

## Economic Disequilibrium in the Opinion of the Economist Janos Kornai

❖ CORNELIA NISTOR ❖

**Abstract:** According to the principles of the general economic equilibrium each economic agent is rational. It always pursues to optimize the activity it carries out, which in mathematical terms means to solve an extreme – minimum or maximum – problem grounded on a determined order of the preferences and by complying with certain restrictions. In order to put in mathematical form the company's general interests, a general "welfare function" can be designed, ensuring the fulfillment of the optimal state for all economic agents. The economist J. Kornai contradicts this conclusion, demonstrating that society is formed of groups of economic agents with identical or, on the contrary, contradicting interests, such that the decisions they make in order to organize the economic activity should be based on compromises and on the attempt of attenuating contradictions.

**Key words:** mixed disequilibrium, general economic equilibrium, consume.

J. Kornai reinitiated the analysis of general economic equilibrium, showing that his predecessors had oversimplified it, without taking into consideration a number of elements of which demand and offer depended and by limiting themselves to the two essential factors, namely price and income. He added to the said factors fashion, the imitation effect, the rapid change of the consume structure in favor of new products, the consumers' social position, in which an important role was that of the urbanization influence.

For a more complex analysis of the possibility of achieving the economic optimum, certain difficulties have to be solved, regarding: finding better methods for a more exact observation and measurement of variables such as sale and purchase intents, satisfaction degree, potential production increase, needs' intensity' studying complex mechanisms which besides prices regulate the economic system; analyzing the state of mixed disequilibrium, present especially in some undeveloped countries, characterized by the fact that in some economic branches the longer term

absorption state persists, whilst in other pressure is predominant; explaining the influence exercised by the internal inflationist process over the currency stability and the long term disequilibrium on the national market; thoroughly consider the issues arising from the existent correlation between saving, investing and using the labor force.

From the neoclassic theory of the general equilibrium it results that the offer is influenced by the structure of the production cost, which modifies depending on the prices variation. The volume of the production ensuring the maximization of companies' profit, and hence their equilibrium is the one complying with the equality between price and marginal price, under the condition for the price to be higher than average variable costs. J. Kornai added essential factors of which the offer, modification of available resources fund and introduction of technical progress depend, and also underlined the important role of the elements often standing against the practical performance of the equilibrium condition: stocks situation, information regarding the customer's preferences obtained by marketing researches and the state's influence.

The analysis of economic processes cannot limit to a static observation, as production and consume should be mandatory regarded as flow variables, because an obvious gap exists in time from the moment when the producer communicates his intent of selling the products and until their actual sale. During this time interval a flow of messages occurs between the producer and the buyer, and then consequently a flow of products will be created between them. The problems becomes more complicated if there are also taken into account products existing on the company level, interposing between produc-

tion and consume and which imply the carrying out of yet another flow of messages.

Because production and consume are two economic processes carried out in different spaces and having different time dimensions, J. Kornai raised the issue of the possibility of correctly defining demand and offer. Considering that they could not be measured, he reached the shocking conclusion that it was impossible for their equality to be considered, and hence of obtaining an equilibrium. Contrary to the opinion of the general economic equilibrium school, he asserted that the tendency of real economic systems was to be in disequilibrium, either under the form of pressure, or of absorption. Because in the pressure state each company should dispose of reserves of production capacities, and because the market is never emptied of merchandise, as products, production factors and reserves stocks exist, then it cannot be considered that this satisfies the equilibrium conditions in the general equilibrium theory.

Another reproach he made to this school was that all the representatives of the general economic equilibrium attempted to determine the factors ensuring the maintenance of the same equilibrium, the aspects being omitted regarding the dynamics of the economic system. In reality, even though forces permanently act which tend to bring the economic system as close as possible to the equilibrium state, the disequilibrium state is predominant, which could be sometimes more advantageous than equilibrium, impelling economic development.

Moreover, there is not admitted the condition for products' homogenous nature, nor can there be ignored the qualitative differences between such. The consumer is always put in the position of choosing between more

substitutable goods. The only modality in which it could be considered that the aspects are reflected regarding quality in the analysis performed by the representatives of the general economic equilibrium School would be the situation in which the consumer needs to select the best of the substitutable goods. He prefers the one which is qualitatively superior, reducing demand and therefore the production for lower quality products.

Also, it is incorrect to assume that information circulating between economic agents only refers to price, even though this could be argued by maximum information saving. However, a modern economic system should be characterized by a complex informational system, which is necessary for the regulation process and also improvable, so that to eliminate useless information. It would be a mistake to assume that determining the system of equilibrium prices ensures the stability of this status. In reality, the most important role is played by the inertia itself of economic systems, by their natural tendency of self-repeating.

In his mathematical approach J. Korani expressed the performance of the economic system "E" in a certain historical period "T" by using the realization vector " $d_{(T)}$ ":

$$d_{(T)} = E[O, G, S, \Phi, \Psi, y_{(t_0)}, v_{(t_0)}]$$

the components of which are:

O = organizations

G = manufactured products

S = sorts of used messages

$\Phi, \Psi$  = the system of reaction functions

$y_{(t_0)}$  = initial products stocks

$v_{(t_0)}$  = initial memory content

The economic system is divided into a sub-system of real elements, in which O, G,

$\Psi$  and  $y_{(t_0)}$ , are included, describing the real flow, and a regulation sub-system, in which the elements S,  $\Phi$  and  $v_{(t_0)}$  are included. The real processes in the system are the production of goods, delivery of services, storage, transportation, circulation, consumerism, to which there are added observation, information transmitting and processing and the decisional process. In the regulating sub-system there are included: the market, the monetary and credit system, economic planning, development of technique and science, labor force distribution. The decisions of economic agents can be reversible and irreversible and also comparable or non-evaluating. They are influenced by a series of external factors, amongst which the most important are technical development and the environment.

The fundamental economic problem is to determine by deductive or even empirical methods the conditions satisfied by various economic systems and then to improve such. The conditions are actually the elements of the performance vector " $d_{(T)}$ ".

Pressure is defined as the stage in which, on a product's market, the seller stands in line for the buyer, which manifests a "positive intensity of aspirations which is not entirely satisfied". On the contrary, absorption is the situation in which the "buyer stands in line for the seller, and in which the buyer has an unsatisfied positive tension of aspirations". If the analysis is extended to all products in a national economy, then disequilibrium will take the form of general pressure or general absorption.

The main disequilibria in the real economic systems are:

- offer in excess on the goods and services market and on the labor market, corresponding to the typical situation of Keynes -

ian unemployment, characterized by the fact that the obtained production is higher than market demands, and that the degree of production factors utilization decreases;

- demand in excess on the goods and services market and labor market, characterizing the situation in which classic unemployment exists and corresponding to the initial periods of industrialization, in which the capital outfit deficit of enterprises was not enough in order to allow additional hiring, nor in order to increase production up to the demand level;

- demand in excess on the goods and services market, on the monetary market and on the labor market, describing the implicit or repressed inflation, characterized by the fact that companies cannot find labor force, salaries and prices are below the equilibrium level and therefore, upon the available production factors companies could not produce enough in order to satisfy the demand on the market.

In analyzing the evolution process of the economic system's status towards equilibrium there must be also taken into account that producers and consumers do not know their intentions perfectly and from the beginning and moreover that adaptation is characterized by a high level of instability, by uncertainty considerably influencing the behavior of economic agents on the market. In the pressure status, uncertainty first of all affects the producers. They must each ensure production factors and reserve products stock in case the buyers might prefer them to other producers. The impact will be a lot larger in case their expectations do not confirm, and the respective stocks will remain unused, representing losses, of obvious negative influences over the possibilities

for future development. In the absorption status, uncertainty affects first of all buyers, who see themselves forced to buy necessary products not when they need to do so, but before, when they can find them on the market. Thus, stocks of products are accumulated which will never be used again.

The pressure is determined by a series of elements, amongst which an important role is that of inflation, due to which the buying intent is overcome by the selling one. Another pressure factor is the uncertainty manifesting by the creation of reserves in companies in order to be able to cope with potential buying intents. Companies manufacturing new products will be more successful, and will sell more than those manufacturing old products. The pressure can also be caused by the surplus of investments potential compared to the more reduced desire for investing of the producers.

In absorption, consumers cannot purchase more than the products quantity put on the market by the producers. A source of disequilibrium is the fact that companies aim to purchase a larger quantity of production factors in order to produce more, knowing that excess demand exists, however this surplus of production factors required by the companies does not exist on the market. The situation also reflects disequilibrium between the national economy branches and sub-branches, because very large demand of some companies for production factors is larger than the offer the companies in those branches or sub-branches should have ensured. Absorption in a certain period can also generate absorption in future periods, because in the effort of overcoming this status, there will be attempted the increase of production over the possible achievable level, representing a

disequilibrium increase source.

J. Kornai underlined that the notion of competition did no longer had the sense it used to have in the general equilibrium theory because sale and purchase intents coincide with the effective sale and purchase. Real competition is manifested however in two main forms: the one in which sellers compete in order to obtain the buyer's favor and the one in which the situation is reversed. Consequently, in the pressure status, even though a monopolistic company exists on the market, it cannot act entirely upon its will, but it must also take into account the producers manufacturing substitutable products, which are their direct competitors. On any market, sale and purchase intents mutually adapt. J. Kornai consider as wrong the idea according to which consume is the focal element in

this adaptation and asserts that the way in which adaptation is made greatly depends to the type of disequilibrium in which that market is. If absorption stage exists, then the consumer will have to make forced replacements and to make decisions adapting to the structure imposed by the producer. The demand structure is of a particular importance because it will determine the development of those branches for which demand is the largest. This way, lent adaptation is performed of production to the consume needs. In the pressure stage, however, the adaptation of the production to consume is rapid, elastic, mainly aiming to satisfy newly occurred needs with new products, and by means of such production exercises an appreciable influence over the consume.

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