

Contents

<i>List of figures</i>	page xii
<i>List of tables</i>	xiii
Preface <i>Bo Gustafsson</i>	xv

1 Post-Walrasian political economy	1
<i>Samuel Bowles and Herbert Gintis</i>	
1 Introduction: new light on an old debate	1
2 Post-Walrasian democratic theory	2
3 Walras' fiction	4
4 Walrasian economics and post-Walrasian political economy	5
5 Varieties of post-Walrasian economics	9

Part I Agency, incentives, and democratic accountability	11
X 2 The democratic firm: an agency-theoretic evaluation	13
<i>Samuel Bowles and Herbert Gintis</i>	
1 Introduction	13
2 The employment relationship and contested exchange	15
3 Short-side power and democratic accountability	20
4 Market failures arising from contested exchange	21
5 The efficiency of the democratic firm in regulating work	27
6 Impediments to the success of the democratic firm in a competitive capitalist economy	31
7 Conclusion	34
3 Alternative employment and payment systems	40
<i>D. M. Nuti</i>	
1 Wage employment: fixed rate, subjection, and job insecurity	40
2 Permutations of the employment contract	40
3 Lowering the marginal cost of labor	40
4 Cyclical flexibility of earnings	42
5 Productivity enhancement	42
6 Overclaims	42
7 Profit, capital gains, and capital-sharing	43
8 Power-sharing	43
9 Job security	44

10	Cooperatives	44
11	Meade's labor-capital partnerships	45
12	From dependent workers to part-time co-entrepreneurs	46
Part II Institutions and institutional change		49
4	Toward a framework for analyzing institutions and institutional change	51
	<i>Leonid Hurwicz</i>	
1	Introduction	51
2	Mechanisms and adjustment processes	52
3	Institutions	58
5	Imperfect choice and rule-governed behavior	68
	<i>Ronald A. Heiner</i>	
1	Introduction	68
2	From imperfect choice to predictable behavior	68
3	Analytical tools for studying imperfect choice	69
4	Rule-governed plus information-ignoring behavior	75
5	Instinctive rules in non-human behavior	78
6	Dynamic rules and ethics in human exchange	80
7	Rule instability with sufficient intelligence	82
8	Agreement versus stability of social rules	83
9	Conclusion	84
6	Organizational equilibria and institutional stability	86
	<i>Ugo Pagano</i>	
1	Introduction	86
2	The New Institutional view of the firm	86
3	A "radical" inversion of the New Institutional view	89
4	Property rights/technological equilibria: a simple model	94
5	Generalization of the argument, drawing an "inverted" Williamson contracting scheme	103
6	Conclusion	110
7	Agency problems and the future of comparative systems' theory	116
	<i>Mieke Meurs</i>	
1	Introduction	116
2	Agency problems and comparative systems	117
3	Toward a new paradigm	123
Part III Conditions for the success of the democratic firm		127
8	After the employment relation: problems on the road to enterprise democracy	129
	<i>Louis Putterman</i>	
1	Introduction	129

2	Why capital hires labor, revisited	129
3	Conceptualizing the transition to democratic enterprises	131
4	The labor-managed economy: labor and product markets	132
5	Finance and property rights in capital	136
6	Participation, empowerment, and the workplace	138
7	Conclusion	144
9	Unions versus cooperatives	148
	<i>Karl Ove Moene and Michael Wallerstein</i>	
1	Introduction	148
2	Competitive capitalist equilibrium	149
3	Competitive equilibrium with workers' cooperatives	150
4	Capitalist equilibrium with collective bargaining	153
5	Bargaining rights versus property rights	155
10	Demand variability and work organization	159
	<i>David I. Levine</i>	
1	Introduction	159
2	Literature review	160
3	The model	162
4	Statistical evidence	167
5	Conclusions	174
11	Democracy versus appropriability: can labor-managed firms flourish in a capitalist world?	176
	<i>Gregory K. Dow</i>	
1	Introduction	176
2	Output choice, expected dividends, and organizational form	177
3	Investment incentives and organizational form	182
4	Evolutionary outcomes and welfare comparisons	186
5	Failures in the market for LMF membership	191
Part IV	Productivity, distribution, and power	197
12	Cooperation, conflict, and control in organizations	199
	<i>Avner Ben-Ner</i>	
1	Introduction	199
2	Definitions	200
3	Control as a consequence of incentives for cooperation and conflict	203
4	The exercise of ultimate control: organizational design	206
5	The allocation of ultimate control in organizations	210
6	Conclusions	212

13	Wage bargaining and the choice of production technique in capitalist firms	217
	<i>Gilbert L. Skillman and Harl E. Ryder</i>	
1	Introduction	217
2	The bargaining game	217
3	Bargaining outcomes and the firm's choice of technique	221
4	Discussion	224
5	Conclusions	227
Part V	Ownership, participation, and capital markets	229
14	The motivational role of an external agent in the informationally-participatory firm	231
	<i>Masahiko Aoki</i>	
1	Introduction	231
2	The value of participatory information-processing	232
3	The incentive difficulties of pure workers' control	236
4	The P-value-enhancing role of an external agent	241
5	Institutional remarks	244
15	Unstable ownership	248
	<i>Tone Ognedal</i>	
1	Introduction	248
2	The model	249
3	Instability	251
4	Restrictions on the trade with shares	256
5	Conclusions	258
16	The simple analytics of a membership market in a labor-managed economy	260
	<i>Ernst Fehr</i>	
1	Introduction	260
2	A legal structure for labor-managed firms	261
3	Demand and supply for membership rights	263
4	Membership adjustment and the shut-down condition	264
5	LMF-maximand, comparative statics, and turnover	267
6	Labor-market equilibrium and shock absorption properties	268
7	Membership markets for different types of labor	271
8	Differential income shares for identical workers	272
9	Summary and conclusions	273

Part VI Political democracy and economic democracy	277
17 Investment planning in market socialism	279
<i>Ignacio Ortuno-Ortin, John E. Roemer and Joaquim Silvestre</i>	
1 Introduction	279
2 The economic environment	282
3 Constrained Walrasian equilibrium: a command-market-thought experiment	283
4 A generalization of Lange's idea	285
5 Direct provision of investment by the state	288
6 The sales-tax model	289
7 Conclusion	292
2* The economic environment	294
3* Constrained Walrasian equilibrium: a command-market-thought experiment	295
4* A generalization of Lange's idea	296
5* Direct provision of investment by the state	298
6* The sales-tax model	299
18 Capitalism and democracy: a summing up of the arguments	306
<i>Martin L. Weitzman</i>	
1 Introduction	306
2 Some definitions	307
3 Capitalism and socialism	309
4 Capitalism and democracy	312
5 Conclusion	315
Bibliography	316
Author index	335
Subject index	338

Figures

	<i>page</i>	
1.1	Enforcement of claims	18
2.1	The worker's choice of optimal work effort	19
2.2	Optimal wages and labor intensity	22
2.3	Socially optimal effort and risk-taking	23
2.4	The lens of opportunity for efficiency gains	24
2.5	The inefficient trade-off of monitoring and wages	25
2.6	The owner–manager relationship and the choice of risk	27
2.7	The borrower–lender relationship and the choice of risk	29
2.8	The gains from mutual monitoring	30
2.9	Efficiency gains in the democratic firm	34
2.10	Internal finance of the democratic firm	35
2.11	The optimal choice of effort and risk	57
4.1	Performance, realization and implementation	69
5.1	Two conceptual pathways for analyzing behavior	70
5.2	The global optimum	80
5.3	Rule flexibility	103
6.1	Williamson's contracting scheme	104
6.2	An inverted Williamson contracting scheme	107
6.3	A generalized Williamson contracting scheme	108
6.4	An inverted generalized Williamson contracting scheme	109
6.5	Technological equilibria	110
6.6	Property rights' equilibria	179
11.1	Surplus per unit of capital in state x	180
11.2	The labor participation constraint	188
11.3	Dominance relations and the price of LMF membership	203
12.1	The two-participant organization as a prisoner's dilemma	220
13.1	A detail of the multilateral bargaining game	242
14.1	Net information value and individual effort	243
14.2	A hybrid contract	254
15.1		263
16.1	<i>Per capita</i> income maximization in the Illyrian firm	265
16.2	The value of membership in a profitable firm	269
16.3	The value of membership in an unprofitable firm	281
17.1	The class of implementable investment vectors	287
17.2	Money flows in the Lange model	287

Tables

3.1	The employment contract	<i>page</i> 41
10.1	Descriptive statistics	169
10.2	Indiana survey	171
10.3	GAO survey	172
10.4	Supplier survey	173