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SHORTAGE ECONOMY – SURPLUS ECONOMY

Background material: The second essay of

János Kornai: Dynamism, Rivalry and the Surplus Economy

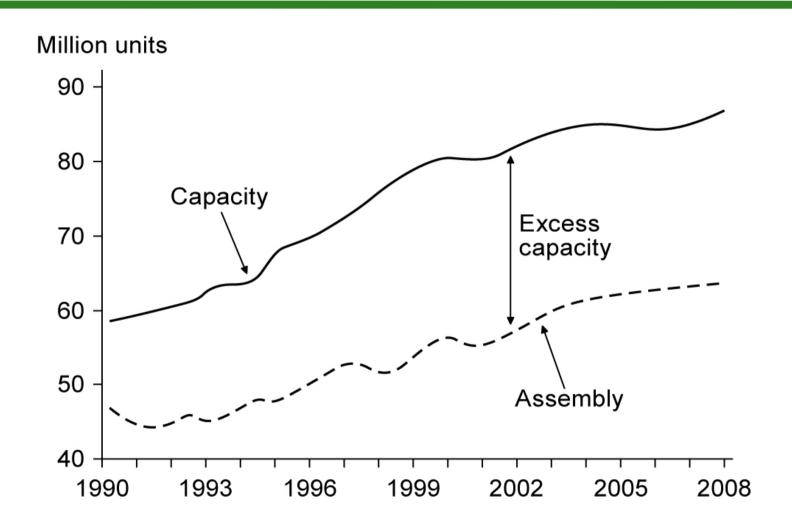
Oxford: Oxford University Press, pp. 51-167, expected publication date: November 2013.

WAITING TIME FOR CARS IN SOCIALIST COUNTRIES, 1989

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Waiting	Period	m	<i>Years</i>
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	Make of Car						
_	Lada	Skoda	Moskvich	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



SHORTAGE AND SURPLUS ON A SUB-MICRO LEVEL

Shortage – relative to what? Relative to the buyer's buying <u>intention</u>.

Surplus – relative to what? Relative to the seller's selling <u>intention</u>.

DEFINITIONS AND CENTRAL STATEMENTS

Definitions

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

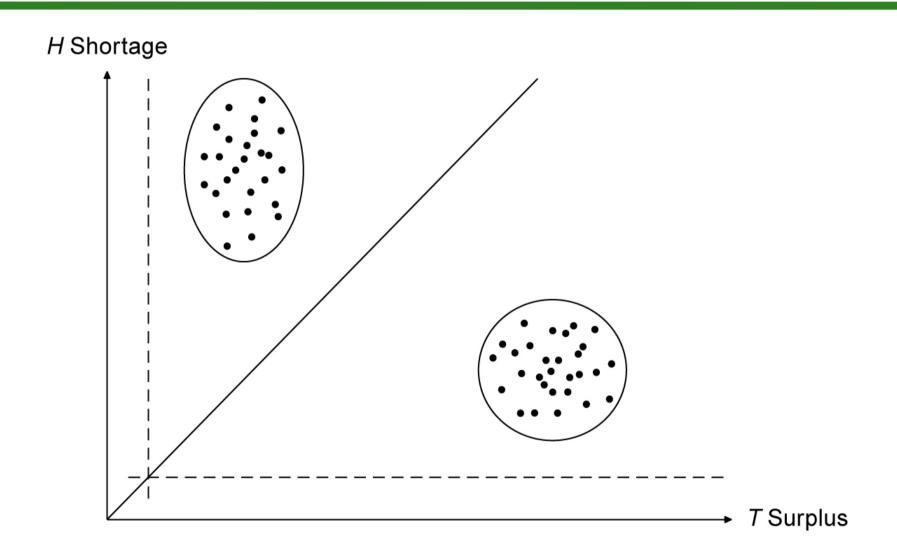
<u>Surplus economy:</u> excess supply phenomena dominate; these are frequent, intensive and chronic.

Central statements

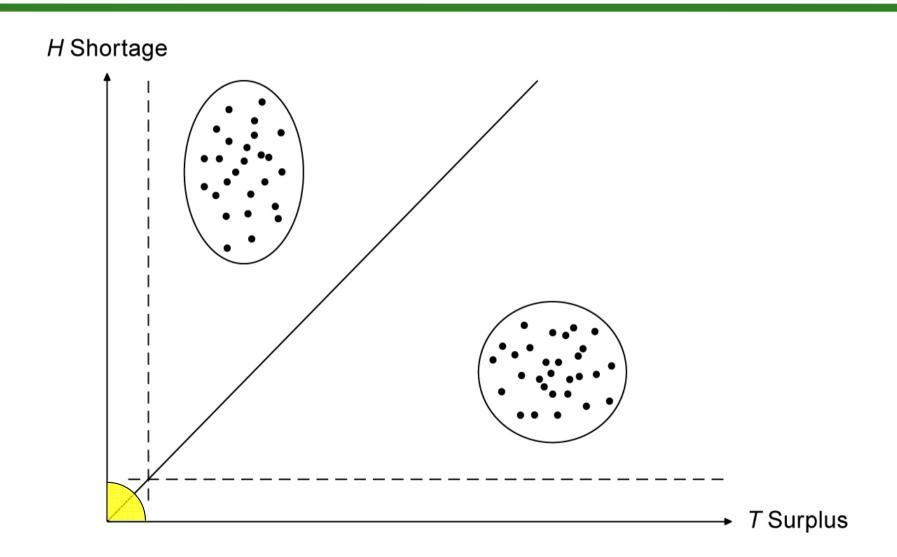
The nature of the socialist system: produces a shortage economy.

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 <u>subjective</u> intention by <u>interviewing</u>.

OVERVIEW OF THE TERMINOLOGY

- 1. Shortage economy vs. surplus economy
- 2. Excess supply economy *vs.* excess demand economy
- 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