

Contents

Introduction to the series	v
Foreword	xvii
Notation	xix

Volume A

1. Introduction	1
1.1. Outline of the main subject	1
1.2. Description, methodology, explanation	5
1.3. Theory and formalization	7
1.4. Empirical support	9
1.5. Sources, literary background	10
1.6. A few more delimitations	13
PART I. ADJUSTMENT WITHOUT PRICES	17
Introduction to Part I	18
2. The producer: Instantaneous adjustment	21
2.1. Introduction	21
2.2. Degrees of the producer's adjustment	22
2.3. Constraints on production increase	23
2.4. Effectivity and hardness of constraints	25
2.5. Resource-constrained versus demand-constrained systems	26
2.6. Shortage and slack in production	30
2.7. Forced substitution	36
2.8. Forced change in output composition	38
2.9. Joint emergence of the different forms of instantaneous forced adjustment	39

2.10.	Observation and measurement	41
2.11.	Normal shortage and normal slack in production	46
3.	The producer: Short-term adjustment	49
3.1.	Introduction	49
3.2.	The aggregate production plan	49
3.3.	Input combination	56
3.4.	Output combination	58
3.5.	A few common problems of planning input and output combinations	60
3.6.	On the motivation of firm managers	61
4.	The buyer: Shopping process	65
4.1.	Introduction	65
4.2.	Beginning of the shopping process: Success or forced substitution	67
4.3.	A continuation of the shopping process: Search	72
4.4.	Alternative continuation of the shopping process: Waiting	73
4.5.	Queuing	74
4.6.	Efforts to win over the seller	76
4.7.	The buyer's attitude	78
5.	The buyer: Demand formation	83
5.1.	Introduction	83
5.2.	A simple rule of thumb	84
5.3.	Material demand function of the firm	86
5.4.	The Clower interpretation of demand	90
5.5.	Observation and measurement of demand	95
5.6.	Hoarding tendency	100
5.7.	Central material rationing	104
6.	The seller	109
6.1.	Introduction	109
6.2.	Long-term, short-term and instantaneous supply	111
6.3.	Production for stock and to order	115
6.4.	Normal input and output stock, normal backlog of unfilled orders	117
6.5.	Supply function	121
6.6.	The seller's attitude	124

7.	The normal state of production and trade	127
7.1.	Introduction	127
7.2.	Partial analysis: Market for a product with a queue	128
7.3.	Normal state of the market: First approximation	132
7.4.	Shifts in the normal state	134
7.5.	Extension of propositions concerning partial markets	135
7.6.	General interdependence: Leontief economy	138
7.7.	Permanently away from Walrasian equilibrium	143
7.8.	Vegetative control	147
7.9.	Aggregation and "condensation" of market shortage and slack indicators	149
8.	Frictions of adjustment	155
8.1.	Introduction	155
8.2.	Relationship between stock and forced substitution	156
8.3.	Prediction error of the seller	160
8.4.	The vacillating buyer	163
8.5.	Imperfect information of the buyer	167
8.6.	Delay and rigidity in the seller's adjustment	172
8.7.	First synthesis: The triple relationship of shortage, slack, and friction	176
8.8.	Separation: Friction versus "siphoning off" of slack	180
8.9.	On the "short side rule"	185
9.	The investor: Institutional framework	189
9.1.	Introduction	189
9.2.	The claimants' behavior: Expansion drive and investment hunger	191
9.3.	The allocator's behavior: The tautness of the investment plan	195
9.4.	Investment as a production process, and the investment goods' market	198
9.5.	Investment tension	199
9.6.	Multilevel control of the investment sphere	202
9.7.	The allocator as claimant	204
9.8.	On changes following the economic management reform	206
9.9.	The sufficient condition for reproducing investment tension	208
9.10.	Investment cycles	211

10.	The investor: Long-term adjustment	217
10.1.	Introduction	217
10.2.	Point of departure: Allocation according to permanent proportions	218
10.3.	Choice based upon shortage signals	219
10.4.	Introductory example: Social cost as a function of utilization	220
10.5.	Temptation for postponement	226
10.6.	Tolerance limits	229
10.7.	The method of "putting out fires"	230
11.	Employment	235
11.1.	Introduction	235
11.2.	Classification	236
11.3.	Demand-constrained labor market	239
11.4.	Resource-constrained labor market	246
11.5.	Labor shortage	252
11.6.	"Unemployment on the job"	254
11.7.	Transition to the pure resource-constrained labor market	257
11.8.	"Equilibrium" in the labor market	264
12.	Social benefits and costs as a function of social capacity utilization	267
12.1.	Introduction	267
12.2.	Utilization of social capacity	270
12.3.	Social benefits and costs: Methodological remarks	271
12.4.	Social benefits as a function of utilization	273
12.5.	Internal physical inputs for production	274
12.6.	External physical losses and burdens	276
12.7.	Maintenance of the government machine	278
12.8.	Public feeling	278
12.9.	"Welfare optimum"	280
12.10.	Observation and measurement tasks	283
12.11.	The planner's attitude and his "conditioned reflexes"	285
12.12.	Intersystem comparisons	289
12.13.	More on the assumptions	292

Volume B

PART II. ADJUSTMENT IN THE PRESENCE OF PRICES	297
Introduction to Part II	298
13. The firm: Budget constraint and profit	299
13.1. Introduction	299
13.2. The financial balance sheet and budget constraint of the firm: Accounting interrelations	299
13.3. Hard budget constraints: The pure case	302
13.4. Almost-hard budget constraints	304
13.5. Soft budget constraints	306
13.6. Elementary events and general behavior	309
13.7. Observations about capitalist and socialist economies	311
13.8. Reasons for and consequences of the redistribution of firms' financial receipts	314
13.9. Countertendencies	317
13.10. The place of the budget constraint in micro-theory	319
14. The firm: Responsiveness to price	323
14.1. Introduction	323
14.2. The income effect	325
14.3. The substitution effect: Instantaneous initial demand	327
14.4. The substitution effect: Forced substitution and short-term adjustment	332
14.5. Hypotheses and the possibilities of empirical testing	336
14.6. Instantaneous and short-term adjustment of output	337
14.7. Asymmetry: Responsiveness to price on the input and output side	340
14.8. The effect of price on investment decisions: Outputs	343
14.9. The effect of price on investment decisions: Inputs	346
14.10. Relative prices and shortage	349
14.11. A detour: The nonprofit institution	350
15. Price formation in the interfirm sphere	353
15.1. Introduction	353
15.2. Prices which are easy or difficult to administer	355
15.3. Administrative, pseudoadministrative, and contract prices	358
15.4. Measuring the price level	361

15.5.	Forces encouraging and counteracting price-drift: The role of the firm's interest	363
15.6.	The effects of shortage and rising costs	367
15.7.	State intervention on interfirm prices	371
15.8.	On the price-theoretical background	374
16.	Wages	377
16.1.	Introduction	377
16.2.	Determination of short-term wages policy	381
16.3.	The effect of nominal and real wages on aggregate demand for and supply of labor	389
16.4.	The effect of relative wages on the allocation of labor	396
16.5.	Wage tension and wage-drift	400
16.6.	The compromise between the forces encouraging wage-drift and those resisting it	406
17.	The allocation of goods and services between households	411
17.1.	Introduction	411
17.2.	Free allotment, nominal and effective price	412
17.3.	The satiation level	414
17.4.	Allocation schemes	416
17.5.	Auction	417
17.6.	Rationing	420
17.7.	Queuing	425
17.8.	A mental experiment: The conditions for allocation by a pure auction	426
17.9.	Combined schemes	431
17.10.	The relative scope of the schemes: General interrelationships	436
17.11.	The relative scope of the schemes: Historical tendencies	438
18.	The household: Consumer behavior	443
18.1.	Introduction	443
18.2.	The beginning of the process: Resolving the dilemmas of parallel allocation schemes	445
18.3.	The process continued: The effect of relative prices	448
18.4.	Monetary reflection of the process: Forced spending or unspent money	451
18.5.	Motives for household saving	455
18.6.	The buyer's attitude	460

18.7.	Indicators of shortages in the consumer goods sector	463
18.8.	The price of consumer goods and the intensity of shortage: First approach	468
18.9.	General position in the consumer goods sector	473
18.10.	A critique of the Clower–Barro–Grossman school	476
19.	Consumer goods prices and shortage in the consumer goods sector	481
19.1.	Introduction	481
19.2.	An illustrative example	483
19.3.	The siphoning-off effect of other sectors	486
19.4.	Macro-planning of consumption at the center: First approach	488
19.5.	Macro-planning of consumption at the center: Further remarks	494
19.6.	Some general conclusions	496
19.7.	Differences in the intensity of shortage between product groups: The historical starting points	499
19.8.	Housing shortages and rent	503
19.9.	Consumer prices which are not administered	510
20.	Money: Monetary and fiscal policy	513
20.1.	Introduction	513
20.2.	Short-term financing of the firm	516
20.3.	Financing investment	519
20.4.	Saving and investment	524
20.5.	Surplus or deficit in the state budget	528
20.6.	An echo of the debate between Keynesianism and monetarism	530
21.	Macro-interrelationships: The suction model	533
21.1.	Introduction	533
21.2.	The second reservoir and the tap	534
21.3.	The first reservoir and pumping	538
21.4.	Leaks and plugs	540
21.5.	Inflow and the sluice	541
21.6.	The model of suction: First approach	542
21.7.	Disaggregated approach	544
21.8.	The motive forces of pumping	547
21.9.	The allocation of shortage	552
21.10.	Suction and inflation	556

22.	Degrees of paternalism	561
22.1.	Introduction	561
22.2.	The position of the firm in the socialist economy	562
22.3.	Tendencies and countertendencies	565
22.4.	Paternalism and the softening of the budget constraint	568
22.5.	Final remarks: The possibilities for and limits on conscious action	569

APPENDICES 573

Mathematical Appendix A: Queuing on the market 575

(Co-author: Jörgen W. Weibull)

A.1.	Introduction	575
A.2.	The structure of the market	576
A.3.	The shopping algorithm	577
A.4.	The buyers' attitude	581
A.5.	The state variables of the buyers	581
A.6.	Supply rate and effective service flow	582
A.7.	The queue	583
A.8.	Summary of the model: Exogenous parameters and functions	584
A.9.	Summary of the model: Dynamic relationships	585
A.10.	The normal state of the market: Existence and uniqueness	586
A.11.	The normal state of the market: Stability	588
A.12.	The interpretation of the normal state	590
A.13.	Change of functions and parameters	591
A.14.	Dependency on the supply rate	593
A.15.	Dependency on the price	594
A.16.	Dependency on the queuing and forced substitution propensities	595
A.17.	On the proofs of the propositions	597
A.18.	Specification of computer simulations	597

Mathematical Appendix B: Interrelations between forced substitution, stocks and friction 601

(Co-author: András Simonovits)

B.1.	The prediction error of the seller	601
B.2.	Vacillation of the buyer	604

References	607
Author index	621
Subject index	625