The General Interest:
It's All about Incentives

Philippe STEINER

By building markets, distributing information, and developing adapted incentives, modern economic theory claims to lead us to the common good.

Reviewed: Jean Tirole, *Économie du bien commun* (Economics of the Common Good), Paris, PUF, 2016, 629 p., 18 €.

Jean Tirole, the 2014 recipient of the award given by Sweden's central bank in memory of Alfred Nobel, has just published *Économie du bien commun* (Economy of the Common Good). It is a thick but simply written book, which seeks to make accessible to a large readership the approach and principal findings that earned him this prestigious award. Apparently, the volume is already a bookselling phenomenon, with more than 70,000 copies sold—an exceptional achievement for a book in the social sciences in France.

Pruned of technical language, the work is enjoyable to read as it guides us, with a sure and steady hand, through a number of recent developments in economic theory and introduces us to its main tools (information theory, game theory, incentives, and so on). Its seventeen chapters are divided into five parts: "economy and society," "the profession of economic researcher," "the institutional framework of the economy," "major macroeconomic challenges," and "the stakes of industry." As the author has been careful to write chapters that can be read independently of one another, readers can follow their own interests and choose any one of the many topics that Tirole has researched since the 1980s, following his encounter with Jean-Jacques Laffont (1947-2004), a pioneering researcher in the economics of public regulations and information economics.

These paradigms are the book's backbone: they allow the author to move back and forth, with his distinctive flair, between different domains. Tirole is essentially a theorist, that is, an economist who is interested in conceptualizing complex phenomena—due notably to their interdependence—based on stylized data and experiments in economic psychology. In this way, he differs from the approach Thomas Piketty takes in his studies of income and wealth inequality, which begins with empirical data found in statistical records, as well as that of Alvin Roth—who, in 2012, was also rewarded the Bank of Sweden prize—in his work on economic engineering applied to "matching markets" (for example, kidney exchanges between non-compatible pairs of donors and recipients, or a hospital's selection of residents), which takes as its starting point situations structured by well-defined norms and organizations. The more institutionalist approach of these authors and those who identify with the "regulation school" or "economics of convention" is quite simply ignored, which is hardly surprising, as the author, in a letter to Geneviève Fioraso, when she was Minister for Higher Education and Research, opposed recognition of these approaches by France's research officials. Despite a few nods to ethics and politics, the social sciences, with the exception of psychology, are never mentioned in his book, as is typical of contemporary economic theory.[1] Is economic theory alone sufficient for understanding the common good?

Two Key Concepts: Information and Incentives

Tirole has not based his work on the analysis of statistical data, but it would be a mistake to conclude that his theory is "groundless." His theoretical work has in fact made a major contribution to establishing polluting-rights contracts—even if the carbon emissions market was a failure, as he acknowledges in chapter 8—and "two sided" markets (the subject of chapter 14), that is, markets in which designers must bring together and preserve two groups of clients (suppliers or consumers) to make their exchange hubs appealing and economically profitable. These markets, which are emerging very rapidly due to the growth of online exchange hubs (such as Uber, AirBnb, Ebay, and so on), are characterized by the fact that supply has an interest in facing extensive demand and vice-versa, to the point that the hub could even offer its services for free or subsidize its market's least populated sector.

Yet even though other researchers have applied his insights, Tirole only makes the vaguest of allusions to these studies and never really takes the time to spell out the utility of these theoretical developments.[2] This is a shame, as it means that some of his contributions escape us: at times, the book seems to limit itself to conclusions that are either trite (as in chapter 9, which deals with unemployment) or crude—such as advocating "market liberalization," a principle that Tirole greatly values, though it is not one of his major arguments. Tirole's thesis is that to promote the common good, the world of exchange (markets) must be coupled with that of regulation (the state). The common good is the answer to the question: "in what form of social organization" does the individual seek to live? (p. 15). The answer depends, of course, on values, preferences, available information, and social position. Faced with this variability and the diversity of particular interests, "[t]he search for the common good is largely contingent on creating incentives that seek, as much as is reasonably possible, to reconcile the individual with the general interest."

The heart of Tirole's method lies in information economics and incentives as modeled by game theory. His core idea is that actors behave in ways consistent with their preferences, as well on the basis of available information, to adjust to the best of their ability their actions to existing possibilities. Despite its central place in the book's argument, the concept of "information" remains undefined—as if this idea were straightforward and binary, requiring no interpretation, contrary to the views of sociologists and various French economists ("convention economists") with whom Tirole wants nothing to do. When he suggests that the economist's role is to "calm down debate by establishing the facts" (p. 82), Tirole comes across as rather naive—as if facts can be grasped without complex interpretative elaboration, notably on the part of economists themselves.

The author sets aside this critical question to address the fact that information is often unequally distributed. A wide range of problems arises from the problem of informational asymmetry. Tirole thus pushes the rational economic actor backstage, as he seeks to assess and model rationality's shortfalls. Economic actors, in Tirole's theory, have cognitive biases, make

[1] Marion Fourcade, Étienne Ollion, and Yann Algan have called attention to the insularity of contemporary economists in their article "The Superiority of Economists," *Journal of Economic Perspectives*, 29, n° 1.

[2] Tirole is even less inclined to consider the habits of managers whose activity revolves around the market forms he studies. On this point, see Franck Agerri, "Les phénomènes gestionnaires à l'épreuve de la pensée économique standard. Une mise en perspective des travaux de Jean Tirole," *Revue française de gestion*, 2015, n° 250.

errors of judgment, succumb to emotions, put off until tomorrow what could be done today, and so on. The imperfections of individual rationality have their counterparts in those of the market and the state. At a fundamental level, the difficulty that information economics confronts is that of the "failure of interest-based conduct": when chains of action grow long, when one kind of self-interested behavior leads to another, whether through market or governmental relations, actors' self-interested conduct deviates from expectations and interests cease to be "aligned."

Incentive theory offers a second set of considerations with similar implications. In the economics of the common good, economists play a key role in establishing inventive systems that are capable of "aligning interests," that is, of ensuring that, despite their different interests, actors act to achieve the common good and the collective interest. The difference between the state and the market thus disappears, as they represent two alternative ways of incentivizing, distributing information, and holding economic actors accountable (which, in most cases, means "making them pay"). Even more importantly, this means that economists become less concerned with describing the existing world than with creating a world of their own. Taking his cue from Eric Maskin, his dissertation director at MIT and the 2007 recipient of the Bank of Sweden award, Tirole defends the idea that the task of economists is to build incentive systems that will guide actors towards the common good. Thus economists become builders of exchange systems: "the economist does not model the economic actor; rather, the latter does what the theorist models." After Eric Maskin, Leonid Hurwicz, Roger Myerson, the "nudge" theorists, and many others, Tirole enthusiastically chooses the path of contemporary neoliberalism.

The False Dilemma between Laissez-Faire and Regulation

In this context, laissez-faire[3] is not an option, for the market must be regulated to prevent some actors from taking advantage of their power or informational asymmetry to the detriment of others. Nor, by the same token, does Tirole consider it feasible to entrust the state with the administration of the economy or to manage it along the lines of the "embedded liberalism" associated with the post-World War II Keynesian state. The state must slim down and restructure itself; above all, it must delegate many of its tasks to independent administrative agencies. For Tirole, politics actors, who are motivated by preferences and incentives that are uniquely their own, are particularly dangerous creatures. Confronted with electoral constraints, they are often shortsighted, eager to serve the interests of their clienteles or, more deviously, to surrender to the very interests they are supposed to control. Thus it is not rational to expect the state to act solely on behalf of the general interest. Tirole's solution consists in creating independent administrative agencies, like the European Central Bank (ECB) or France's National Commission on Informatics and Liberty (Commission nationale informatique et liberté, or CNIL), which would be capable of developing policies in the general interest precisely because they are freed from the electoral constraints to which public authorities are subject and because they possess the information and competencies needed to make technical choices in a complex economic world. In this way, politics stands a chance of becoming rational, as "it depends on the quality of arguments rather than relations of force" (p. 221).

The author's solution has a very pronounced technocratic character: "societal" questions (such as the question of religious symbols, civil unions, and so on) can be turned over to politicians and voters; it is not reasonable, however, to do the same with "technical" matters (such as questions relating to unemployment or currency), as both lack the competencies and

[3] This idea is well illustrated in David Encaoua's article "Pouvoir de marché, stratégies et régulation: les contributions de Jean Tirole, Prix Nobel d'économie de 2014," *Revue d'économie politique*, 2015, n° 1.

the incentives required to resolve such matters (p. 223). One may understandably harbor some doubts about this conception of democracy, just as one may wonder whether experts are more sensitive to the merits of arguments than to relations of force. This is all the more true given that Tirole conveniently attributes the financial crisis of 2008 to political choices, exonerating economists of any responsibility. The two chapters devoted to this issue are hardly the book's most inspired.

Optimization as a Political Target

Ultimately, the book provides us with an opportunity to grasp the new conception of politics proposed by this group of economists, which one might call the politics of political economy, or, in a more erudite vein, governmentality, a term central to Michel Foucault's interpretation of neoliberalism. It consists of governing not through laws that define the boundaries between the licit and the illicit, nor by disciplining individuals through complex apparatuses, such as Bentham's panoptic prison. It entails, rather, getting individuals to make the decisions that are expected of them by conducing them, through carefully chosen incentives, to make the best possible choices from the options they have been given. The goal, in other words, is by no means to eradicate nefarious or illicit actions, but to "optimize," that is, to accept a certain quantity of undesired actions because it is more costly to eliminate them (through laws and discipline) than to tolerate them. Hence the idea, which appears early on in the book (p. 36-37), that an NGO fighting the ivory trade might decide to sell ivory confiscated from poachers, on the grounds that doing so would bring down prices on the illegal ivory market, thus reducing the incentive to poach. After politics, the idea of duty—the categorical imperative in Kant's sense—vanishes in the face of optimization and the technology of incentive-creation advocated by neoliberal approaches, allowing individuals to fully reveal themselves in relation to the market—which Tirole calls the "mirror of our soul" (p. 77).

First published in laviedesidees.fr, October 27, 2016. Translated from the French by Michael Behrent, with the support of the Institut Français.

Published in *Books&Ideas*, November 1, 2016.