Portfolio diversification and intemalization of production externalities through majority voting

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Abstract

A general equilibrium model with uncertainty and production externalities is studied. In absence of markets for externalities, we look for governances and conditions under which majority voting among shareholders is likely to give rise to efficient intemalization. We argue that the financial market clearing conditions endogenously set up, within the firms, social choice configurations where the (perfectly diversified) market portfolio, which gives the right incentives for economic efficiency, happens to be a good (and sometimes the best) candidate in the political process, i.e., a candidate with good stability properties with respect to the majority rule. The central alnd natural role played by a governance of stakeholders is underlined and benchmarked.

Keywords: Production externalities, majority voting, portfolio diversification, general equilibrium, stakeholder governance, mean voter.