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A Review of *Economics for the Common Good*

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Abstract

The argument of *Economics for the Common Good* can be synthesized as follows: We act according to our interest, defined in turn by our preference function, which may be egotistic or altruistic. Our actions will have consequences for others; these consequences may be expected and accepted (for example, in a market exchange with perfect information, in which both parties gain) or not (for example, the pollution caused by a factory, which has harmful effects on third parties). This reduction of the other person's well-being, which is not accepted and may even be unknown, constitutes a failure of the common good. Economics for the common good tries to identify these failures and avoid them.

The book is organized in five parts, plus an introduction. The introduction asks what has happened to the concept of the common good, which seems to have disappeared from our analyses and recommendations. The first part explains what economics is, what the market economy is and what its moral limits are. The second part explores the tasks performed by the economist. The third part explains the institutional framework of economics: the state and the firm. The fourth part is devoted to the major macroeconomic challenges currently facing the world: climate change, the job market, the future of Europe and the euro, the role of finance, and the financial crisis of 2008. Finally, the fifth part delves into a number of subjects to which Tirole has made very important contributions, such as competition policy, digitization, innovation and intellectual property, and industry regulation. The chapters can be read separately, depending on the reader's interests.

Keywords: Common good; Economics; Economists; Ethics

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Acclaimed French economist Jean Tirole, awarded the Nobel Memorial Prize in Economic Sciences in 2014 and chair of the Toulouse School of Economics, has written an interesting and useful book. It is particularly well timed, given the amount of information about social problems currently circulating in traditional and social media. Written in nontechnical language, his arguments can be understood by a lay audience. And he offers an open, interdisciplinary vision, which makes his book recommended reading for economists, particularly at universities, where those values are not always given the prominence they deserve.

The book consists of an introduction and 17 chapters organized into five parts. The introduction asks what has happened to the concept of the common good, which seems to have disappeared from our analyses and recommendations. The first part (Chapters 1 and 2) explains what economics is, what the market economy is and what its moral limits are. The second part (Chapters 3 to 5) explores the tasks performed by the economist. The third part (Chapters 6 and 7) explains the institutional framework of economics: the state and the firm. The fourth part (Chapters 8 to 12) is devoted to the major macroeconomic challenges currently facing the world: climate change, the job market (focused on France but very relevant for other countries as well), the future of Europe and the euro, the role of finance, and the financial crisis of 2008. Finally, the fifth part (Chapters 13 to 17) delves into a number of subjects to which Tirole has made very important contributions, such as competition policy, digitization, innovation and intellectual property, and industry regulation. The chapters can be read separately, depending on the reader’s interests.

The argument of *Economics for the Common Good*[1] can be synthesized as follows: We act according to our interest, defined in turn by our preference function, which may be egotistic or altruistic. Our actions will have consequences for others; these consequences may be expected and accepted (for example, in a market exchange with perfect information, in which both parties gain) or not (for example, the pollution caused by a factory, which has harmful effects on third parties). This reduction of the other person’s well-being, which is not accepted and may even be unknown, constitutes a failure of the common good. Economics for the common good tries to identify these failures and avoid them.

However, society is not empowered to directly influence an individual’s decisions, because the individual is sovereign and no one has the right to judge his preferences; at the very most, we can identify “dysfunctions” in his behavior (Chapter 5). However, economic science can help us have a direct influence on decisions: “economics works toward the common good; its goal is to make the world a better place” (p. 5).

This is the task of the market economy, “an instrument – and an imperfect one at that – when we consider how to align the common interest and the private interests of individuals, social groups, and nations” (p. 3). The market is governed by certain rules and institutions that condition behaviors; “the quest for the common good therefore involves constructing institutions to reconcile, as far as possible, the interest of the individual with the general interest” (p. 3).

This reconciliation of interests could be carried out by each agent if he knew where his personal interest comes into conflict with the general interest. (It is assumed that the agent would want to change his preferences, but Tirole does not acknowledge the role of the will, which means that mismatches are the outcome, almost exclusively, of information problems: Chapter 5.)

[1] *Economics for the Common Good*, by Jean Tirole. Translated by Steven Rendall. Princeton, NJ and Woodstock, UK: Princeton University Press, 2017. xii + 563 pp. ISBN 978-0-691-17516-4 (French original: *Économie du bien commun*. Paris: Presses Universitaires de France, 2016).

However, this is unlikely to happen, because "the judgment each of us makes might reflect our individual preferences, the information available to us, and our position in society" (p. 2). In other words, our decisions are colored by self-interest and societal influences. The solution would be for each one of us to act always under a "veil of ignorance," meaning that when we make our decisions, we do not know whether we are "a man or a woman, endowed with good or bad health, from a rich or poor family, well- or ill-educated, atheistic or religious, a person who could grow up in a big city or the middle of the countryside, or one who could seek fulfillment in work or adopt an alternative lifestyle" (p. 2). Tirole explains further, "The quest for the common good takes as its starting point our well-being behind the veil of ignorance. It does not prejudge solutions and has no criteria other than the collective interest" (p. 4).

The task of economic science, therefore, is to explain the consequences that actions have both for the agent's well-being and for that of other people (Chapter 1). And the social function of economists is to advocate the common good, acting behind the veil of ignorance, that is, with integrity, not influenced by perverse incentives or personal interests (Chapters 3 and 4). The book closes saying, "Above all, they [the economists] must explain what they are good at – and what they are bad at too – and, with humility and conviction, harness economics for the common good" (p. 483).

Tirole practices this humility and conviction: he discusses the issues from different viewpoints, brings order and simplicity to complex problems, draws attention to the errors of simple intuitions, and highlights the risk of judging policies solely on their declared intentions without taking into account their unforeseen consequences, which will very likely befall others. The role of public policies must be, he argues, to create the right incentives so that people can make decisions in accordance with their own interests and, at the same time, in accordance with other people's interests.

In spite of the title, the author has not attempted to write a treatise on ethics. The index only contains five references to ethics or morality, but many of the issues discussed in the book, probably all of them, have moral connotations. The ethics it proposes is the consequentialist or utilitarian ethics espoused by most economic models. The agent makes his decisions on the basis of his interests and the constraints imposed by available resources, prices and the legal and institutional framework. Of course, he can behave altruistically or pro-socially, but this does not have any ethical significance: such conducts are mere preferences that are not open to appraisal nor, much less, to any attempt to change them. Tirole's conception of the person is the traditional conception from neoclassic models, albeit enriched in certain aspects by contributions from psychology, sociology or the neurosciences (Chapter 5). There is no consideration of the person's being good or bad, beyond the satisfaction of his preferences. There is no moral learning, no development of virtues: it does not matter whether the agent is truthful or deceitful, fair or unfair, humble or haughty. Nor is any mention made of deontological principles or the ethics of care. The only principle featured is to take into account actions' unforeseen consequences, but this is not a principle of conduct for the agent, but rather for society.

Despite this limitation, the book can be of great benefit to both economists and people interested in ethics alike. In the case of the former, it can help them understand that many problems have both an economic dimension and a moral dimension, and that the latter cannot be reduced simply to the former – although this is not suggested by Tirole but must be inferred by the reader. For example, the author says that market failures, such as pollution, "demand public action but do not raise specifically ethical problems" (p. 8). This is true if the problem is defined in terms of institutions and public policies (and even then, politicians' moral responsibility must be considered), but overlooks the fact the someone is carrying out, freely and deliberately, actions that cause harm to others. Again, the problem is a question of ends: economics guides the regulator but it is ethics that acts on the agent's preferences.

Those who work in the field of ethics can also benefit from reading *Economics for the Common Good*. For example, Tirole suggests that the practices that produce feelings of indignation are basically economic problems (Chapter 2): for example, prohibiting the sale of human organs means less well-being for patients. What causes public indignation, however, is not the market failure but the violation of human values. It is a morality that Tirole sees as being confined to the private sphere, with no repercussion on public policies. Public indignation may simply be a collective reaction, but it is often related to social ethics. In any case, Tirole's recommendation remains just as valid: "feelings of revulsion … can provide us with a way forward, or indicate that something is not right in society, or in our own behavior, but that is all. It is essential to question these strong feelings and ensure we reflect on them in developing public policy" (pp. 46-47).

Returning to the book's title, the concept of common good Tirole uses is the one used by a large part of the modern tradition and identified with the collective interest or general well-being. It is a pity that the contributions made by Aristotle, Thomas Aquinas and many other social philosophers on the common good are lost in this interpretation. But it is encouraging that economists are asking themselves about the consequences of individual actions on other people. An ethics based on the agent, and not on the market or on politics, would place greater emphasis on personal responsibility, which must start with the ends (preferences) – something that is taboo in economics but fundamentally important in human action – and must follow with the means, which are what economics discusses. *Economics for the Common Good* is an appeal for a reappraisal of the relationship between anthropology, ethics and social sciences.