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Jean Tirole, *Economics for the Common Good*, Princeton University Press, 2017, 576 pp. $25 Hardcover

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Abstract. The economics discipline is a dynamic, foundational field in the social sciences. With a host of scholars eager to share the knowledge they create with the general public, the discipline addresses how scarce resources are allocated to meet human needs and objectives. Since resources are scarce and societies have to make tradeoffs between competing ends, economics offers a unique set of tools to address many of society's most pressing concerns. Furthermore, it is common that once a scholar wins a Nobel Prize in economics that they produce a book for a broader public audience to explain their ideas.
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1. Introduction

The economics discipline is a dynamic, foundational field in the social sciences. With a host of scholars eager to share the knowledge they create with the general public, the discipline addresses how scarce resources are allocated to meet human needs and objectives. Since resources are scarce and societies have to make tradeoffs between competing ends, economics offers a unique set of tools to address many of society's most pressing concerns. Furthermore, it is common that once a scholar wins a Nobel Prize in economics that they produce a book for a broader public audience to explain their ideas. Jean Tirole is one such scholar who won the 2014 Nobel Prize for his work in industrial and regulatory economics and has written a book to address relevant economic and social issues in *Economics for the Common Good.* For those unfamiliar with professor Tirole, he is an economist educated at the Massachusetts Institute of Technology, emphasizing industrial organization, microeconomic theory, and regulatory economics. A remarkable scholar, when he was only in his mid-30s, he wrote *The Theory of Industrial Organization,* the definitive graduate-level text for industrial organization in a mature field with numerous seasoned scholars. He has also written nearly 200 articles in leading journals, as well as 10 books. In recent years, he has expanded his interests to economics and psychology, and banking and

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financial markets. He has now synthesized his work and summarized it with other scholars work for a larger public audience.

Theoretical and academic economics in the 1970s and 1980s was dominated by the prominent thinkers of the age: Milton Friedman, George Stigler, Gary Becker, and the procession of University of Chicago's free-market economists. Under the Chicago School, markets came to be seen as efficient market, self-regulatory, and the role of the state was in retreat. In the US, this discourse had political and economic consequences. The United Kingdom's Margeret Thatcher and Unites States' Ronald Reagan led a political response to the prevailing large-government Keysian state that was in opposition to the Chicago view of free-market individualism. Rather than an advocate for the public good, the state was largely relegated to an inefficient political institution "that was part of the problem." Democrats are the political party most sympathetic toward government intervention, yet in 1996 President Bill Clinton's State of the Union Address, he conceded that "the era of big government is over." Markets were seen as so efficient that free-market dilatants soon took market benefits to unreasonable extremes. Long-standing regulatory institutions, such as the Glass-Steagall Act -legislation that separated retail from wholesale banks- were replaced with Gramm, Leach, Bliley, or the Financial Modernization Act of 1999. This regulatory reform allowed large banks to consolidate, which later became part of the explanation for the 2008 financial crisis. However, despite the view that government was inefficient, there was a body of economists that did not accept the conclusion that markets were ubiquitously efficient and self-regulatory. The academic, political, and social tides turned once again, and since 2008, the benefits of government oversight have returned to the economic and political forums.

With pensive, non-confrontational prose Tirole lays down a contemplative narrative for how the economic academic environments of the 1980s and 1990s were heavily influenced by the free-market perspectives from Milton Friedman and the Chicago School. However, by the 2000s, the housing market collapsed, political systems were strained, and inequality became a major concern, even among previous die-hard market economists. It is against this backdrop that Jean Tirole offers an academic reflection on the modern role of the state and the economy, void of ad hominid attacks against scholars that disagree with him.

Asymmetric information in market exchanges is an active area in economic research and many times is what separates practical from theoretical economics and other disciplines. Much of *Economics for the Common Good* applies asymmetric information in market transactions to study labor, financial, resource, and industrial economics. There are at least three forms of asymmetric information: adverse selection, moral hazard, and principal-agent dilemmas. Because of hidden information before and after a transaction, markets can fail to reach satisfactory social outcomes. Adverse selection is when there is hidden information on the part of the seller before a transaction. The well-known example is George Akerloff's market for lemons, where sellers of used cars withhold relevant information and receive above market value. Moral hazard results when there is hidden information on the part of buyer after a transaction. Insurance is the moral hazard example. Principle-agent dilemmas are a third form of asymmetric information that exists when a vertically organized principal is responsible for the actions of a down-stream agent who makes decisions on the part of the principal but does not face the principal's same incentive structure. The objective is for the principal to devise an incentive scheme that brings the incentives of the agent into line with the principal, and principal-agent dilemmas are prominent with in institutions where the price mechanism is ineffective at allocating resources. Throughout the book, Tirole adeptly illustrates how asymmetric information, market failures, and distorted incentives in labor, capital, resource, and goods markets are not consistent with the common good.

According to *Economics for the Common Good,* government involvement in the economy need not stop at asymmetric information and poorly formed legal arrangements. Throughout the text, Tirole offers areas where government is a complement rather than a substitute for the State. Inequality is pervasive in liberal market economies, and climate change - potentially the greatest threat to civilization- are instances where government has an active role for the common good. The chapter on climate change and policies implemented to abate it is an objective outline to combat this threat using economic analysis. The 2008 financial crisis and derivatives that increase systematic risk are two additional areas where government's expanded role serve to improve desired results. The effects of the digital economy are considered from both the rewards and costs perspective that technology brings. While technology and innovation decrease the costs of physical production, the array of potential sellers' increases costs of finding a suitable match, illustrating the net benefits of technological evolution are the real concern. Moreover, modern microeconomic theory is dynamic, and the well-worn tools of elasticity and externalities are revisited in the context of the modern digital economy. Competition policy and network effects required for product adoption and the product life-cycle are considered relative to the dynamic digital economy.

Occasionally writing for a broader audience descends into rhetoric and vitriol towards other scholars with whom scholars disagree, which defeats the credibility of writing a primer to educate broader, untrained students to a discipline. The questions in *Economics for the Common Good* seeks to answer are complex. Nonetheless, Tirole is a leading figure in regulatory economics with creative insights that are difficult to dismiss. Moreover, the book is written as an informed primer, which is valuable for both the novice and experienced economist. Jean Tirole has written a balanced book with an intended audience for the general public that examines the tools of economics and how they can improve the public good that is pleasure reading for both the novice and the informed consumer of economic literature.