

Contents

<i>Preface</i>	xiii
Part I Introductory	1
1 Two preliminary matters	3
1.1 Individualism and holism	3
1.2 Incentive compatibility	5
2 Extended preferences	7
2.1 The axiom of selfishness and the Two Theorems of Welfare Economics	7
2.2 Edgeworth's treatment of extended preferences (1881)	8
2.3 Winter's treatment (1969)	12
2.4 Archibald and Donaldson's treatment (1976a)	13
2.5 Lemche's treatment (1986a)	17
2.6 The Second Theorem and public goods	18
2.7 Non-paternalism	20
2.8 Envy	21
2.9 "Models of the dog and his master"	23

x **Contents**

Part II	Iterative controls	25
3	Feed-back control processes	27
3.1	Iterative controls in real time	27
3.2	The Criterion Function	27
3.3	Requirements of a planning and of a control process	29
3.4	Other properties of control processes	31
3.5	Decentralization	33
3.6	Phillips' controls	34
4	First example: an externality problem	37
4.1	Information requirements	37
4.2	The example: an upstream–downstream externality	39
4.3	The behavior of firms	41
4.4	The control procedure	42
4.5	Some difficulties with profit	47
4.6	Technological difficulties	48
4.7	Faster control processes	51
4.8	Relation of the example to Second Best	52
4.9	Properties of the control process reviewed	53
5	Second application of the control process: Lerner's Problem	55
5.1	Planning, regulation, and agency	55
5.2	Iterative control	60
5.3	Uniqueness and convergence	61
5.4	Monotonicity and strategy-proofness	63
5.5	Uncertainty	65
5.6	Effort-aversion	68
6	Third example of the control process: implementation of a Second-Best solution	70
6.1	A Second-Best problem	70
6.2	The model: a three-commodity economy	72
6.3	Comment on the model	77

	Contents	xi
7 Two examples of the control process in a mixed economy		79
7.1 The class of problems considered		79
7.2 First example: the Harris–Wiens scheme (1980)		81
7.3 A solution: setting the incentive structure		82
7.4 Second example: TV programmes		84
 Part III Non-convexities		 89
 8 Non-convexities in the technology		 91
8.1 The Second Theorem reconsidered		91
8.2 A non-convex technology		92
 9 Non-convexity and optimal product choice		 95
9.1 Product choice		95
9.2 The characteristics approach		96
9.3 The technology and the ppf		99
9.4 Failure of the Second Theorem		101
9.5 What if economies of scale are exhausted?		104
9.6 Possible asymptotic properties of monopolistic competition		104
 Part IV Cooperatives		 107
 10 Pareto-improvements and cooperatives		 109
10.1 Pareto-improvements and the prisoners' dilemma		109
10.2 Labor-managed firms and the range of markets		110
10.3 Ownership in labor-managed firms		113
10.4 Innovation in labor-managed firms		114
10.5 Labor-managed firms and unions		115

xii	Contents	
11	Achieving Pareto-efficiency in the LMF	117
	11.1 Cooperative and free-rider solutions	117
	11.2 The model: members of the LMF	118
	11.3 Incentives and Holmstrom's scheme (1982)	120
	11.4 Trustworthy third parties	122
	11.5 An auction process	124
	11.6 Information problems	128
	11.7 Limits of partial equilibrium	129
12	Risk-sharing in Illyria (or the ELMF)	130
	12.1 Risk and moral hazard	130
	12.2 Risk-sharing	131
	12.3 The model: the LMF-bank contract	134
	12.4 A two-stage solution	137
	12.5 Existence and uniqueness	139
	12.6 Information and honesty	141
	12.7 General-equilibrium problems	143
	Appendix A: The <i>ex ante</i> case	144
	Appendix B: The <i>ex post</i> case	145
	Appendix: The taxation of economic rent	149
	A.1 The suggestions of Sun Yat Sen (1929) and Harberger (1965)	149
	A.2 The possibility of side-payments	150
	A.3 The difficulty of disentanglement	152
	A.4 Natural resources and man-made sources of rent	152
	<i>Notes</i>	155
	<i>Bibliography</i>	163
	<i>Index</i>	170