Recursive Mechanism Design:
Enforcement versus Competition

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Abstract

In his, December 8, 2007, Nobel Prize Lecture, Leo Hurwicz stated the main theme of his work: *"Some of the most basic contemporary policy issues involve choice of institutions: Markets versus central planning, the scope and structure of social insurance (unemployment, old age, health), 'property rights' as solutions to problems posed by externalities, (...) are obvious examples"* and also raised what to many seemed a trivial question: *"What is successful enforcement?"*

As tribute to my University of Minnesota colleague and master, I would like to take up his theme and address his question. I will slightly modify his theme -- *Markets versus recursive social contracts* – as well as his question: *What is successful enforcement when social contracts and competition interact?*

In order to address the question, I will need first to take a detour. In doing so I will visit Leo's familiar territory of *non-linear programming* (building on my joint work with Albert Marcet and with Jan Werner) as well as fertile territory that he, without knowing, cultivated: *recursive macroeconomic mechanism design* (building on my joint work with Thomas Cooley and Vincenzo Quadrini). I hope that by the end you will agree with me: there is nothing trivial in Leo Hurwicz Nobel Prize Lecture's question.