

INTRODUCTION

Whatever Happened to the Common Good?

SINCE THE RESOUNDING FAILURE of the planned economies – the fall of the Berlin Wall and China’s economic transformation – the market economy has become the dominant, not to say exclusive, model for our societies. Even in the “free world,” the market and its new economic actors have become more influential, at the expense of political power. Privatizations, globalization, a greater emphasis on competition, and the systematic use of auctions to award public contracts have all restricted the power of elected officials. What remains of public decision making has increasingly come to rely on independent regulatory bodies, central banks, and the legal system, none of which is subject to direct political control.

Even so, the market economy has achieved only a partial victory, because it has won neither hearts nor minds. For many, the pursuit of the common good, the guiding principle behind significant public intervention, has been sacrificed on the altar of this new economic order. Around the world, the supremacy of the market is regarded with widespread distrust, sometimes accepted only with an outrage laced with fatalism. A fragmented opposition laments the triumph of economics over human values, a world with neither pity nor compassion and prey to private interests. These critics warn us of the disintegration of the social contract and the loss of human dignity, the decline of politics and public service, and the environmental unsustainability of the present economic model. A popular slogan that strikes a chord internationally reminds us that “the world is not for sale.” These issues resonate with particular force in our current circumstances, which are marked by the financial crisis, increased unemployment and inequality, the ineptitude of our leaders in coping with climate change, the

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undermining of the European project, geopolitical instability and the migrant crisis resulting from it, and the rise of populism around the world.

Have we lost sight of the common good? If so, how might economics help us get back on track in pursuing it?

Defining the common good – our collective aspiration for society – requires, to some extent, a value judgment. The judgment each of us makes might reflect our individual preferences, the information available to us, and our position in society. Even if we were to agree on the basic desirability of certain objectives, we might still differ over the relative importance of equity, purchasing power, the environment, or work versus private life – not to mention more personal dimensions such as moral values, religion, or spirituality, where people’s opinions differ profoundly.

It is possible, however, to eliminate some of the arbitrariness inherent in defining the common good. The following thought experiment is a good way to approach the question. Suppose you have not yet been born, and therefore do not know what place you will have in society, what your genes or who your family will be, or even what social, ethnic, religious, or national environment you will be born into. Now ask yourself, “In what society would I like to live, knowing that I might be either a man or a woman, endowed with good or bad health, from a rich or a 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?” This kind of questioning requires us to abstract ourselves from our attributes and our position in society, to place ourselves “behind the veil of ignorance.” It emerged from an intellectual tradition that began in seventeenth-century England with Thomas Hobbes and John Locke, was pursued in continental Europe in the eighteenth century by Immanuel Kant and Jean-Jacques Rousseau (who proposed the idea of a social contract), and was more recently revived in the United States by philosopher John Rawls, in his *Theory of Justice* (1971), and by economist John Harsanyi, who explored how we might compare the well-being of different individuals (1955).¹

To narrow your choices (and to rule out fanciful answers) I will reformulate the question: “In what social system would you like to live?” The key question here is not what type of ideal society you would like to live in – for example, one in which citizens, workers, business leaders, political officials, and nations spontaneously put the common interest ahead of their personal interests. Even though human beings are not constantly seeking their own material interest, they often give precedence to their self-interest over the common good, and the failure to consider personal incentives and entirely foreseeable behaviors has led in the past to totalitarian and impoverishing forms of social organization (a failure exemplified by the Soviet myth of the “new man”²).

This book therefore takes as its point of departure the following principle: whether they are politicians, CEOs, or employees, whether they are out of work, independent contractors, high officials, farmers, or researchers – whatever their place in society – people react to the incentives facing them. These material or social incentives, combined with their personal preferences, define their behavior; and this behavior may or may not be in the general interest. The quest for the common good therefore involves constructing institutions to reconcile, as far as possible, the interests of the individual with the general interest. From this perspective, the market economy is not an end in itself. At most, it is 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.

Although it is difficult to put ourselves behind the veil of ignorance, insofar as we are conditioned by the place we already occupy in society, this thought experiment will help lead us toward potential grounds for agreement. Perhaps I create pollution or consume too much water, not because I take pleasure in doing so, but because it serves my economic interest. I can produce more vegetables, or I can cut costs by installing less insulation, or I can save money by buying a car with a dirtier engine. Other people suffer from my actions, and they disapprove of them. But, if we think about the organization of society, we can agree on whether my behavior is desirable from the point of view of someone who does not know whether he or she will

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be its beneficiary or its victim – in other words, whether the cost of being the victim outweighs the gain of being the beneficiary. The individual interest and the common interest diverge as soon as my free will clashes with your interests, but they converge in part behind the veil of ignorance.

Another benefit of reasoning from behind the veil of ignorance is that rights acquire a rationale that transcends sloganeering. The right to health care provides insurance against the misfortune of having bad genes. Equality of opportunity in education aims to insure us against disparities arising from the situation in which we are born and grow up. Human rights and freedoms protect us against arbitrary government. From this perspective, rights are no longer abstract concepts that society can grant or deny us at will. In practice, rights can be granted at differing levels, or they can conflict (for example, one person's freedom stops where that of others begins); this perspective also makes rights more operational.

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. It allows the private use of goods for the well-being of individuals, but not their abuse at the expense of others.³ Take for the example the idea of the commons, the goods that, behind the veil of ignorance, must for reasons of equity belong to everyone: water, air, biodiversity, cultural heritage, the planet, or the beauty of a landscape. These goods belong to everyone, but are ultimately consumed by individuals. They can be enjoyed by all of us to the extent that my consumption does not infringe on yours (this is also true of knowledge, public street lighting, or national defense).⁴ In contrast, if the good is available in limited quantities, or if the community chooses to restrict it, as some have in the case of carbon emissions, for example, then its use has to be privatized in some way. Setting prices for public goods like water, carbon, or bandwidth privatizes their use by granting some economic agents exclusive access as long as they pay for it. Yet it is precisely the quest for the common good that motivates this privatization: the aim is to keep water from being wasted, to make individuals responsible for the harm they cause by carbon emissions,

or to allocate a scarce resource – bandwidth – to those operators who will make good use of it.

These examples anticipate the answer to the second question posed above – how economics might contribute to the quest for the common good. Economics, like other human and social sciences, does not seek to usurp society’s role in defining the common good. But it can contribute in two ways. First, it can focus discussion of the objectives embodied in the concept of the common good by distinguishing ends from means. Far too often, as we will see, these means or instruments – whether an institution (such as the market), a “right” to something, or an economic policy – acquire a life of their own and lose sight of their true purpose. They can even end up working against the notion of the common good that justified them in the first place. Second, and more important, once a definition of the common good has been agreed upon, economics can help develop tools that contribute to achieving it.

Economics is not in the service of private property and individual interest, nor does it serve those who would like to use the state to impose their own values or to ensure that their own interests prevail. It does not justify economies based entirely on the market nor economies wholly under state control. Economics works toward the common good; its goal is to make the world a better place. To that end, its task is to identify the institutions and policies that will promote the common good. In its pursuit of the well-being of the community, it incorporates both individual and collective dimensions. It analyzes situations in which individual interest is compatible with the quest for collective well-being, as well as those in which, by contrast, individual interest hinders that quest.

ITINERARY

Our journey through the economics of the common good will be demanding but, I hope, rewarding. This book is not a course of lectures or a series of precooked answers. Instead, it is a tool for questioning, like research. It conveys my personal view of what economic science is, the way it is constructed, and what it involves. This is a vision of research based on the interaction between theory and practice, and

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on a society recognizing both the virtues of the market and also the need to regulate it. You may find yourself disagreeing with some, or indeed most, of my conclusions, but I hope that even in that case you will find food for thought here. I am counting on your desire to gain a better understanding of the world around us, and on your curiosity to peer through the looking glass.

My other ambition for *Economics for the Common Good* is to share my passion for a discipline: economics. Until I took my first course in the subject at the age of twenty-one or twenty-two, my only contact with economics had been through the media. I was trying to understand society. I liked the rigor of mathematics and physics, and I was deeply interested in the human and social sciences, in philosophy, history, and psychology. I was immediately captivated by economics because it combines a quantitative approach with the study of individual and collective behavior. I later appreciated that economics opened a window onto the everyday world that I understood poorly, and that it offered two opportunities: to tackle problems that were intellectually demanding and fascinating, and to contribute to decision making in both public and private spheres. Economics not only documents and analyzes individual and collective behavior; it also aspires to recommend better public policy.

This book is organized around five major themes. The first is *the relationship between society and economics* as a discipline and a paradigm. The second is devoted to *the economist's work*, ranging from his or her daily life as a researcher to the potential relevance of that research to society. *The institutions of state and market* forms the third theme, which situates these institutions in their economic context. The fourth theme reflects on four of *the great macroeconomic challenges* at the heart of our current preoccupations: climate change, labor market challenges, the euro, and finance. The fifth theme deals with a set of microeconomic questions that are less prominent in public debate, but which are nonetheless crucial to our everyday life and the future of our society. Grouped under the heading of *the industrial challenge*, these questions include competition policy and industrial policy, new economic models, social challenges presented by the digital revolution, innovation, and the regulation of public utilities.

THE RELATIONSHIP BETWEEN SOCIETY AND ECONOMICS

The first two parts of this book concern the role of the discipline of economics in our society: the position of the economist, the everyday work of a researcher in economics, economics' relation to other social sciences, and the question of the moral foundations of the market.

I hesitated to include these chapters, as I feared that they might contribute to the contemporary trend to turn economists into media personalities. I feared this might distract the reader's attention from the real focus of this book: economics itself. I finally decided to take the risk. My discussions in high schools, universities, and elsewhere have reinforced my awareness of the questions the discipline raises. The questions people pose are always the same: What does an economist actually do? Is economics a (real) science? If economics is based on "methodological individualism," in which collective phenomena result from, but also shape, individual behavior, what issues does this raise? Is it right to presume a form of rational behavior, and if so, what form does it take? Are markets moral? As they were unable to predict the 2008 financial crisis, are economists even useful?

Economics is simultaneously demanding and accessible. It is demanding because, as we will see in chapter 1, our intuition frequently plays tricks on us. We are all vulnerable to, and yield to, certain heuristics and beliefs. When we think about an economic problem, the first answer that occurs to us is not always the correct one. Our reasoning often does not transcend appearances, the beliefs we hold, or our emotions. Economics is a lens that shapes our view of the world and allows us to peer through the looking glass. The good news is that if we take care to avoid these pitfalls economics becomes accessible. Understanding it does not require a superior education or an above-average IQ. Intellectual curiosity and a map of the natural traps that our intuition, emotions, and beliefs lay for us are enough to understand economics. In each of the following chapters, I will offer concrete examples to illustrate theory and enhance understanding.

Echoing the vague malaise mentioned above, many books inquire into the morality of the market and emphasize the need to establish

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a clear boundary between commercial and noncommercial domains. Chapter 2 shows that some of the moral criticisms of the market are simply reformulations of the concept of “market failure,” which therefore demand public action but do not raise specifically ethical problems. Other criticisms are more profound. We will try to understand why we are disturbed by market transactions involving, for instance, the sale of human organs, surrogate motherhood, or sex. I will stress the point that, although our feelings of indignation may alert us to aberrant individual behavior or the need to organize society differently, these feelings are a poor guide for economic action. In the past, indignation has often led to the assertion of individual preferences to the detriment of others’ freedom – and indignation all too often dispenses with the need for further reflection. Finally, chapter 2 analyzes concerns about the increase in inequality and the loss of social cohesion in market economies.

THE ECONOMIST’S PROFESSION

The second part of the book deals with the economist’s profession. It begins in chapter 3 with the engagement of economists in civil society. As a discipline, economics has a special place among the human and social sciences. More than any other, it challenges, fascinates, and disturbs us. The role of economists is not to make decisions, but to identify the recurring patterns structuring our economies, and to convey economic science’s current state of knowledge. In doing so, they face two contradictory criticisms. To some people, economists are ineffective. To others, on the contrary, they are influential, and often make arguments used to justify policies that do not serve the common good. I will concentrate on the second criticism, leaving the book as a whole to reply to the first.

It is entirely legitimate to question the role of the economist in society. Economic researchers, like their counterparts in other scientific disciplines, are usually financed at least in part by the state. They influence economic policy, either directly through their participation in civic life or indirectly through their research and teaching. They are fallible, like all scientists, but they should be accountable. As

absorbing as academic economists might find their intellectual life, collectively their research must also be useful to society.

The researcher's involvement in civic life takes many forms: interaction with the public and private sectors, or participation in public debate, in the media, or in politics. Each of these interactions, if well structured, is useful to society – but each also contains the seeds of self-destruction. Chapter 3 reviews what might compromise research and its transmission, taking economics as an illustration although the same lessons apply to academic research more broadly. This section offers some personal reflections on the way in which institutions can limit the risk that money, friendships, and the desire for recognition or celebrity might alter the researcher's behavior inside and outside the laboratory.

Chapter 4 describes the daily life of an economic researcher. I explain why the “dismal science” (as Thomas Carlyle called economics in 1849, in a tract proposing the reestablishment of slavery⁵) is, on the contrary, fascinating, and why a school or university student wondering what to do with his or her future might want to consider becoming an economist.

I discuss the complementarity of theory and empirical investigation and the back-and-forth exchange between them; the role of mathematics; how we validate knowledge; the things about which economists agree and disagree; and economists' styles of cognitive reasoning. Finally, I offer an intuitive description of two theoretical advances, game theory and information theory, which have revolutionized our understanding of economic institutions over the past forty years.

Anthropologists, economists, historians, legal scholars, philosophers, political scientists, psychologists, and sociologists all take an interest in the same individuals, the same groups, and the same societies. Chapter 5 places economics within the humanities and social sciences, of which it was part until the end of the nineteenth century. In the twentieth century, economics developed independently through the fiction of *homo economicus*: the hypothesis that decision makers (consumers, politicians, and enterprises, for example) are rational, in the straightforward sense that they act in their own best interest

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– most often understood as their *economic* interest – given the information they have available (although economics also emphasizes that this information may be partial or manipulated). In reality we are all biased in our thinking and our decision making, and we all have goals beyond our material self-interest, which is not something we pursue systematically. For the past twenty years, research in economics has increasingly incorporated contributions from other social and human sciences to improve its understanding of the behavior of individuals and groups, political decision making, and the ways in which laws are fashioned. Chapter 5 shows how we enrich the description of our economic behavior if we allow for phenomena such as procrastination, errors in belief formation, and the influence of context. The chapter then returns to morality and its fragility, discussing the connection between intrinsic and extrinsic motivation and the influence of social norms on our behavior.

INSTITUTIONS

The following chapters examine two of the main actors in economic life: the state and the firm. In chapter 6, I make the case for a new concept of the state, on the basis of the common good. Our choice of society is not between the state and the market, as partisans of state intervention and those of laissez-faire policies would have us believe. The state and the market are complementary, not mutually exclusive. The market needs regulation; the state needs competition and incentives.

The state no longer provides as much employment through public sector jobs as in the past, nor does it produce as many goods and services through public enterprises. It has transformed itself primarily into a regulator. I show that the state's new role is to establish ground rules, to intervene when markets fail, to ensure healthy competition, to regulate monopolies, to supervise the financial system, to create true equality of opportunity, and to redistribute resources through taxation. Chapter 6 also analyzes the role and relevance of independent authorities and the primacy of politics. It insists on the need to reform the state (because the condition of public finances in many

countries now threatens the survival of existing social systems) and proposes some avenues for reform.

Chapter 7 deals with the firm. It opens with an enigma: Why is a particular form of management – capitalist management – so prevalent all over the world? This kind of management grants decision-making power to shareholders or, if debts are not repaid, to creditors. Yet a firm has many other stakeholders: employees, subcontractors, customers, local authorities, the country or countries in which it operates, and those who live nearby. Hence, there are many potential forms of organization in which stakeholders might share power in diverse configurations and arrangements. We also tend to forget that other ways of managing firms (such as the self-managed or cooperative firm) are possible in a world of free enterprise. Analyzing how viable these alternatives would be leads me to a discussion of the strengths and weaknesses of alternative forms of corporate governance. I analyze ideas of corporate social responsibility and socially responsible investment. What do these concepts mean? Are they incompatible with a market economy, or are they on the contrary a natural product of it?

A WINDOW ON OUR WORLD

The chapters dealing with a selection of key economic challenges (chapters 8 to 17) require much less of a road map, as their themes are so familiar. This part of the book is a journey through subjects that affect our everyday life, but over which we exercise no individual control: global warming, labor market challenges, the European Union, finance, competition and industrial policy, our relation to the digital world, innovation, and sectoral regulation. In each case, I analyze the role of public and private actors, and reflect on the institutions that might contribute to the convergence of individual and general interest – in short, to the common good.

My message is optimistic. I explain why the ills from which our societies suffer are not inevitable (there are solutions to unemployment, to global warming, and to the decay of the European Union). I also explain how we can meet the industrial challenge, and what we can do to ensure that goods and services benefit the public as a whole,

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rather than simply increase the incomes of a firm's shareholders or employees. I show how we can regulate finance, monopolies, markets, and the state itself, without either derailing the economic engine or denying the state's role in the organization of society.

The choice of subjects is necessarily selective. I give priority to those on which I have published studies in academic journals. I have not addressed themes on which other economists could comment with far more expertise than I, or (as with globalization or inequality) discussed them only where they were necessary to complete the chapter's treatment.

THE COMMON THREAD

Although this book is organized around themes that are familiar to everyone, the common thread is a concept with which many readers will probably be unfamiliar – information theory, one of the major advances in economics over the past forty years. This theory is based on an obvious fact: decisions made by economic actors (households, firms, the state) are constrained by limited information. We see the consequences of these informational limits everywhere. They make it difficult for citizens to understand and evaluate the policies of their governments, or for the state to regulate banks and powerful firms, to protect the environment, or to manage innovation. Lack of information also contributes to the difficulty investors have in controlling the way their money is used by the firms that they finance; to the way those firms are structured; to our interpersonal relations; and even to our relationship with ourselves, when for example we construct an identity or believe what we want to believe.

As I show, the need for public policies that reflect the information available has crucial implications for the design of employment policy, environmental protection, industrial policy, and sectoral and banking regulation. In the private sector, asymmetries of information underlie institutions of governance and modes of financing. The problem of limited (or "asymmetric") information is everywhere: at the heart of our institutional structures and of our political choices – and at the heart of the economics of the common good.

A guide to reading this book: It is possible to read the seventeen chapters independently. If you have limited time or specific interests, you can therefore concentrate on your preferred subjects. It is, however, advisable to read chapter 11 (on finance) before reading chapter 12 (on the 2008 crisis).