

JÁNOS KORNAI

**Harvard University and
Corvinus University of Budapest**

**DYNAMISM, RIVALRY AND
THE SURPLUS ECONOMY**

Background material:

**János Kornai: *Dynamism, Rivalry and the Surplus Economy*
Oxford: Oxford University Press, 2013.**

ORGANIZATION OF THE LECTURE

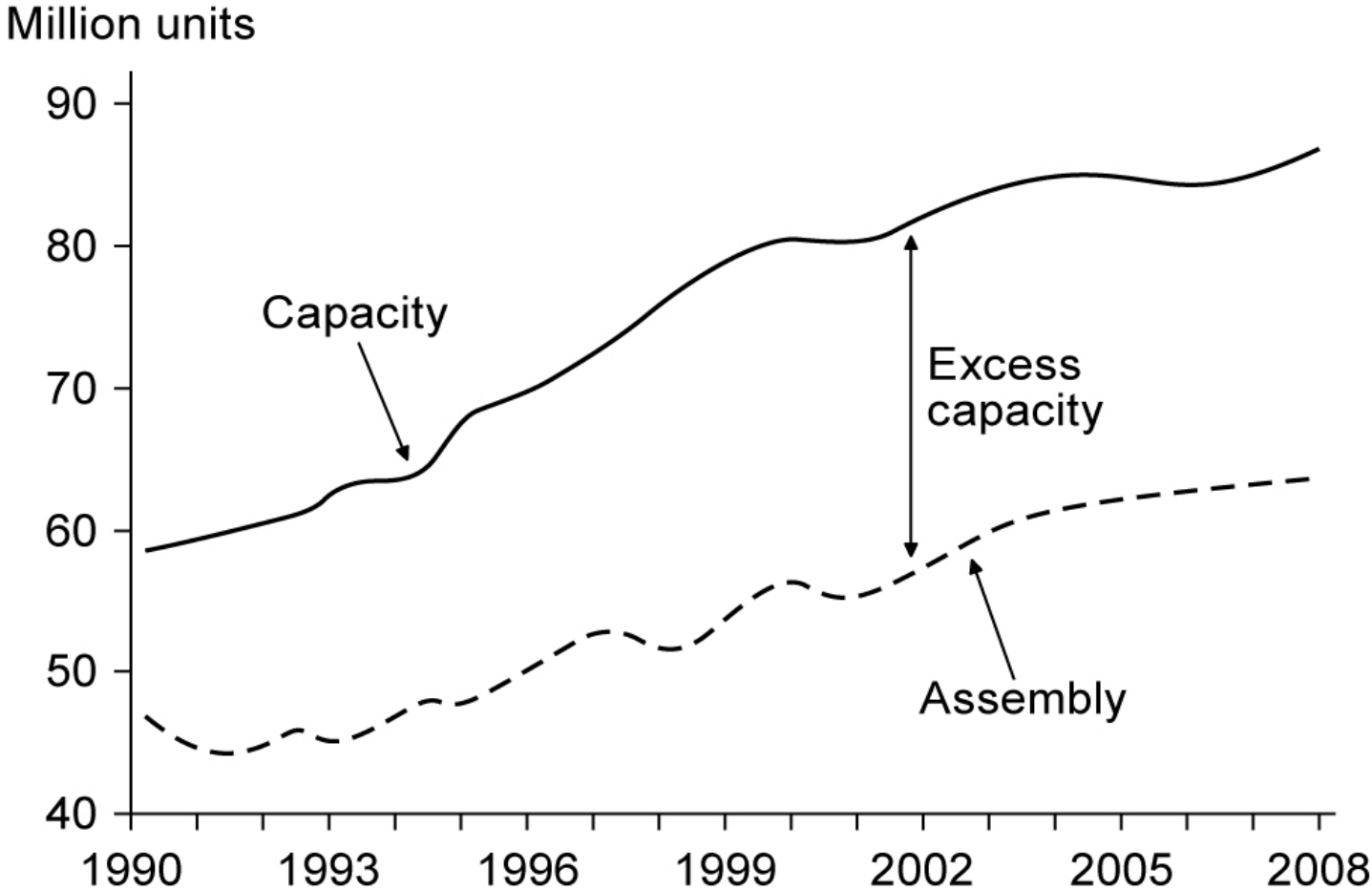
- 1) Description of the phenomena. General propositions
- 2) Explanation
- 3) Consequences and appraisal

WAITING TIME FOR CARS IN SOCIALIST COUNTRIES, 1989

Waiting Period in Years

	<i>Make of Car</i>					
	<i>Lada</i>	<i>Skoda</i>	<i>Moskvich</i>	<i>Wartburg</i>	<i>Trabant</i>	<i>Dacia</i>
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 PHENOMENA -- SURPLUS PHENOMENA

Shortage phenomena

Generic term for all micro phenomena which occur when buyer's buying intention cannot be satisfied because lack of supply

Observable: waiting time
length of queue
forced substitution
actual rationing schemes

Surplus phenomena

Generic term for all micro phenomena which occur when seller's selling intention cannot be satisfied because lack of demand

Observable: excess inventory (in case of storable goods)
excess capacity

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.

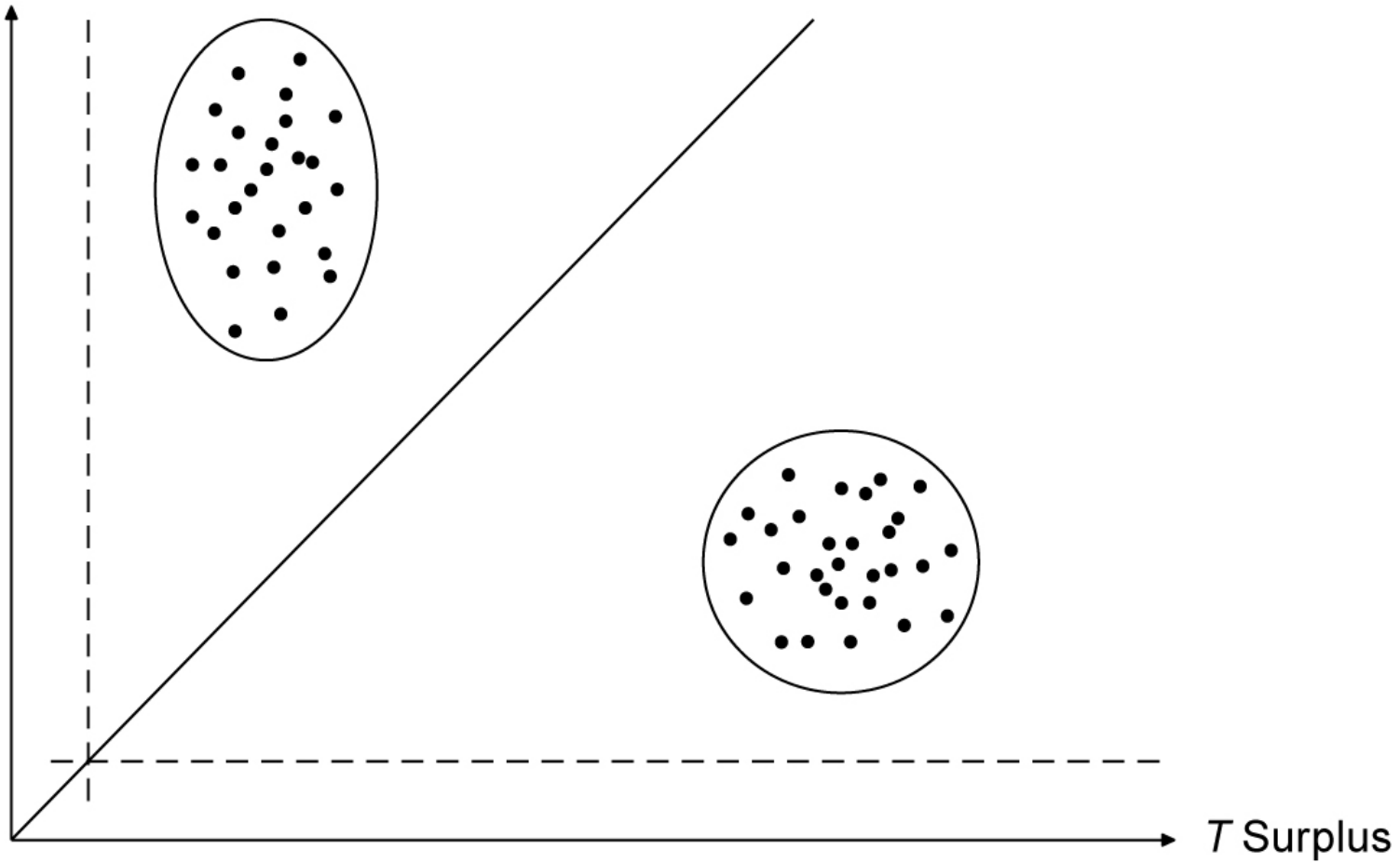
Central statements

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

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

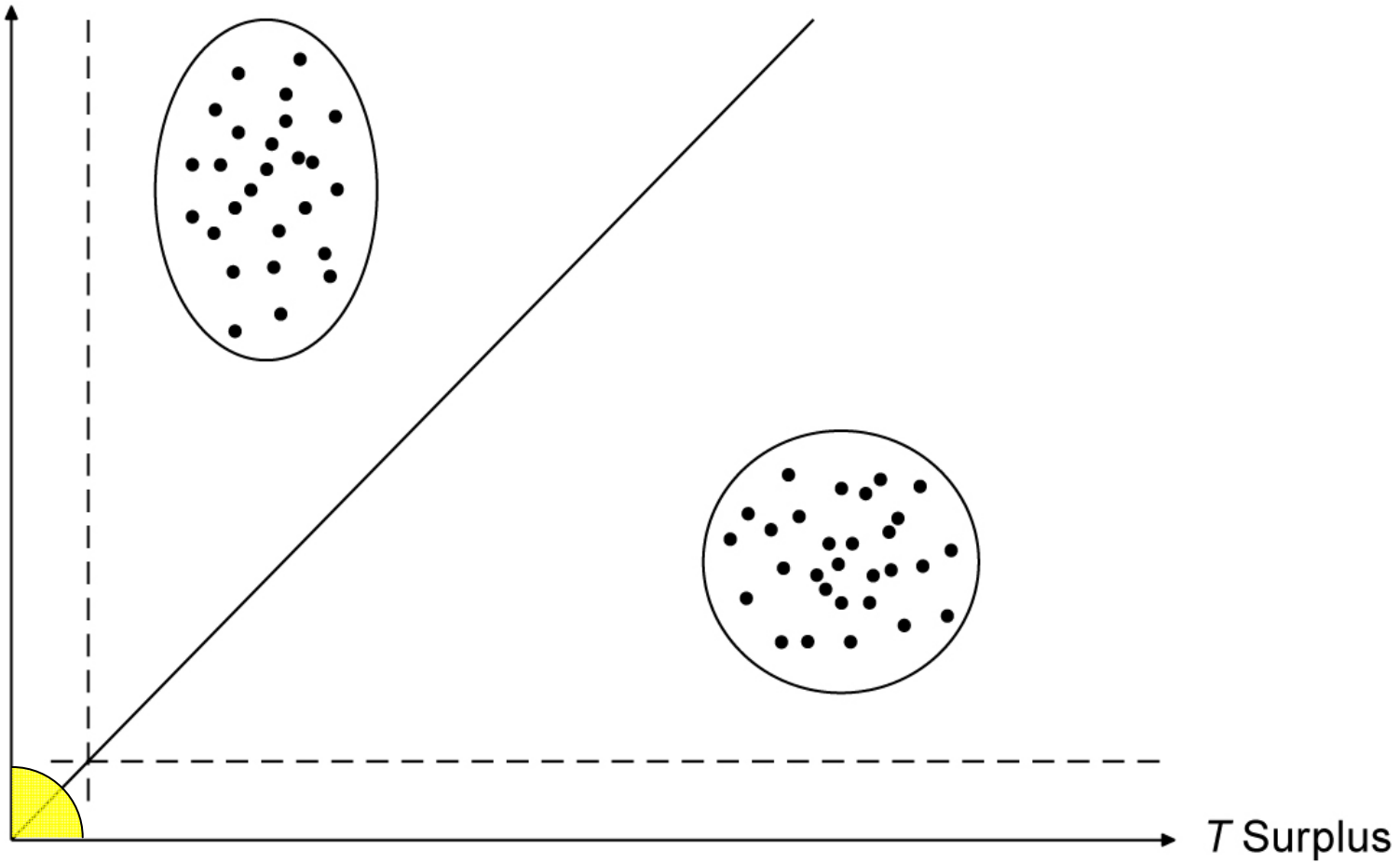
AN ILLUSTRATION OF THE SHORTAGE AND SURPLUS ECONOMIES

H Shortage



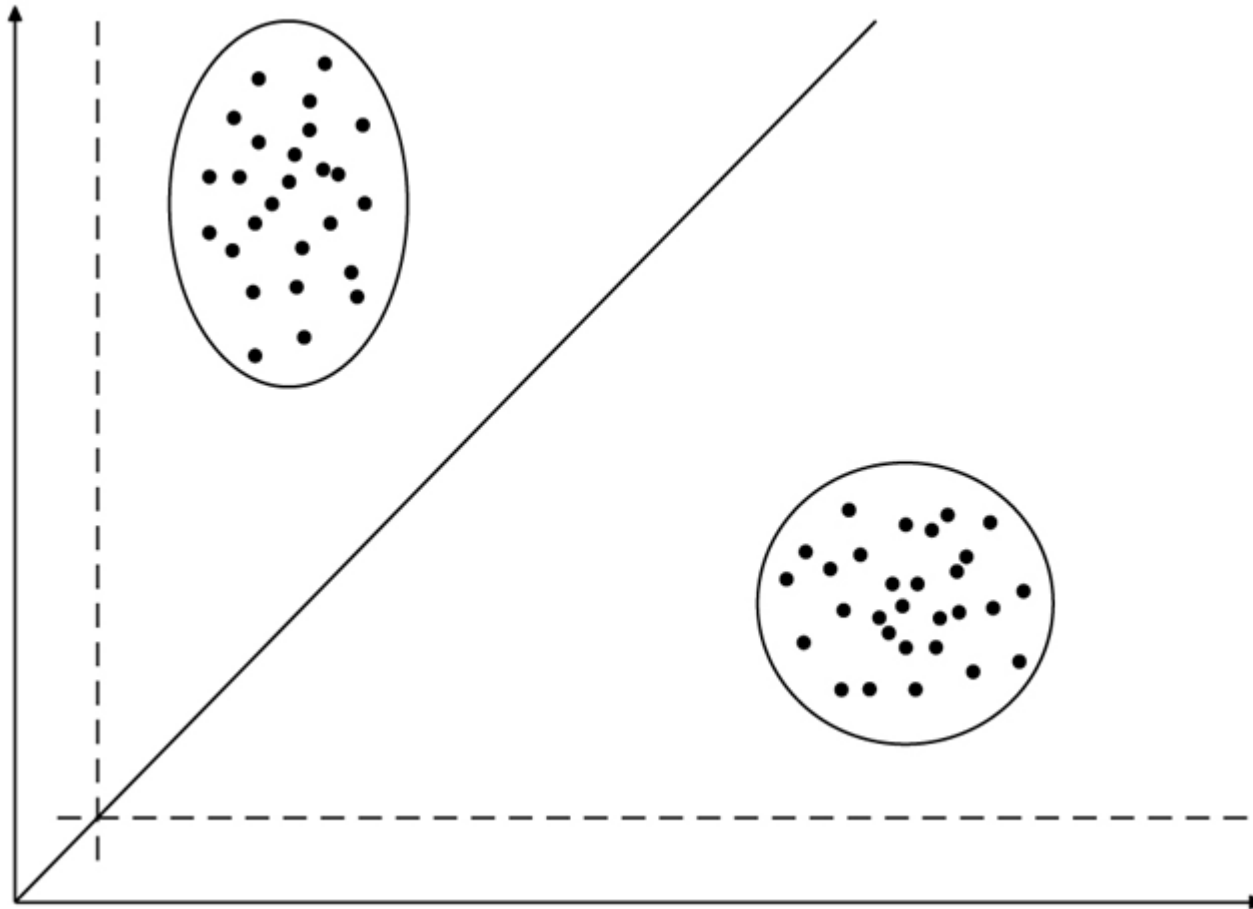
THE POINT OF THE WALRASIAN GENERAL EQUILIBRIUM

H Shortage



SHORTAGE AND SURPLUS ON THE LABOR MARKET

Rate of vacancies



Rate of unemployment

OVERVIEW OF THE TERMINOLOGY

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

SOME EXPLANATORY FACORS ON THE SUPPLY SIDE OF THE SURPLUS ECONOMY

On the market for goods and services

1. Oligopolistic competition
2. Uncertainty of demand -- safety considerations
3. Creative destruction
4. Economies of scale

On the labor market

1. "Keynesian unemployment"
2. Structural unempoyment
3. Frictional unemployement
4. Efficiency wage

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

REVOLUTIONARY INNOVATIONS 1917-2010

COMPUTER, INFORMATION, COMMUNICATION

integrated circuit, touch-tone telephone, fax, optical fiber cable, pocket electronic calculator, word processing, microprocessor, laser printer, modem, MS-DOS operating system, hard disc drive, graphical user interface, laptop, touch screen, mobile telephone, mouse, web search engine, USB drive, Skype (peer-to-peer phone), YouTube video sharing website

HOUSEHOLD, FOOD, CLOTHING

tea bag, hair dryer (hand held, electric), wall plug, spin-dryer, automatic pop-up toaster, steam electric iron, electric refrigerator, air conditioning (home), neon light, instant coffee, electric clothes dryer, nylon, espresso machine (high pressure), microwave oven, drive-through restaurant, saran plastic wrap, polyester, Tefal kitchenware, hook-and-loop fastener (Velcro), athletic shoe, halogen lamp, food processor, Tetra Pak, beverage can

COMMERCE, BANKING

supermarket, shopping cart, shopping mall, charge card, credit card, Automated Teller Machine (ATM), express shipping, bar code, e-commerce

REVOLUTIONARY INNOVATIONS 1917-2010 (cont.)

HEALTH, COSMETICS

adhesive bandage (Band-aid), facial tissue (Kleenex), paper towel, electric shaver, aerosol container, disposable diaper, transistor hearing aid, roll-on deodorant, disposable razor, liquid detergent

OFFICE

adhesive tape (pressure sensitive Scotch tape), ball point pen, correction fluid, copy-machine, „Post-it”

TRANSPORT

escalator, parking meter, scooter, jet-propelled passenger aeroplane, black box (for aeroplanes).

LEISURE

drive-in cinema, instant camera, TV remote control, plastic construction toy, Barbie doll, quartz wristwatch, Video Cassette Recording (VCR), Walkman, Rubik's cube, CD, Portable video-game, digital camera, book trade on the internet, DVD