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Radical Markets: Uprooting Capitalism and Democracy for a Just Society, by Eric A. Posner and E. Glen Weyl, Princeton and Oxford, Princeton University Press, 2018, 368 pp., £24.00 (hardcover), ISBN 978-0-691-17750-2

Radical Markets is an important book that projects a radical transformation of society through the application of mechanism design. Posner and Weyl's premise is that 'markets are, and for the medium term remain, the best way of arranging a society' (p. xvi). However, they show that many of society's most important markets are either monopolised or missing entirely. According to the authors, this has led to a range of the problems that many societies are increasingly facing, such as inequality, political polarisation and the rise of anti-democratic movements, resentments against minorities, in particular migrants, and low rates of investment and innovation.

P&W's proposed remedy is to defeat market power and to create well-functioning, competitive markets in crucial realms of society in which they have hitherto been missing. Accordingly, each chapter is a proposal for a radical reorganisation of an important area of the social world. Chapters 1 and 2 present the most wide-ranging reorganisations that concern the economic system and democracy, respectively, while chapters 3 to 5 concern labour migration, institutional investment, and data. In the following, I shall give a synopsis of the chapters, followed by a few remarks on the idea of 'mechanism design as a force for social transformation' (p. ix).

Synopsis

Chapter 1 argues that private property is inherently monopolistic and should be abolished. P&W propose the *common ownership self-assessed tax* (COST) to replace it. This proposal, inspired by the ideas of Henry George, involves the utilisation of auctions on a very large scale. In this system, people and corporations assess the value of all major commodities that they wish to hold. The highest bidder wins the right to use the commodity. Users of commodities pay a relatively high tax on them (in the neighbourhood of 7 percent annually), which can be used to fund public goods and a basic income for every citizen. The right to use commodities is constantly auctioned: if someone else values a good more highly, she can acquire it, henceforth paying the same tax rate on her valuation. This system provides agents with incentives to reveal their true valuations and it achieves the efficient allocation of commodities. The authors argue that the advantages of this arrangement would be substantial, among them: the elimination of market power by turning markets in private property into markets in uses; increased public revenues; increased equality; increased innovation and investment in large scale projects; the transformation of private wealth into social wealth, which might make people less materialistic.

In chapter 2, P&W propose a radical transformation of democracy through *quadratic voting* (QV). In this system, important social decisions, e.g. about the provision of public goods, are made through referenda. Every citizen receives an equal amount of 'voice credits' annually, which they can use on referenda in that year, or can stockpile to use in future referenda. They can 'buy' any number of votes with their voice credits, but the costs are calculated according to a quadratic formula: 1 credit buys 1 vote, 4 credits buy 2 votes, and so on. Unlike current voting systems, QV takes into account the intensity of people's preferences — you can spend as many credits as you own on referenda that are important to you. Therefore, people will exercise influence in realms which they care about and in many cases know more about than the average citizen. Since under QV rational agents will spend their credits in proportion to how important the various referenda are to them, the system has the potential

to make the provision of public goods efficient, analogously to what free markets achieve for private goods under ideal conditions.

Chapter 3 proposes a reorganisation of international labour migration. There is an imbalance between the low rates of migration of low-skilled workers and the large flow of other factors of production across borders. P&W call attention to the enormous possible gains of increasing migration. Their solution, the *visas between individuals program* (VIP), would allow citizens of host countries to sponsor one migrant worker at any point in time. It is similar to an *au pair* system, in which citizens sponsor young people from abroad who in return contribute labour services to their host households for a fixed time period. VIP is *au pair* on a very large scale, in which VIP workers are not limited to contributing to households but may instead take on different work opportunities, such as construction work, that are agreed on beforehand, paying a negotiated part of their income to their sponsors.

This is the weakest proposal of the book. Economists believe that wealth increases with free movement of all factors of production: goods, services, capital, and labour. So why not propose open borders? According to the authors, open borders may entail negative effects, in particular on native workers' wages. These possible effects are likely to give rise to political and social obstacles to the project of open borders, making them infeasible in the near and medium term. But is the VIP a desirable alternative? After reading the chapter, I have ethical concerns about the possible exploitation of immigrants (to which the authors dedicate only two sparse paragraphs), their dependence on hosts, and the inferior social rank that the VIP would likely assign to them. It sits uneasy with the radical spirit of the rest of the book that P&W are willing to incur these ethical risks merely because the better alternative might not be politically feasible. I will come back to this critique below.

The last two chapters are tours de force. Chapter 4 argues that institutional investors — firms such as BlackRock, which buy and manage funds on a large scale — hamper competition. This is because many institutional investors buy shares of different firms that are rivals within a single industry. These investors have incentives to pressure those firms to engage in anti-competitive

behaviour. P&W provide a solution: institutional investors whose ownership shares of the firms in whose governance they actively participate exceed a certain threshold should be barred from holding shares of more than one firm within an industry. For example, an institutional investor may hold shares of Pepsi, but not of both Pepsi and Coca Cola. They may diversify across industries (e.g. Pepsi and Delta Airlines), possibly holding even larger shares over single companies than currently possible. This proposal would restore competition, creating more wealth and promoting its more equal distribution.

In the final chapter, P&W argue that the production of data, for example when using social media, is labour and should be remunerated accordingly. The fact that it is currently not seen as labour stems from the essentially accidental circumstances of how the technology and culture around the internet have evolved. The implications of this fact are that the digital economy develops more slowly than it could, because the quality of costless data is low, and that wealth is increasingly concentrated in the hands of a few tech giants, not the billions of 'data workers' on whom those companies draw. The authors' proposed pathway towards a market in data labour is the creation of data labour unions, which would bargain with tech companies on the behalf of data workers, using strikes as a threat to increase their bargaining power.

Mechanism Design as a Force for Social Transformation

Radical Markets can be interpreted as uniting two traditions of economic design: the large-scale focus on economic systems that was prevalent in the early days of mechanism design theory, and the practical reforms of later economic engineering. After sketching the history of economic design, I'll make a few remarks on how P&W's project straddles these traditions.

The origins of mechanism design theory lie in the controversy over the relative merits of centrally planned versus market economies. Oskar Lange (1942) and Abba Lerner (1944) argued that a centrally planned economy could in principle replicate the efficient allocation of resources in a free market and could improve on the workings of the free market by correcting market failures. Other theorists, notably Friedrich Hayek (1935) and Ludwig von Mises (1935), argued on the contrary. Hayek famously asserted that central planning could lead to efficient resource allocations only if the planner

possesses at least as much information about the desires and resources of other agents as the market mechanism generates spontaneously, but that it is not in the interests of agents to reveal their private information (Hayek 1945). The economic models available at the time of the debate accounted for economic systems only as mechanisms for the allocation of scarce resources, but not as mechanisms for communicating private information that is widely dispersed throughout the economy. Therefore, they ignored the incentives that different mechanisms provide to agents (cf. Myerson 2008)). Because a precise mathematical treatment of incentives was lacking, the planning controversy remained largely inconclusive.

Leonid Hurwicz (1972) provided the required tools by modelling incentive constraints in addition to resource constraints, thereby laying the foundation for mechanism design theory. According to Maskin (2015), the theory proved Hayek's claims to be correct when there are a large number of buyers and sellers and no externalities. However, if these assumptions are not met, there are mechanisms that generally improve upon the market. Moreover, mechanism design theory shows that the choice between unbridled capitalism and centrally planned economies is subject to trade-offs between different types of incentive problems (Myerson 2009). These general results suggest that there is no one-size-fits-all mechanism that would be optimal for all types of marketplaces. Consequently, the theory draws attention to particular marketplaces, and its recommendations differ depending on the structure of the marketplace, its size, and the goods to be exchanged: some markets work best when unregulated, others are 'crippled by inconsistencies in information, control, incentives, and behavior, and require social management' (McFadden 2009).

Consequently, since the late 1980s the main focus of design economics has shifted from grand economic systems to particular markets. Concrete market failures motivated economic designers to investigate specific markets — from spectrum auctions and labour markets, to the allocation of body organs — that were subject to such failures (see Roth 2018 for an overview).

To emphasise their focus on practical problem-solving, Alvin Roth (2002) calls economists engaged in this field *engineers*; Esther Duflo (2017) describes them as *plumbers*. Engineers and

plumbers are aware that minor changes in a marketplace can cause it to unravel in ways that simple models cannot predict. Consequently, they also draw on other methods. The rise of experimental economics accompanied, and partly enabled, economic engineering. Experimental results complement mathematical models, in particular from game theory, in the development of well-working market rules. It is also common for economists who are designing rules in a particular market to draw upon the expertise of participants in that market, as when medical practitioners are consulted in the design of a kidney exchange. The diversity of evidence and the focus on details increase the confidence that policy-makers have in the engineers' predictions.

This brief history suggests that there are two grand traditions within design economics. The theory of mechanism design provides a framework for comparing and evaluating economic systems. It promised a third way besides capitalism and socialism, but despite its reformist spirit, its contributions remained mainly theoretical. The other is economic engineering, which is compartmentalised and focused on the details of small-scale problems. It is closer to policy-making, but this practical advantage comes at the expense of losing the role of evaluating fundamental economic institutions.

In *Radical Markets*, P&W refocus on large-scale reforms, while in many cases also taking into account lessons from economic engineering. Accordingly, their proposals do not simply go back to early design economics, but lift it to a new level. For example, the COST system would constitute a radical reform of our economic system. P&W explain how COST could initially be applied more narrowly for items that governments auction to the corporate sector, such as the radio spectrum. This connects to existing work in auction design, a field to which Weyl has contributed and which has been a successful area of application of economic engineering. So P&W's implementation strategy (for COST, and similarly for QV and some of the other proposals) can accommodate insights from economic engineering.

Marketplaces are embedded in larger markets, which are in turn embedded in an economic system. Reformers of fundamental institutions face high risks of failures, and the possible failures are

severe. This is because changing the fundamental institutions will also change markets and marketplaces, for example, by affecting the choices available to agents interacting in those markets. Therefore, the growing body of knowledge about particular marketplaces and markets will improve the chances for successful large-scale design. P&W's refocus on the large scale might be a sign that the discipline has matured to a point at which reformers can rely on system design. Whether this is the case remains an open question at present.

I shall end with a few remarks on an issue that requires further consideration, the ethical ramifications of market design. According to Shengwu Li (2017), market design requires two things. First, designers need to work out (using formal models, experiments, and econometric analysis) feasible mechanisms and their relevant consequences for efficiency, welfare, fairness, and social incentives. In deciding what features are relevant, they 'maintain an informed neutrality between reasonable ethical positions' (ibid., p. 707). Second, there is the ethical questions of what feasible combination of consequences is desirable and which of the designs that would bring them about should be implemented.

The same ethical issues arise in larger-scale mechanism design. The latter can explain, for instance, the problematic incentives that plague some economic systems, and might demonstrate that COST would provide more desirable incentives. But mechanism design falls short of identifying a uniquely optimal social transformation, because many design decisions will involve ethical judgements. For example, recall that in their proposal for labour migration (VIP), P&W face a painful potential trade-off between the welfare of native workers and that of immigrants. Above I criticised their proposal on the basis of ethical concerns about the rights and welfare of migrants. Large-scale reforms may generally provide greater scope for ethical disagreements than narrow market design. It is unlikely that mechanism design can fully settle the ethical issues at stake, in particular between the political left and right. Cases in which many distinct ethical theories would recommend one and the same design are likely to be rare. I therefore do not believe that *Radical Markets* can fulfil its promise to 'heal the ideological and social rifts tearing our society apart' (p. xvi).

Posner and Weyl are aware of the importance of ethics. Their book includes a moral vision on markets over and above economic theorising (cf. p.271, especially footnote 17). I expect that their moral vision will be the bone of contention in the reception of *Radical Markets*, and it may determine the prospects for the implementation of its bold ideas. Whatever the response to it, this book makes an impact.

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