

PURSUING THE COMMON GOOD



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I. THE COMMON GOOD

WHAT I WROTE *ECONOMICS FOR THE COMMON GOOD*

- Policy work prior to Nobel
- Tipping points: (1) Nobel, (2) creeping tendency towards populism

I should not focus on experts only. Social duty to share

- deciphering keys to understand world we (will) live in,
- my vision of economics as a moral and philosophical science.

WHAT IS THE COMMON GOOD?

Many situations where the interests of citizens, companies, states, countries diverge from the general interest

- *Citizen* who emits carbon, refuses to be vaccinated, or overconsumes antibiotics
- *Business or bank* that takes risks, jeopardizing the employment of its workers or the savings of its customers (or taxpayer money); that abuses its monopoly power
- *State*: excessive spending, poor education, inequality, financial crisis...
- *Country*: primacy of the national interest over interest of the world (global warming, trade wars, fiscal competition, military conflicts...)

Common feature? **Individual interests trump the general interest.**

AMBITION OF ECONOMICS OF THE COMMON GOOD

To align actors' concerns with the general interest. 2 instruments for that

- *Persuasion*
 - Encourage good citizen behavior and corporate social responsibility (CSR)
 - Design norm-based interventions (NBI) to boost awareness of the consequences of selfishness or of prevailing norm
 - But limits to what can be done by trying to change the norm: global warming (30 years of exhortations since Rio summit)



- *Incentives* are needed to put the general interest back in the center.

DEFINING THE COMMON GOOD

Thought experiment = veil of ignorance

“Abstract yourself from your attributes and your position in society, i.e. place yourself behind the veil of ignorance, and ask yourself *What kind of society would you like to live in?*”

- Not a La-La land
 - incentives matter: we all react to our incentives
 - myth of “new man” led to economic failure and authoritarian regime.

THE COMMON GOOD: SOME IMPLICATIONS

1. *Economic efficiency*

- solid legal framework
- fight abuses by monopolies & agreements that restrain trade
- banking regulation...

2. *Insurance mechanisms*

- universal health coverage (market goes against solidarity)
- equal opportunity/right to a good education
- correction of other inequalities (e.g., gender, income, wealth)
- protection against life mishaps

3. *Societal regulation*: e.g., religious/ethnic/political/sexual/etc tolerance

II. THE MORALITY OF MARKETS

Economists' Weltanschauung: "markets and incentives are key."

Many market failures to be certain:

Economists' caveats on incentives

- abuses of market power
- externalities
- poor information (\Rightarrow financial regulation, consumer protection...)
- poor insurance: health insurance, absence of equal opportunity, inequality (the income and wealth distributions generated by markets have no reason to fit society's moral standards)

Nonetheless, premise remains: "Markets often fail, but properly regulated, they are key to economic organization." E.g., a carbon price

Two lines of attack on markets

1. “MARKET FRAMES ETHICAL CHOICES”

Managers cannot express their social responsibility in marketplace, due to the replacement logic: “If I don’t do it, someone else will anyway”

- selling weapons to dictators
- bribing officials
- being lax on opioids
- whitewashing product’s shortcomings
- taking illicit drugs (athlete)...

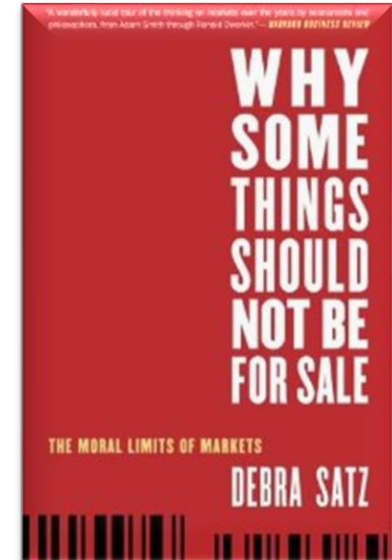
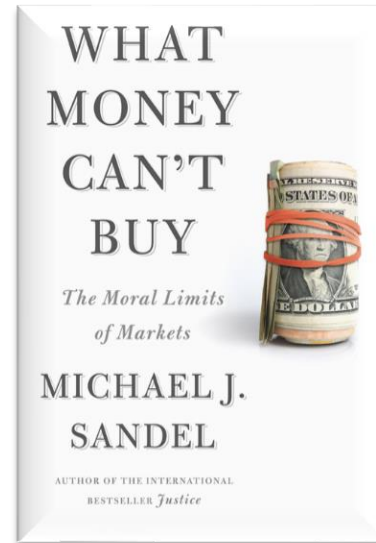
Dewatripont-Tirole: yes, but only in well-defined circumstances

- competition lowers markups and incentive to behave unethically
- competition offers more choice to socially responsible consumers.

2. “REPUGNANT MARKETS”

Civil society, religious leaders, politicians, philosophers

Bone of contention: distrust of markets, more broadly of incentives, with rather different viewpoints, from



Sandel: What's wrong with markets?

A wide range of goods and services, including **babies for adoption, surrogate motherhood, sexuality, drugs, military service, votes, and organs for transplantation,** are not to be commoditized through markets, no more than **friendship, admissions to elite universities or Nobel Prizes** are to be bought, or **genes and other life forms** to be patented.

MARKETS AND MORALITY IN ECG

What's wrong with "What's wrong"

- *Moral postures/feelings of revulsion are warning signals, but unreliable sources of ethical inspiration*
 - moral assertions can override freedom of others (religious, sexual minorities)
- *Markets exist whether we want them or not* (prostitution, organ markets, surrogate motherhood). Issue is to regulate/prevent them if so, not to assume them away
- *"What's wrong with markets" must build on the identification of market failures and the design of proper regulations, which is a central task of economics.*



Number of repugnant markets can be analyzed in terms of concepts that are very familiar to economists:

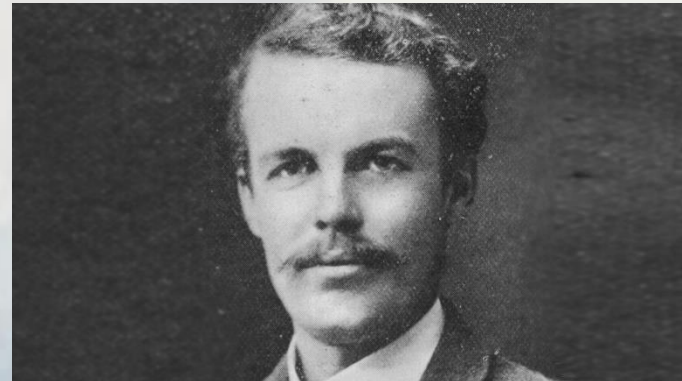
- *Externalities*: babies for adoption to highest bidder
[including image externalities: dwarf-tossing, prostitution]
- *Internalities* (failure to stand for one's best interest):
E.g. impulsive/myopic behaviors: voluntary slavery, organ sales, drugs
- *Non-competitive markets*: information, market power
- *Motivated beliefs*, etc



III. RESPONDING TO MARKET FAILURES

Our societies rest on two pillars

- *The invisible hand of the market* harnesses consumers' and corporations' pursuit of self-interest to the pursuit of efficiency (Smith)
- *The State corrects market failures* whenever externalities, internalities or asymmetric information stand in the way of efficiency and redistributes income and wealth (Pigou).



GOVERNMENT FAILURES

Dysfunctional state

- Capture by lobbies and cronyism
- Electoral incentives \Rightarrow pandering/electioneering (state as follower/pollster)
- Territoriality of jurisdiction

Time bombs (politics' time scale leads to short-termism)

- Climate change
- Public finances and pensions
- Inequality
- Education
- R&D



The State in the 21st century

The role of independent authorities

(justice; antitrust, regulatory and industrial policy agencies; central banks)

- Politics subject to lobbying, electioneering/pandering, rulers' interests
- Independence allows more expertise-based public decision-making
- But relies on appointing independent experts (not always easy)

Modern State

- *State as regulator* (corrects market failures)
- *State as enabler* (infrastructure: legal framework, funding of high-risk/high-reward projects, etc.)
- *Managerial State* (SOEs: political appointees; soft budget constraint; regulator may tilt level-playing field)



IV. WHAT SHAPES THE ECONOMIC DEBATE?

What role for economists in the public debate?

- More broadly, disregard for experts
- Affects particularly fields in direct contact with society: economics, medicine & biology, climate change, evolution theory...

The role of motivated beliefs and narratives

Motivated beliefs

Believe what we want to believe

- About our future (adverse consequences of the “green growth” slogan)
- About our society: we don’t want to believe/see that it is
 - unequal: organ sales, prostitution (moving prostitution elsewhere)...
 - violent (bans on *public* executions [France from 1939 through 1981]).

The economist as bearer of bad news

Economic analysis exposes our deep values: “incentives are needed”

Policy reframing: Motivating law and policy by overarching ethical goals such as *fairness and equity* avoids a confrontation with tell-tale signs that our morality is not necessarily what we strive to believe it is.

[Restatement of Contracts refers to the sanctity of contract and the resulting *moral obligation* to honor one's promises (quasi-religious attitude).]

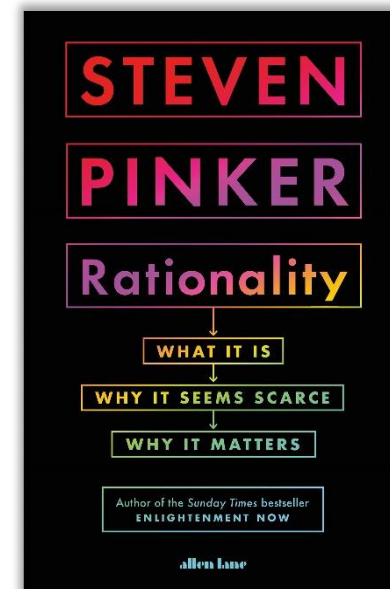
The economist as the destroyer of social norms

But incentives also have an expressive impact: they spill over into uncontrolled aspects of life [Bénabou-Tirole Laws and Norms]

Science-based-policy challenge: win the narratives contest

Statistical facts don't work well

- Marcel Proust (1913): “The facts of life do not penetrate to the sphere in which our beliefs are cherished” (e.g., correcting misperceptions on immigrant flows)
- Salience (car accidents vs. death from terrorist acts) and motivated beliefs often matter more than facts in shaping beliefs



Effective narratives play on several cognitive mechanisms

- *hope for a bright future* (“someone else will pay”, “ecology should not be punitive”): related to anticipatory utility/motivated beliefs
- *confusion between correlation and causality* (“avoid going to hospital”)
- *using and looking for flimsy excuses for antisocial behavior* (“vaccines are a hoax to make pharmaceutical companies rich”)

Many anti-common-good narratives. How do we debunk them?

[Narratives can promote the common good too: Kant’s formula of the universal law, fairy tales, stories supporting moral precepts, personal narrative of an immigrant, perspective taking (“transport theory”) narratives about someone’s plight]

Start with a narrative to engage audience, and then display facts?

CONCLUDING REMARKS ON OUR FUTURE

- Markets and competition are neither moral nor immoral per se. Duty of regulation is to correct market failures
- Good public policy requires a) understanding modern state, b) accounting for perceptions/cognitive biases
- To address key societal challenges/time bombs: global warming, future of labor, international cooperation, inequality, regulation, debt...
 - must use economics and social sciences analysis
 - one deciphering key: the common good.



THANK YOU FOR YOUR ATTENTION