledge from economics with intuition or with some vision of how capitalism was going to develop. In rereading the writings of those times, my purpose was not to discover which authors are cited. It was more to read between the lines to determine which ideas inspired the visions. I realize that I am treading on uncertain ground and could offer an inaccurate interpretation. Nonetheless, I will try to answer the question.

Let me begin with the easier part of the task, introspection. Which works and intellectual strands influenced me the most as I thought about ownership reform at the end of the 1980s? One source was Friedrich Hayek—especially his ideas on the development of the market economy and his opposition to “constructivism” (Hayek 1960, 1989). I thought it grotesque that my Czech colleagues, while referring to Hayek on several occasions, should be concocting the rules of the game for the voucher scheme and state prescriptions for putting it in practice. Hayek attached enormous importance to the spontaneity of capitalism, to the way it picks out, by evolutionary means, viable institutions capable of survival.

Another of my intellectual sources was Joseph Schumpeter—not the Schumpeter of *Capitalism, Socialism, and Democracy* (1976 [1942]), who places naive hope in market socialism, but an earlier Schumpeter (1968 [1911]), who identifies the entrepreneur as the central figure of capitalism. Schumpeter’s market economy is not a sterile, equilibrium-bound, Walrasian world. It is a world of real rivalry, where people found new firms, conquer new markets, and introduce new products. I felt that Eastern Europe, after its numbing dose of bureaucracy, needed tens of thousands of Schumpeterian entrepreneurs. Closely connected with this is Schumpeter’s well-known idea of creative destruction. This combines in my current thinking with the hardening of budget constraints and the painful but essential natural selection that ensues. A powerful process of exit and entry is the driving force for reallocating resources from less to more productive firms (Caballero and Hammour in this volume).

A third source was the image of the beginnings, development, and consolidation of capitalism that formed in my mind from various readings. These included the French Annales school, the writings of Fernand Braudel and others (which clarify the evolutionary nature of the process, especially Braudel 1985 [1975]), and studies of the commercial laws and financial discipline introduced under early capitalism.

Finally, I was strongly influenced by the study of socialist systems. I did not use the word *institution* in every other paragraph as has recently become fashionable.

But I understood what a system is, and the difference between socialism and capitalism. And I was aware that this difference would not disappear just by privatization, stabilization, and liberalization.

What intellectual sources influenced the advocates of accelerated privatization, inspiring them to produce their vision of how to “construct” capitalism at a rapid pace? It is not sufficient to refer in general terms to the influence of mainstream economics. Even if the adherents of accelerated privatization do not refer to them, I am convinced that they were strongly influenced by two authors. One (by a twist of fate) was Karl Marx and the other was Ronald Coase. I concede that they make strange bedfellows.

Sophisticated Marxists would call the accelerated privatization strategy vulgar Marxism. I would add that what it took from Coase is vulgar Coaseism as well. Here vulgar Marxism means a simplified formula: the change in ownership is not just a necessary condition of capitalism, but a sufficient one. Capitalist property relations form the base that goes on to create its own superstructure: the institutions, political organization, and ideology required to operate the capitalist base.

History and the postsocialist transition show that the relationship between base and superstructure is far more complicated. The mere existence of capitalist property relations is insufficient for the consolidation of capitalism. Transformation of the economy and the society often proceeds in parallel, with many interactions. One sphere advances and then the other, reacting to the first. There is no universal rule governing the sequence of the interactions. If a drastic reform of ownership should precede the transformation of political, legal, and cultural institutions, the institutional transformation may follow slowly and painfully, at great social cost. So, even if it is feasible, it is not certain that having rapid and drastic ownership reform before the transformation of auxiliary institutions is the most beneficial sequence.

For the simplified formula of vulgar Coaseism, it does not matter if the initial allocation of legal entitlements is inefficient. An efficient allocation will ultimately appear so long as:

- The exchange occurs in a perfectly competitive market.
- The exchange is free, and there are no barriers to recontracting.
- The recontracting involves no or low transaction costs (Coase 1960).

But what if these conditions do not apply? In fact, that is often the case in transition economies: there are serious problems with these conditions. The renegotiation and recontracting of the allocation of property rights may be blocked by powerful interest groups (as in Russia). Moreover, appalling social costs can arise during the reallocation period.

Four Countries' Experiences

In transition economies there is a close causal relationship between healthy development of the private sector, hardening of the budget constraint, forceful restructuring of production, and as the ultimate result, growth of labor productivity. Here

growth of labor productivity is more expressive than growth of per capita GDP because it sheds a clearer light on the effect of restructuring. Socialism left a legacy of mass unemployment on the job. The organic development strategy seeks to dispose of this legacy even if it means taking painful and unpopular measures. The accelerated privatization strategy shrinks from doing so. In 1998 labor productivity in Hungary was 36 percent higher than in 1989, while in Poland it was 29 percent higher. In the Czech Republic it was just 6 percent higher than in the last year of socialism. And in Russia labor productivity was 33 percent lower in 1998 than in 1989 (Economic Commission for Europe 1999).

Hungary has pursued the organic development of its private sector, coming closest to exhibiting the five features of the strategy described above.⁴ Still, Hungary's experience should not be idealized. Many misuses occurred—which can arise not only with free distribution but also with privatization by sale. Although none of the great corruption scandals came to a head, experts and the public suspect that abuses were not rare.

Nonetheless, Hungary's economic achievements have been impressive. Hundreds of thousands of small and medium-size firms came into being. Hardening of the budget constraint in the first half of the 1990s allowed natural selection to sweep over corporations. This coincided with a perceptible strengthening of financial discipline. The chains of mutual debt among companies were broken, and private contracts improved. A start was made on consolidating banks. All these developments attracted considerable foreign capital. Such capital was one of the main factors explaining Hungary's increased productivity and exports.

Poland occasionally flirted with the accelerated privatization strategy, but economic policy remained close to the organic development strategy. Many Polish economists now recognize that, apart from macroeconomic stabilization, Poland's success stemmed from massive new entries, vigorous bottom-up growth of the private sector, and foreign capital inflows (Dabrowski, Gomulka, and Rostowski forthcoming).

In the early 1990s the leaders in what became the Czech Republic were the first who wanted to apply the accelerated privatization strategy. Václav Klaus, the country's economist prime minister, championed the voucher scheme, which was applied energetically.⁵

Many analysts have offered explanations for why the voucher program did not yield the expected results (see Coffee 1996, 1998; Ellerman 1998; Nellis 1999; and OECD 1998, 2000). In the first phase, state assets were dispersed among millions of voucher owners—only to be concentrated again afterward in investment funds. But the funds lacked the capital to develop the backward companies or put in real investment. The funds were intertwined with large commercial banks, which were mainly or entirely owned by the state. This ownership structure was incapable of building strong corporate governance. Restructuring dragged on. Despite the strident free enterprise rhetoric directed at the outside world, budget constraints remained soft. Whereas privatization by sale engenders natural selection, the transfer of property rights by giveaway maintains the existing structure.

The Czech Republic's performance has been disappointing. The accelerated privatization strategy seems to explain many of the problems, though serious mistakes in macroeconomic policy also contributed to the lagging economy.

Russia is perhaps the saddest example of the failure of the accelerated privatization strategy. Here every feature of the strategy appeared in an extreme form: a voucher scheme was imposed, coupled with mass manipulated transfers of property into the hands of managers and privileged bureaucrats. In this environment an unprecedented ownership reform occurred—in which the ownership of natural resources, especially oil and gas, was expropriated by oligarchs.⁶

Russia's woes are closely linked to the survival of the soft budget constraint, in a form that has infiltrated and damaged every cell of the economy and body politic. Russia has become a "nonpayment society" (Pinto, Derbentsov, and Morosov 1999). Companies do not pay their suppliers, employers do not pay their employees, and debtors do not pay their lending banks. All this is tolerated by the executive and the judiciary. In fact, the state often sets a bad example by falling behind on the wages and insurance contributions of state employees and on pensions.

A Review of Four Arguments

Bearing in mind the features, ideas behind, and outcomes of the two strategies for ownership reform and private sector development in transition economies, consider some of the arguments heard in the debates of the early 1990s. First, advocates of accelerated privatization eagerly cited ethical considerations. It was argued that, for reasons of fairness, every citizen had to be given an equal share of state property. Experience has shown that this is a hypocritical argument. The initial allocation of property remained for only a short period, then gave way to a highly concentrated ownership of former state property. In Russia this led to an absurd, perverse, and extremely unfair form of oligarchic capitalism.⁷

If the sale of state assets occurs at a correct price, it does not alter the distribution of wealth or income. The state's wealth is not reduced; it simply changes form. Revenue from privatization has to be invested, not consumed. Hungary used its receipts to reduce foreign debt, at least during the big wave of privatization, when much of the energy and telecommunications sectors were sold. The consequent reduction in interest payments and improvement in the country's credit rating brought real benefits for all Hungarians.

Second, advocates of organic development placed great emphasis on sociological issues. The bourgeoisification of society, with the development of a property-owning class, is essential to the consolidation of capitalism. At a certain stage in the maturity of capitalism, a great role is played by the fragmented ownership of shares, coupled with institutional ownership. But there can be no running ahead. The appearance of institutional investors cannot substitute for a transformation in the stratification of society. This argument was confirmed by the first decade following socialism. There is a close correlation between measures of economic success and the restratification of society.

Third, the arguments that most appealed to economists involved economic efficiency. Here the organic development strategy is far superior. New private companies are generally more productive than those that remain under state ownership or those that were privatized during the transition (Konings, Lehmann, and Schaffer 1996; Konings 1997). The Schumpeterian spirit of enterprise—sweeping aside inefficient, nonviable companies; enabling new, real owners intent on establishing order; attracting foreign capital glad to make large, modern investments—boosts productivity growth and enhances export performance.

Finally, there are the political arguments. The voucher program was crucial to the victory of the governing party in the second free Czech elections—the only case in Eastern Europe in the past 10 years where the same government continued for a second term. By that yardstick, privatization was a success.⁸ By contrast, the coalitions that ruled in the first parliamentary cycles in Hungary and Poland failed in the second general elections. The rival coalitions that took office pursued much the same organic development strategies as their predecessors. Four years later, after abstaining from using giveaway privatizations as an election weapon, they suffered defeat. So accelerated privatization proved more favorable according to the Machiavellian criterion of retaining power.

Advocates of accelerated privatization everywhere, especially in Russia, repeatedly argued that if the window of opportunity opens for privatization, the opportunity has to be seized and the privatization carried out rapidly. It has to be done while the state bureaucracy is still confused, weak, and unable to resist. And the change in ownership has to be made irreversible, lest there never be another chance of doing so.

This argument can be neither confirmed nor denied by purely logical, speculative means. No argument can be sufficiently defended. Although it is clear today that Czech democracy, for instance, was not under any threat of a communist restoration or a reappearance of Soviet tanks, that was not so clear in 1991.

Reassessing events in Russia is especially problematic from this point of view. It has been repeatedly argued that mass privatization had to be carried out swiftly before the Communist Party gained its electoral victory. No type of privatization could have been pushed through the Duma once the Communist Party had become the tone-setter there.

I think that a faulty, upside-down causal explanation lies behind this argument. If privatization had taken another course, one without so many glaring abuses and social losses, there would not be such strong nostalgia in Russia for the communist system. An ownership reform thrust on society may be irreversible. But a more solid foundation for an irreversible advance of capitalism would be established if a broad bourgeoisie developed, property rights and private contracts were applied consistently, democracy were institutionalized, and the market economy enjoyed political support from most voters.

Macroeconomic Stability

In reviewing *The Road to a Free Economy*, I felt satisfied as I read the chapter on privatization. I cannot say the same about the chapter on stabilization. If some

miraculous time machine could take me back to that time (with my thoughts as they are today), I would rewrite the stabilization chapter before sending the book to the printer. The chapter dealt with several questions, three of which I address here.

Timing

When I wrote the book in 1989, Hungary was suffering from severe macroeconomic problems that required strong correction. It was clear that the adjustment would be painful, begging the question of when it should be done. My book recommended doing it right away—in the next year or two. That recommendation was soon repeated in the Czech, Polish, and Russian editions of the book and in several other foreign editions.

The main argument was that a new chapter of history was being opened. At that moment a freely elected government would have the moral legitimacy to ask the public to make a sacrifice. It would still be possible to claim that the government was trying to remedy the previous regime's worst omissions (as well as those that could be corrected most swiftly). If adjustment were postponed, people would feel, justifiably or unjustifiably, that the troubles had been caused by the democratically elected government, not the previous system.

I still believe that this position is correct. A dramatic step of this kind was taken in Poland in 1990 with Finance Minister Leszek Balcerowicz's reform program. And while I criticized the Czech government earlier in this article, I would like to pay tribute to the Klaus government for the bold adjustments it made to macroeconomic policy in 1991.

As a Hungarian, I sincerely regret that the government of my country rejected swift macroeconomic adjustment and the opposition did not press for it. Those decisions depended on political will, not objective economic conditions. Leading politicians were afraid to take unpopular action. As a result adjustment was postponed through the first four-year Parliament until eight months into the second. It was eventually adopted in 1995, when Hungary came close to financial collapse in the wake of Mexico's peso crisis. Careful advice was not enough. It took catastrophic signals at the frantic last minute before the government could bring itself to take corrective measures to avert the crisis.

Most experts agree that this postponed adjustment cost more than it would have had it been implemented earlier. Such a decision is not made in a purely rational, economic context. There is an ethical and political dilemma. It is a question of the intertemporal distribution of pain and gain, and of acceptance of the political price of unpopular measures.

Predictions

The proposals I made in *The Road to a Free Economy* rested on my forecasts of the macroeconomic consequences of the transition. But my prognosis was wrong. I did not predict the deep recession that followed; I was too optimistic in my expectations

of future growth. Many of my colleagues in Hungary and abroad made more realistic predictions.

I fault myself because I had information on which I could have based better forecasts. For instance, I could have read more carefully my own forthcoming book, *The Socialist System* (Kornai 1992b), which might have initiated in me the following line of thinking:

- The socialist system left behind a badly distorted structure of input and output. Correcting this called for creative destruction. But while destruction is rapid, creation is much slower. The balance of the two processes implied that there would be a deep recession.
- The socialist system established a special mechanism for coordinating activities. Although this mechanism was inefficient, it did operate. With the change of system, the old mechanism broke down, but the new market mechanism had not yet managed to take over all the tasks of coordination. In a study I wrote later on the transformational recession (Kornai 1993b), I called this situation an institutional no-man's land.

These changes, along with other factors, led to the region suffering the deepest recession in international economic history. The classic recipes for macroeconomic stabilization had to be altered and augmented before any adjustment and transformation could succeed.

What Action at One Stroke Can Achieve

The Road to a Free Economy recommended that a radical program of action be taken at one stroke. Even today I do not reject the notion of a radical adjustment package in which several measures are taken simultaneously. A well-compiled package of properly calibrated measures can restore equilibrium in several important dimensions of the macroeconomy all at once, or at least bring the economy much closer to a tolerable degree of disequilibrium (for instance, reducing the current account deficit or the budget deficit to a sustainable level).

What I criticize in that proposal today is its misplaced emphasis. Too much attention was paid to what could be achieved rapidly with a drastic adjustment package—and too little to how to consolidate this quick fix and produce a further, lasting improvement.

It is hard to achieve economic equilibrium, but very easy to lose it again. During the 1990s it seemed time and again in the Czech Republic, Hungary, Poland, and Russia as if the macroeconomy was on the right track. Then came another jolt: deceleration or even deterioration in certain indicators. For growth to be sustainable, there has to be not just one macroeconomic intervention, but deep, comprehensive institutional reforms.

My book dealt adequately with everything connected, directly or indirectly, to the budget constraint. But I cannot acquit myself of a mistake also made by many others: not pointing sufficiently to the importance of other reforms. It is easy to rapidly improve the budget balance at a single stroke by, say, raising rates on existing taxes.

But a lasting improvement requires radical tax reforms, a broader tax base, the introduction of new taxes, and consistent tax collection. And that is only one side of fiscal reform, perhaps the easier side. The other side requires cutting state spending by reorganizing the state apparatus and the financing of education, health care, and other welfare systems. Similarly, it is relatively easy to declare that the currency is convertible. It is much harder to organize an effective system of international payments, to develop strong connections between domestic and international banking systems, and to guarantee that international payment agreements will be observed.

Macroeconomic stabilization is not a battle, but an endless war. Stabilization cannot be gained by a blitzkrieg. Institutional reforms can only be obtained step by step, through a series of larger and smaller reforms. I regret that this idea did not feature in *The Road to a Free Economy*.

Conclusion

The debates of the early 1990s involved choosing between gradualism and shock therapy. But I believe that was a false dichotomy, so I will not try to resolve it. It implies a single yardstick: speed. While speed is important, it is not the primary measure of success. In those days many participants in the postsocialist transformation were obsessed with speed.⁹ The Czech Republic was congratulated on being the first country to privatize the bulk of its economy. Hungary's private sector was not making an equivalent contribution until two years later, and Poland's not until perhaps three years later. But so what? The transformation of society is not a horse race. The main indicator of success is not who passes the winning post first.

Excessive emphasis on speed leads to impatience, aggressiveness, and arrogance. Ironically, the expression mass privatization, used as a synonym for giveaways and voucher schemes, is the inverse of the mass collectivization familiar under Stalin. Stalin did not want to spend much time bothering with voluntary collectivization. Using merciless violence, he imposed collective ownership on the peasantry within two to three years. I do not want to exaggerate the comparison—no gulags or brutality were required in the 1990s. The forcing of change was milder. Still, there were similarities: the subordination of ownership reform to political purposes, the horror felt toward gradual change, the impatience, and the obsession with speed.

The transition from socialism to capitalism has to be an organic development. It is a curious amalgam of revolution and evolution. It is a trial and error process that retains or liquidates old institutions and tries out, accepts, or rejects new ones. Each element in the process might be very rapid, fairly rapid, or slow. Each has its own appropriate speed. Some episodes call for one-stroke intervention. Many other processes advance through incremental changes.

There are more important criteria than speed. I start from the conviction that capitalism is superior to socialism. From that it follows that the stronger are capitalism's foundations, the better will be the system's medium- and long-term performance. So the emphasis must be placed on consolidation and stability—and at the same time, on making growth sustainable, not on breaking records with it.

Notes

1. This article mainly deals with Kornai (1990), but a few other lectures and publications at the start of the transition allowed me to clarify my views. The Tinbergen lecture (Kornai 1992a), delivered in 1991, concerned privatization. The Myrdal lecture (Kornai 1993a), delivered in 1992, was about hardening budget constraints. Both lectures are assessed as part of this evaluation.

2. In a narrow sense the word *adviser* means a person who is invited to advise a government, state, international organization, or political party or movement. Many economists inside and outside transition economies did so at the beginning of the transition. I turned down all such invitations. But there is a broader meaning to the word *adviser*: a person who does research and makes policy recommendations without being commissioned to do so. As the author of *The Road to a Free Economy*, I consider myself an adviser in the broader sense. When I was young, just before the 1956 Hungarian revolution, I belonged to a group that recommended reforms. After the defeat of the revolution, 33 years passed in which I never again drew up another comprehensive economic policy proposal. I concentrated on research. My role did not change radically until the first free elections were announced in Hungary, when I realized that it was time to present proposals that had formed in my mind.

3. Dyck (in this volume) shows that most transition economies using direct sales and concentrated ownership with openness to outsiders had growth rates higher than the mean for the region. Countries adopting voucher schemes with dispersed ownership had growth rates lower than the mean.

4. It is not possible to say how much *The Road to a Free Economy* influenced the Hungarian administrations that succeeded each other at four-year intervals. Politicians do not usually acknowledge their intellectual debts. At the time the book was hotly debated in Hungary—not only in the specialist press but also in daily newspapers and on radio and television. Many leading politicians and their advisers must have read it.

5. The idea of vouchers did not originate in the Czech Republic. It had appeared earlier in Poland, in a paper by Lewandowski and Szomburg (1989). Of the Czech program, Klaus (1997, p. 72) wrote in 1992, “Our nonstandard voucher privatization proved to be rapid and efficient.”

6. For a critical analysis of the consequences of Russian privatization, see Black, Kraakman, and Tarassova (2000). About the barriers of free entry, see Broadman (2000) and Desai and Goldberg (2000).

7. I am not claiming that privatization by sale, as opposed to giveaway, is necessarily “clean.” I mentioned earlier that there were presumably several shady transactions in Hungary. All I seek to do here is to refute the claim that free distribution, by its nature, is fair. In any case, most Russians looked on vouchers with suspicion from the outset and did not expect them to appreciably improve their financial position (see Blasi, Kroumova, and Kruse 1997, pp. 76–77).

8. Though the same government fell two years later in the middle of the parliamentary cycle—not least because of the economic policy mistakes it had made.

9. Anatoly Chubais, the leading figure in Russian privatization, gave a lecture to the Carnegie Endowment for International Peace in May 1999. “Asked about his role as privatization minister from 1992 to 1994, Chubais conceded that his privatization efforts could be characterized as ‘Bolshevik-style’—lacking public support and quickly executed . . . His strategy was to privatize as quickly as possible, using every minute of the day to privatize: ‘I did not speak, I privatized,’ Chubais proclaimed” (CEIP 1999).

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