## JÁNOS KORNAI

## Harvard University and Corvinus University of Budapest

## SHORTAGE ECONOMY - SURPLUS ECONOMY

Background material: The second essay of János Kornai: Dynamism, Rivalry and the Surplus Economy

Oxford: Oxford University Press, pp. 51-167, expected publication date: November 2013.

## WAITING TIME FOR CARS IN SOCIALIST COUNTRIES, 1989

|  | Waiting Period in Years |  |  |  |  |  |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Make of Car |  |  |  |  |  |
|  | Lada | Skoda | Moskich | Wartburg | Trabant | Dacia |
| Bulgaria | $10-12$ | 5 | 2 | 2 | 1 | 1 |
| Czechoslovakia | $3-4$ | - | - | - | - | - |
| East Germany | 17 | 16 | - | $14-16$ | 14 | 15 |
| Hungary | $4-6$ | 6 | - | 1 | 0 | - |
| Poland | $5-6$ | $6-8$ | - | $3-4$ | $2-3$ | - |
| Romania | - | - | - | - | - | $4-6$ |

## EXCESS CAPACITY IN THE AUTOMOTIVE INDUSTRY, 1990-2008

Million units


## SHORTAGE AND SURPLUS ON A SUB-MICRO LEVEL

Shortage - relative to what?
Relative to the buyer's buying intention.
Surplus - relative to what?
Relative to the seller's selling intention.

## DEFINITIONS AND CENTRAL STATEMENTS

## Definitions

Shortage economy: excess demand phenomena dominate; these are frequent, intensive and chronic.
Surplus economy: excess supply phenomena dominate; these are frequent, intensive and chronic.

## Central statements

The nature of the socialist system: produces a shortage economy.
The nature of the capitalist system: produces a surplus economy.

## AN ILLUSTRATION OF THE SHORTAGE AND SURPLUS ECONOMIES



## THE POINT OF THE WALRASIAN GENERAL EQUILIBRIUM



## THE RULE OF THE SHORTER SIDE

In the case of excess demand, supply is the short side demand is the long side.
In the case of excess supply, demand is the short side supply is the long side.

Only the short side is measurable through objective observation.

The long side can only be estimated through detecting the subjective intention by interviewing.

## OVERVIEW OF THE TERMINOLOGY

1. Shortage economy vs. surplus economy
2. Excess supply economy vs. excess demand economy
3. Demand-constrained economy vs. supplyconstrained (or resource constrained) economy
4. Sellers' market vs. buyers' market
5. Buyers' competition vs. sellers' competition

## CONSEQUENCES AND EVALUATION OF THE SURPLUS ECONOMY

1. Rapid technical development
2. Power relations: the buyer is stronger
3. Chronic unemployment
4. Waste (or the feeling of waste)
5. Direction of corruption: the seller bribes the buyer
