

THE COMMON GOOD AFTER COVID

IFS lecture

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Jean TIROLE



Toulouse
School of
Economics



I. WHAT IS THE COMMON GOOD?

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

- *Citizen* who emits carbon, drives too fast, 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...)

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

AMBITION OF ECONOMICS OF THE COMMON GOOD

Build economic institutions that align actors' concerns with the general interest.

Instruments

- *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 (29 years since Rio of exhortations); corruption, tax evasion, public funds cost containment, incivilities...
- *Incentives* are needed to put the general interest back in the center.

Can combine (*persuasion + incentives*): tobacco in public places.

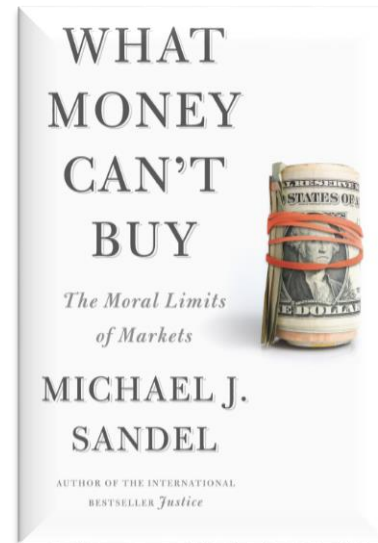
DEFINING THE COMMON GOOD

- *Veil of ignorance*. Thought experiment: abstract ourselves from our attributes and our position in society, to place ourselves behind the veil of ignorance
- *Not a La-La land* (incentives matter)
- *Delivers*
 - *Economic efficiency*: legal framework; fight against monopolies [agreements that restrain trade, abuses of dominant position]; banking regulation...
 - *Range of insurance mechanisms*: health insurance (market goes against solidarity); equal opportunity / right to a good education; correction of other inequalities (e.g., gender, income, wealth); against life mishaps more broadly
 - *Societal regulation*: e.g., religious / ethnic tolerance
- *With a long-term vision*
- *Without prejudging instruments (next)*

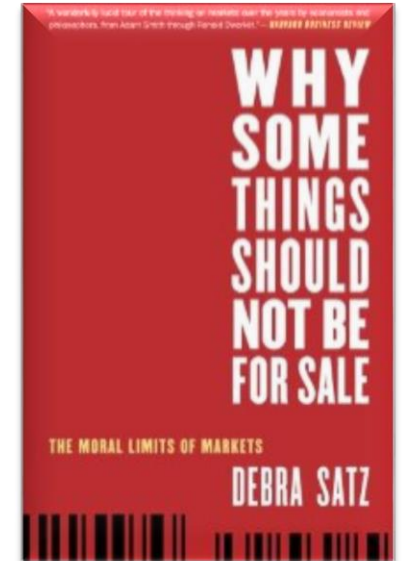
II. THE MORALITY OF MARKETS

Some philosophers' bone of contention: distrust of markets, more broadly of incentives

with rather different viewpoints, from



to



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 an unreliable source of ethical inspiration.** Indignation: warning signal but should not go beyond that.
Moral assertions can override freedom of others
[sexual acts between persons of same sex or different races.]
- **Markets exist whether we want them or not:** prostitution, organ markets, surrogate motherhood... Issue is to regulate/prevent them if we so decide, not to assume them away. We cannot stick our heads in the sand.

Economics as a moral and philosophical science.

"What's wrong with markets" must build on identification of market failures, which is a central task of economics.



2) *Imperfectly competitive markets*

- Information
 - *Incomplete information*: Misinformation about LT consequences of organ sales, contract pregnancy (bonding with child), addictiveness (of OxyContin), vaccines (measles vaccine & autism)
 - *Asymmetric information*: No commodification of friendship, admission in universities, scientific prizes, love.
- Market power
 - Price gouging, contracts written under duress
 - Monopolization, abuses of dominant position

POSSIBLE COMPASS: MARKET FAILURES

1) *Externalities and repugnant markets*

Classic externalities: environmental externalities (e.g, carbon emissions), or underconsumption of vaccines and overconsumption of antibiotics.

Similar arguments apply to many situations in which missing party to contract:

- Babies for adoption to highest bidder; child labor; slavery
- Market for votes (seller and buyer of vote exert an externality on other citizens)

Image externalities (change people's perceptions of broader group)

- Dwarf-tossing
- Market for women's reproductive labor, prostitution

Digression: Come-back of industrial policy

- for good reasons (e.g., urgent need to act / climate change)
- bad ones (calls for protectionism & subsidies by distressed firms, lots of public money around; citizens want governments to “have a plan”)

Industrial policy's pros: jump-start an industry, create clusters (information exchange, common infrastructure, local labor market)

Industrial policy's cons: picking winners (lack of information & expertise, clientelism...)

If we do it, we need a clean governance, including:

- use independent, qualified experts to select and manage projects that receive public funding; withdraw support if the policy is not working or is no longer needed
- pay attention to the supply of research capability as well as the demand for it; avoid “field of dreams mentality”
- fix goals/ do not prejudge the solution (Covid vaccines...)
- do not distort competition between companies
- evaluate interventions after they have taken place, and publish the results
- involve the private sector closely in risk taking.

What to do with Big Tech (focus on competition issues here)

[See my paper for IFS Deaton Review of Inequalities]

No unpalatable choice between laissez-faire and populist interventions

- Old-style utility regulation: no
- Break-ups: ?
- Competition policy: yes, but made more agile; light-touch regulation/
competition policy
 - More forward-looking than competition authority
 - Collects info + has ability to suspend decisions
 - Monitors defensive acquisitions (firms pre-notify their acquisitions).

3) *Internalities*

- Failure to pursue self-interest: Self-control (argument usually invoked for drugs, alcohol, smoking, junk food)
 - Voluntary slavery
 - Organ sales
 - Opioids: free samples
- Internalities and (image) externalities: doping in sports.

4) *Inequality*

- Behind the veil of ignorance...
- Especially when little moral hazard: health, education, gender...

5) *Privacy*

Standard economic justifications as well: Too much information about us may

- makes us be discriminated against (capture of behavioural surplus)
- exposes us to risk/ deprives us of insurance (health, labor, personal relationship markets)
- violates our right to oblivion
- affects behavior in the private sphere (expansion of our public sphere)
- for divisive issues (politics, religion, sexuality, abortion, social issues....), forces us to change our behavior; or keep same behavior and change social graph & join safe spaces of like-minded individuals.
 - Safe spaces have ancillary welfare costs
- makes us subject to political oppression (social score Tirole AER 2021).

III. GOVERNMENT FAILURES

Dysfunctional state

- Capture by lobbies
- Electoral incentives => pandering (state as follower/ pollster); short-termism
- Jurisdictional aspects.

Modern state

State as regulator (corrects market failures: market power, poor education, externalities, inequality, consumer protection, financial regulation, privacy, etc.)



State as enabler (legal framework, funding of high-risk/high-reward projects, etc.)



Managerial State (where to draw the line w. previous)



GOVERNMENT AND MARKET FAILURES: The case of Covid 19

Current quadrilogy (social distancing/ contact tracing/testing/vaccination) fraught with externalities

Short-termism

Lack of preparation (masks, ventilators, containment measures, social compact around pandemic pass ...)

- global health crises are no longer rare events (also: antibio-resistance, bacteria and viruses released by permafrost, biological warfare), but “not yet frequent enough” to be a State’s priority

National interest is paramount (multilateralism in decline)

- Underreporting/limited information sharing/lack of lockdown coordination
- Vaccines: the race to corner supplies

IV. LIMITS TO MARKET&GOVERNMENT-FAILURES COMPASS

Call for a new research agenda for public economics.

Individual morality and public policies are also shaped by cognitive biases.

Affects particularly fields in direct contact with society: economics, medicine & biology, climate change, evolution theory...

1) *Motivated beliefs*

Believe what we want to believe

- About our future (devastating 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, e.g., incentives are needed

Obfuscation/camouflage strategies/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

Economists' Weltanschauung: [with n caveats] incentives are crucial (e.g. carbon price)

Expressive impact. Spillovers into uncontrolled aspects of life [Bénabou-Tirole Laws and Norms]

2) *First impressions*

- First impression: direct effect of an economic policy
- Secondary effects: lack of understanding of GE effects (leakage problem, rent control, employment protection), popularity of subsidies & unpopularity of taxes.

More generally narrowed field of vision (my freedom to not get vaccinated, my right to tax-free bequests to my children...)

Economists

- view themselves as protector of the invisible victim
- are viewed as indifferent to the sufferings of visible victims*.

Grand claims vs. trade-offs

*Difference here between economics and medicine (except epidemiology): secondary effects usually not borne by direct beneficiaries of policy.

3) Refusal to contemplate ethical dilemmas

Considering trade-offs is unavoidable and policy coherency is important. E.g., in health domain

- Choices between equipments/ treatments that differentially impact mortality
- Award of legal damages
- Automobile and safety standards, transportation infrastructure...

Philosophers' trolley dilemma and its modern implications

- Should a doctor kill one healthy person to transplant organs and save 5 others who are about to die? Covid: shortages of ventilators.
- Software in autonomous car: should it sacrifice the driver to save 5 pedestrians?
[Bonneton et al, *Science* 2016]

4) Poor understanding of statistics

- Tversky-Kahneman experiment with Harvard medical school students
- Panic reaction to AZ thromboses

5) Complex communication: divisive issues and micro-aggressions

Particularly hard to have a rational debate when issue is divisive or when other side feels slighted

- Easy attribution: other's fact is suspicious.

WHAT CAN WE DO?

ST strategy's key challenge: win the narratives contest

Statistical facts don't work well

- Marcel Proust (1913): “The facts do not penetrate the world where our beliefs live.”
- Lots of recent evidence (e.g., correcting misperceptions on immigrant flows)
- Salience (car accidents vs. death from terrorist acts) matters, but not only reason (motivated beliefs)
- Start with a narrative to engage audience, and then display facts?

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.]

What tricks do narratives use?

[Prosocial ones use the same strategies as anti-social ones.]

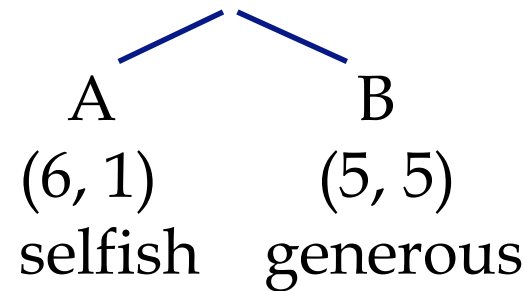
Effective narratives play on several cognitive mechanisms

- *hope for a bright future* (“someone else will pay”, “ecology should not be punitive”): related to anticipatory utility/motivated beliefs
- *perspective taking* (“transport theory”): personal narratives work (someone’s plight)
- *confusion between correlation and causality* (“avoid going to hospital”)
- *using and looking for excuses for antisocial behavior*
 - flimsy (“vaccines are a hoax to make pharmaceutical companies rich”)
 - or not. Replacement excuse: “if I don’t do it..” (selling weapons to dictatorships, bribing officials to win a contract, doctors overprescribing opioids, professional athletes taking illicit drugs to defeat their competitors...)

Moral wiggle room: the role of flimsy, situational excuses

[Dana-Weber-Kuang 2007 and numerous articles since]

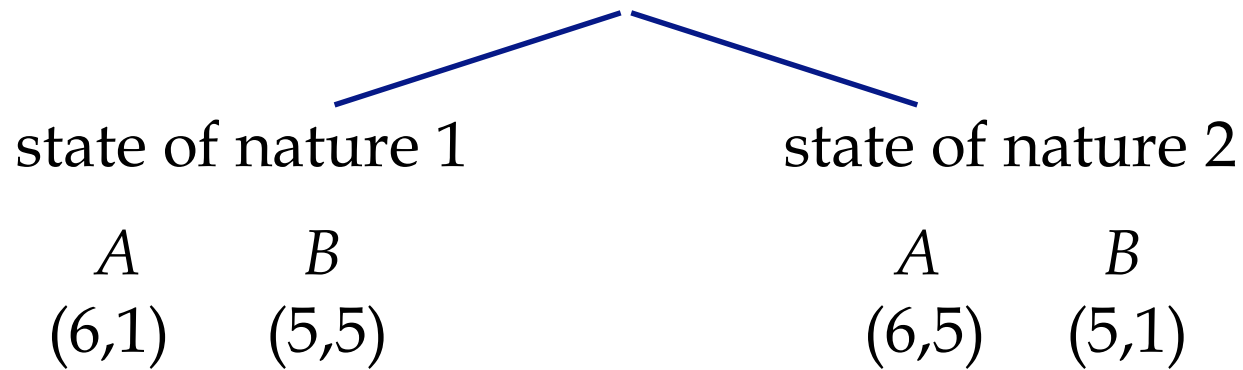
Standard “dictator game”: Individual anonymously chooses between two options (first payoff= dictator’s)



Typical experiment: 3/4 choose B.

Can other-regarding preferences (partial internalization- at least one fourth- of other’s payoff) explain this? Possibly, but consider the following...

Modified dictator game



“Do you want to (costlessly) learn the state of nature before choosing between *A* and *B*?”

Bad excuses can be effective: About half choose not to know; all of these choose A. In the end much larger fraction chooses A.

- Other treatment: *two dictators*. Back to known payoffs (A is selfish for sure). Each dictator can enforce (5,5) outcome by himself (i.e., (6,1) requires both dictators to choose A). But only 35 % choose B. « Misperception » of lack of pivotality
- Other applications:
 - Delegation to a third party taking the tough decisions
 - Avoiding the ask

Replacement excuse

Indeed,

- the more unethically I behave, the more unethically you behave (SC)
- for regulated prices, more competition leads to less ethical behavior
- for market-determined prices, competition cuts both ways (reduces gains...)
- not-for-profits' competition with for-profits.

LT strategy: Instil respect for science, discredit relativism, post-truth

Health

- Homeopathy: $\frac{3}{4}$ of French believe efficient. [Homeopath consultation covered + reimbursement rate: 30%. Then several complementary schemes partly undo copayment]
- Anti-vax movement (Pasteur's country ranks last in trust of vaccines)

More broadly, anti-science messages (GMOs, 5G, vaccines...).

Restore trust in experts and scientists

Market for virtuous indignation

- 2016: Lord Chancellor Gove: *“I think the people of this country have had enough of experts “*
Not specific to UK, and nothing new:
- 1793: sentenced to death, Lavoisier asked for a delay to complete an important experiment. The president of the revolutionary court, answered him: *“The Republic does not need scientists!”*
- 1793: Edmund Burke’s *“But the age of chivalry is gone. That of sophisters, economists, and calculators, has succeeded; and the glory of Europe is extinguished for ever.”*

Possible sources of corruption in interface between research and policy advice

- Quid pro quos
 - Money (whether private or public)
 - Access to data (whether public or private, should be made unconditional; availability)
- Media temptation/yearning to be a public intellectual: please an audience
- Politics
 - Don't want to disappoint fellow travelers
 - Unwillingly categorized, hence message viewed as more important than content

Education: teach at school

- simple illustrations of correlation vs. causality
- randomized experiments (Pasteur 1881!)

Participation of scientists in the public debate

CONCLUDING REMARKS

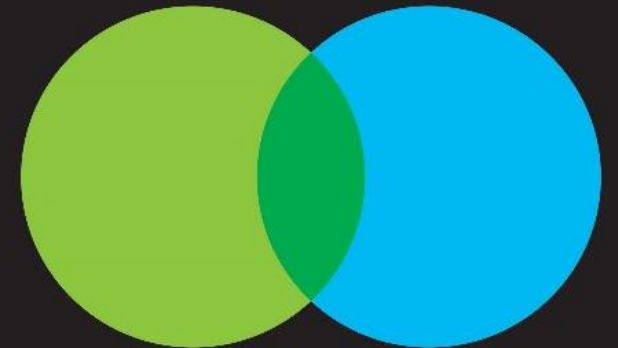
Still have pre-covid opportunities and challenges

- Amazing opportunities (AI, biotech...)
- Key societal challenges: global warming, future of labor, international cooperation, inequality, regulation, debt...

Covid: catalyst for change or echo chamber for our weaknesses?

- Must use economics and social sciences analysis and confront ethical dilemmas
- One deciphering key: the common good

**Economics
for the
Common
Good**



Jean Tirole

Winner of the Nobel Prize in Economics

THANK YOU FOR YOUR ATTENTION