You are cordially invited to

UCLouvain Economics Seminar

On **Tuesday March 12, 2019**, from **12:45 to 14:00**
Lecl 52, Place Montesquieu, 1

John Roemer
(Yale University)

Will give a presentation on

How we cooperate: A theory of Kantian optimization

Abstract: Economic theory has focused almost exclusively on how humans compete with each other in their economic activity, culminating in general equilibrium (Walras-Arrow-Debreu) and game theory (Cournot-Nash). Cooperation in economic activity is, however, important, and is virtually ignored. Because our models influence our view of the world, this theoretical lacuna biases economists' interpretation of economic behavior. Here, I propose models that provide micro-foundations for how cooperation is decentralized by economic agents. It is incorrect, in particular, to view competition as decentralized and cooperation as organized only by central diktat. My approach is not to alter preferences, which is the strategy behavioral economists have adopted to model cooperation, but rather to alter the way that agents optimize. Whereas Nash optimizers view other players in the game as part of the environment (parameters), Kantian optimizers view them as part of action. When formalized, this approach resolves the two major failures of Nash optimization from a welfare viewpoint -- the Pareto inefficiency of equilibria in common-pool resource problems (the tragedy of the commons) and the inefficiency of equilibria in public-good games (the free rider problem). An application to market socialism shows that the problems of efficiency and distribution can be completely separated: the dead-weight loss of taxation disappears.

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