Chapter 6

Imperfect General Equilibrium

The three last chapters present all the elements needed to introduce, formalize and analyse the notion of imperfect temporary general equilibrium. The term equilibrium is here considered in its customary meaning of full compatibility (achieved even by means of individual rationings) among the actual decisions taken by the set of all agents. But in accordance with the usual Walrasian paradigm, a current state of the present model must be generally interpreted as a disequilibrium state. This is proved by the fact that any non Walrasian present state of the economy generates some changes in the state of the subsequent period. So it is useful to think of the imperfect model and its solutions as formalizing a “pure theory of disequilibrium states”, while according to Morishima, this

“[...] is almost an impossible task, at least at the present state of development of economics.”

(Morishima, 1992, p.19)

The agents considered by the model are: consumers (belonging to three distinct age classes) introduced in Ch.5; firms (whose economic life is temporally unbounded) considered in Ch.4; a Public Administration (P.A. for short), introduced in Ch.3.

Consumers work to live; firms live to make profits (we could say, in the words of Kalecki, that workers do not save while firms do not consume). The P.A. acts to improve the welfare of the whole community: it produces and operates public goods, issues ‘fiat’ money, collects taxes and controls the labour market. The main contrast is between consumers and firms: the former
wish to consume their whole incomes, while firms always aim at investing their profits. In a sense the P.A. appears to be quite different from individual agents, because it acts in favour of the whole community, suppling consumers and firms with public goods, among which money, one of the most important, even if agents do not fully perceive this. Moreover the P.A. levies taxes as a fixed share of individual incomes, regularly declared by agents.

In this economy there is no auctioneer, hence all prices must be directly chosen by agents, period after period. Every firm chooses the price of the commodity it produces (i.e. all markets are seller markets). The P.A. fixes the wage rate, having as its main aim the full employment of workers and secondly, stable money values.

All fundamentals of this economy, namely, consumer preferences and their labour endowments, the production functions of firms, total amounts of public goods and their operating functions and the tax rate, are stationary. Hence, as long as this scenario holds true, the economy has no possibility for real growth. But this does not mean that there are no dynamics. We shall see, in the next chapter, that very complex trajectories may be generated to the point of appearing chaotic (in a purely deterministic sense). In all cases, even when trajectories look very complex, the economy behaves in an ordered way, period after period, confirming Adam Smith's (1776) image of the orderly working of the economy, without, of course, invoking the mysterious intervention of some invisible hand.

6.1 General Environment

Let us consider the economy at the beginning of period $t$, the present period. Firms and the P.A., in accordance with their past experience, have respectively chosen actual prices $p^*(t)$, as the selling prices of private goods, and the wage rate, $w^*(t)$, to be paid in advance to the consumers presently employed. The quantities of all $n_1$ private goods are given: they are the firms' stocks. According to the symbols introduced in Ch.4, such supplies are noted by $\bar{s}_i(t)$, $i = 1, 2, \ldots, n_1$. The amounts of all