Commentary: Chapter VII

In Chapter VII, Trout Rader expounds an idea with great potential. As is well known, if there is consumer sovereignty, prices indicate marginal utilities. Hence, if firms' allocation decisions are directed by those prices, they serve welfare. This logic is not limited to perfectly competitive economies with price-taking profit maximizers. As Rader points out, the connection between equilibrium and optimum also holds for economies where firms maximize profits and the levels of the latter are checked by the threat of entry. The theory of value can thus be developed in a general framework that encompasses economies with contestable markets, featuring non-convex technologies.

Rader takes the partial equilibrium notion of contestability due to Baumol, Panzar, and Willig [1982], correctly relates it to the older work of Viner [1931], and confronts it with the general equilibrium framework of Walras [1877] and von Neumann [1937]. Unfortunately, he does not present formal definitions of contestability and equilibrium in the latter context. His theorems are conjectures. They constitute a challenging research agenda: the establishment of the main welfare theorems for economies with consumers' sovereignty, contestable markets, and no special technologies.

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