

CONTENTS

ACKNOWLEDGMENTS	xi
INTRODUCTION WHATEVER HAPPENED TO THE COMMON GOOD?	1
Itinerary	5
The Relationship between Society and Economics	7
The Economist's Profession	8
Institutions	10
A Window on Our World	11
The Common Thread	12
 PART I	
ECONOMICS AND SOCIETY	
 ONE DO YOU LIKE ECONOMICS?	17
What Prevents Our Understanding Economics	17
The Market and Other Ways of Managing Scarcity	24
How to Make Economics Better Understood	29
 TWO THE MORAL LIMITS OF THE MARKET	33
The Moral Limits of the Market or Market Failure?	36
The Noncommercial and the Sacred	40
The Market, a Threat to Social Cohesion?	47
Inequality	50

VI CONTENTS

PART II

THE ECONOMIST'S PROFESSION

THREE	THE ECONOMIST IN CIVIL SOCIETY	65
	The Economist as Public Intellectual	66
	The Pitfalls of Involvement in Society	70
	A Few Safeguards for an Essential Relationship	76
	From Theory to Economic Policy	78
FOUR	THE EVERYDAY LIFE OF A RESEARCHER	80
	The Interplay between Theory and Empirical Evidence	80
	The Microcosm of Academic Economics	91
	Economists: Foxes or Hedgehogs?	101
	The Role of Mathematics	104
	Game Theory and Information Theory	109
	An Economist at Work: Methodological Contributions	118
FIVE	ECONOMICS ON THE MOVE	122
	An Agent Who Is Not Always Rational:	
	<i>Homo psychologicus</i>	123
	<i>Homo socialis</i>	137
	<i>Homo incitatus</i> : The Counterproductive Effects of Rewards	141
	<i>Homo juridicus</i> : Law and Social Norms	147
	More Unexpected Lines of Inquiry	149

PART III

AN INSTITUTIONAL FRAMEWORK FOR THE ECONOMY

SIX	TOWARD A MODERN STATE	155
	The Market Has Many Defects That Must Be Corrected	157
	The Complementarity between the Market and the State and the Foundations of Liberalism	160
	Politicians or Technocrats?	163
	Reforming the State: The Example of France	169

SEVEN THE GOVERNANCE AND SOCIAL RESPONSIBILITY OF BUSINESS	174
Many Possible Organizations ... but Few Are Chosen	175
And What Is Business's Social Responsibility?	185
 PART IV	
THE GREAT MACROECONOMIC CHALLENGES	
 EIGHT THE CLIMATE CHALLENGE	195
What Is at Stake in Climate Change?	195
Reasons for the Standstill	199
Negotiations That Fall Short of the Stakes Involved	206
Making Everyone Accountable for GHG Emissions	213
Inequality and the Pricing of Carbon	222
The Credibility of an International Agreement	226
In Conclusion: Putting Negotiations Back on Track	228
 NINE LABOR MARKET CHALLENGES	231
The Labor Market in France	233
An Economic Analysis of Labor Contracts	242
Perverse Institutional Incentives	245
What Can Reform Achieve and How Can It Be Implemented Successfully?	251
The Other Great Debates about Employment	255
The Urgency	261
 TEN EUROPE AT THE CROSSROADS	265
The European Project: From Hope to Doubt	265
The Origins of the Euro Crisis	267
Greece: Much Bitterness on Both Sides	282
What Options Do the EU and the Eurozone Have Today?	289
 ELEVEN WHAT USE IS FINANCE?	296
What Use Is Finance?	296
How to Transform Useful Products into Toxic Products	298

VIII CONTENTS

Are Markets Efficient?	306
Why Regulate in Fact?	321
TWELVE THE FINANCIAL CRISIS OF 2008	326
The Financial Crisis	327
The New Postcrisis Environment	335
Who Is to Blame? Economists and the Prevention of Crises	350
PART V	
THE INDUSTRIAL CHALLENGE	
THIRTEEN COMPETITION POLICY AND INDUSTRIAL POLICY	355
What Is the Purpose of Competition?	357
Where Does Industrial Policy Fit In?	365
FOURTEEN HOW DIGITIZATION IS CHANGING EVERYTHING	378
Platforms: Guardians of the Digital Economy	379
Two-Sided Markets	382
A Different Business Model: Platforms as Regulators	389
The Challenges Two-Sided Markets Pose for Competition Policy	392
FIFTEEN DIGITAL ECONOMIES: THE CHALLENGES FOR SOCIETY	401
Trust	402
Who Owns Data?	405
Health Care and Risk	408
The New Forms of Employment in the Twenty-First Century	414
The Digital Economy and Employment	423
The Tax System	427

SIXTEEN	INNOVATION AND INTELLECTUAL PROPERTY	430
	The Imperative of Innovation	430
	Intellectual Property	431
	Managing Royalty Stacking	435
	The Institutions of Innovation	443
	Cooperative Development and Open Source Software	447
	And Many Other Debates ...	453
SEVENTEEN	SECTOR REGULATION	455
	What's at Stake	455
	A Fourfold Reform and Its Rationale	456
	Incentive Regulation	460
	Prices of Regulated Companies	466
	Regulation of Access to the Network	471
	Competition and Universal Service	478
EPILOGUE		481
NOTES		485
INDEX		551

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

2 INTRODUCTION

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

4 INTRODUCTION

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 economics 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

6 INTRODUCTION

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

8 INTRODUCTION

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

10 INTRODUCTION

– 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,

12 INTRODUCTION

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).

INDEX

- academic researchers: distrusted by
 - citizen-taxpayers, 67–68; funding for, 76, 370, 372; influencing economic policy, 69–70, 78–79; media involvement of, 72–73; motivations of, 66–67; paid for external activities, 70–71; personal ethics of, 76; political involvement of, 73–75; working with organizations outside the university, 68–69, 76–78. *See also* economic research; economists
- accountability: of businesses to stakeholders, 185–86; in classical liberalism, 161–62; of employers, 243, 244, 247, 249; of regulated utilities, 462–64; of unelected decision makers, 163, 168
- acquis communautaire*, 265, 286, 294, 356, 526n35
- adverse selection, 117, 120; insurance and, 409–10; regulation of network industries and, 457. *See also* asymmetries of information
- Affordable Care Act, 165, 411, 412
- agency problems, 312–15, 320
- AIG (American International Group), 321, 327, 334, 340, 533n11
- Airbus, 297, 370
- Allais, Maurice, 95
- allocation: constructing better methods of, 45; of funds by finance, 297; of resources, 24–27, 33, 101, 161
- altruism, 100–101, 128–35, 146, 188. *See also* moral wiggle room; pro-social behavior
- Amazon, 391, 394, 414–15, 435
- Android, 388, 448, 451, 452
- Apple, 388–89
- arbitrage, limits to, 318, 319–20, 531n40
- Aristotle, 485n3
- Arrow, Kenneth, 105, 107, 115
- artificial intelligence (AI), 232, 409, 423. *See also* machine learning
- assumptions, 106, 497n33
- asymmetries of information, 12; agency problems and, 314; bank loans and, 183; buying admission to university and, 37; on costs and benefits of policies, 162–63, 506n6; derivatives as source of, 301; financial crisis of 2008 and, 327; formal vs. real authority and, 181; games involving, 119; incorporated in economic models, 103; liquidity in financial markets and, 319; market failures due to, 327; in real estate lending, 329–30; regulation of network industries and, 456–57, 462–63, 470
- attention, economics of, 379–82
- auctions: of bandwidth, 27–28, 87–88, 487nn12–14; laboratory tests of strategies for, 90
- authority, formal vs. real, 181
- average-cost pricing, 468
- avoided cost test, 543n18
- bailouts of banks: in Europe, 271, 272–73, 278, 524n15; excessive risk based on expectation of, 187, 312–13, 314–15; financial crisis of 2008 and, 326–27, 334; replaced by “bail ins,” 537n42; risk of sovereign default and, 537n40; US taxpayers profiting from, 334, 531n41
- bailouts of governments, 281–82; of Greece, 279, 287, 525n31; Maastricht Treaty and, 274–75, 278, 279, 290, 524n12; US history and, 279–80, 281–82, 292

552 INDEX

- balance sheet for retail bank, 322
- balance sheet structure of firms, 183
- bandwidth, allocation of, 26–28, 87–88, 487nn12–14
- banking regulation, 159, 321–25, 332–33; bubbles and, 310; in Eurozone, 273. *See also* bailouts of banks; banking union; capital requirements; prudential regulation; shadow banking
- banking union, 289–90, 295, 526n37
- bank loans, to small and medium-sized enterprises, 183, 297, 312, 336, 374
- bank runs, 315–16, 351
- bankruptcy law, French, 250, 376
- banks: balance sheet for retail bank, 322; connections between sovereign states and, 349, 537n40. *See also* bailouts of banks; banking regulation; investment banks; shadow banking
- Basel accords, 332, 333; Basel I, 322–24; Basel II, 324–25, 330, 346; Basel III, 341, 342, 343, 347, 348
- Bayesian equilibrium, perfect, 115, 119
- Bayes' theorem, 126, 317
- Bear Stearns, 321, 322, 326, 334, 340, 533n9
- Becker, Gary, 42–43
- behavioral economics, 91–92, 317
- behavioral finance, 317–18
- beliefs: biases affecting, 17–19; mistakes in applying probabilities to, 125–27, 500n9; self-manipulation of, 135–37. *See also* cognitive biases
- Benjamin, Walter, 528n17
- Berlin, Isaiah, 80, 101, 497n28
- Big Data, 82, 107, 408
- The Big Short*, 318, 320
- biotechnology startups, 368–69, 389–90
- Bitcoin, 308–9
- blood donation, payment for, 39, 144–45, 146
- bond markets, 336, 374
- bonuses, 53, 344–45, 347. *See also* remuneration
- Booking.com, 381, 394–95, 407, 542n15
- Borel, Émile, 110
- bottleneck, 363, 455, 480. *See also* essential infrastructures or facilities
- Bourdieu, Pierre, 47–48, 150
- brain drain in France, 492n44
- Brexit, 29, 349, 482, 487n15
- bubbles, financial, 307–12; interest rates and, 309, 310, 336, 338, 529n21; macroeconomics and, 92–93; in poorer countries of Eurozone, 270; sovereign debt crises and, 272. *See also* real estate bubbles
- Burke, Edmund, 65, 493nn1–3
- Canada, successful reforms in, 171, 172, 173
- cap and trade, 204. *See also* tradable emissions permits
- capitalist governance of firms, 174–75, 176–79
- capital requirements, 342, 343, 348. *See also* Basel accords
- carbon emissions, 4–5, 195–99; industrial policy and, 366; monitoring by international community, 211, 222, 230
- carbon leakage, 21–22, 201–3, 209
- carbon pricing, 216–17; abandoned by COP 21 in Paris, 211, 212; credibility of international agreement on, 226–28; inequality and, 222–26, 230; with universal carbon price, 213, 229. *See also* carbon tax; tradable emissions permits
- carbon tax, 204–5, 511nn12–15; carbon leakage and, 201; in economic modeling, 84; as national choice within international agreement, 226; opposition to, 189; rationale for, 37–38; reduction in UK greenhouse gas emissions and, 208; worldwide, 22, 217–19, 513n31. *See also* carbon pricing
- cartels, destabilizing, 114
- causality, 105–6, 118, 497n35
- central banks: independence of, 164, 165; liquidity provision by, 316–17, 333–34, 335–36, 534nn17–18. *See also* European Central Bank (ECB); Federal Reserve
- China: efficiency in response to competition from, 359; manufacturing jobs in US and,

- 260; shadow banking in, 322, 350;
transitioning of, 349
- clawback provisions, 184, 509n14
- Clean Development Mechanism (CDM),
202, 511n8
- climate change: challenge of, 195–99;
disadvantages of top-down
environmental policies for, 206,
213–16, 512n24; economic
approach to, 216–22 (*see also* carbon
pricing); global solution required
for, 22, 203, 209, 213, 216; modest
progress on, 203–6; negotiations
falling short of the stakes, 206–13;
putting negotiations back on track,
228–30; reasons for standstill
on, 199–203; voluntary INDC
commitments, 209–10, 512n21. *See also* global warming
- clusters, industrial, 367, 368–69, 372
- cognitive biases, 17–19; behavioral
finance and, 317; exploited by
populists, 481–82; of ignoring
indirect effects, 20–21, 27–28
- collusion in cliques, 120, 143
- common good, 2–5, 485n3
- the commons, 4; tragedy of, 114,
200–201, 208, 436
- compensation. *See* remuneration
- competition: employment and, 364–65;
imperfect, 102–3; in information
technology markets, 397–400;
international, 356, 359; network
industries and, 358, 363–64,
455–56, 459–60, 471–72, 475, 476,
478–80; patent pools and, 437–41;
purpose of, 357–61; role of the
state in relation to, 355–57, 538n1;
situations calling for absence of,
363–64; special interest groups and,
356–57; two-sided markets and, 391,
392–400
- competitive equilibrium, 89, 495n12
- competitive market paradigm, 101–2
- conflicts of interest: of economic
researchers, 76, 98, 352; in
independent authorities, 169; online
recommendations and, 403
- consumer protection authority, 158
- consumer surplus, 362, 468, 550n8
- contestability of a market, 398–400. *See also* competition
- contracts: formal authority based
on, 181; information theory and,
115–18, 119–21
- cooperative governance, 174, 175–76,
179–80
- coopetition, 437
- Copenhagen conference of 2009, 114,
197, 209, 211, 224, 225
- copyright, 432, 434
- corporate philanthropy, 190–91
- corporate social responsibility (CSR),
174–75, 185–91
- corruption, 25, 49, 361
- Cournot, Antoine Augustin, 362, 436
- creative destruction, 360, 398, 426–27,
430–31
- credit cards. *See* payment cards
- credit default swaps (CDS), 298
- crowding out, of intrinsic motivation by
extrinsic incentives, 37, 143–46
- Cuban migrants to Miami, 258–59
- Darwin, Charles, 150
- data: Big Data, 82, 107, 408; misleading
because local, 108; personal, 401,
403–9, 413; theoretical models in
absence of, 107–8
- Debreu, Gérard, 95, 105
- delegated philanthropy, 188–90
- denial of reality, 17–19, 318, 531nn36–
37
- deposit insurance, 315–16, 331, 333
- deregulation: financial, 314; of network
industries, 108, 455
- derivatives, 297–301, 303, 526n1
- development economics, randomized
control trials in, 89
- Dexia, 299, 300
- Dictator Game, 128–29, 131–32,
500n13, 500n16; with three choices,
133–34, 501n19
- digitization of society, 378–79; future
of employment and, 261, 263–64,
401–2, 423–27; inequality and,
421–22, 425, 426; tax system and,
427–29; trust and, 401, 402–5,
418. *See also* platforms, two-sided;
technological change

554 INDEX

- dignity, human, 1, 33, 40, 42, 44–45, 61
- “dismal science,” 9, 19
- dot-com bubble collapsing in 2001, 309, 310
- driverless cars, 41–42
- Dupuit, Jules, 362, 550n8
- Durkheim, Émile, 40
- dwarf tossing, 44–45, 489n19
- dynamic games, 114–15, 119–20

- econometrics, 87, 105–6, 118, 119
- economic growth: finance as essential factor in, 297; technological change and, 430
- economic policy: as goal of economics, 86; indirect effects of, 20–21, 28; made without economic understanding, 30–32; market failures and, 34, 122; models in analysis of, 86–87, 107; pressure groups and, 91; theory and, 78–79
- economic rent, 25, 54. *See also* rent seeking
- economic research: American domination of, 99; consensus and controversy in, 98–99; evaluation of, 93–98; evolution of knowledge in, 91–93; foxes and hedgehogs in, 101–4; fundamental, without direct application, 118–19; interplay between theory and evidence, 80–91; personal impact of training in, 99–101. *See also* academic researchers; mathematics in economics; modeling in economics
- economics: contributing to the common good, 5; mathematization of, 104–5; moving closer to other human and social sciences, 122–23; need for better public understanding of, 29–32; relationship between society and, 7–10; as a science, 90–91
- economies of scale: in digital markets, 398; monopoly position and, 456
- economists: as bearers of bad news, 149, 482; as foxes or hedgehogs, 101–4; as public intellectuals, 66–75; sharing their knowledge with the public, 29–30, 482–83. *See also* academic researchers
- education systems, inequalities created by, 56
- efficiency, in response to competition, 359–60
- elasticity of demand: in natural monopoly regulated markets, 469–70, 471, 550n10; in two-sided platforms, 383, 384
- electricity transmission networks, 363, 461–62, 463, 467, 471–72, 475–78. *See also* network industries
- empathy, 127, 188. *See also* altruism
- empirical tests, 87–90
- employee-run firms, 174, 176, 178–79
- employment: competition and, 364–65; decline of salaried employment, 418–20; digital economy and, 261, 263–64, 401–2, 423–27; new twenty-first century forms of, 414–15. *See also* labor market; unemployment
- Enron, 177, 508n6
- environmental regulation: to deal with market failure, 158; top-down approaches to, 213–15, 457, 512n24
- environmental taxation: accountability of the firm and, 185; moral objections to, 254. *See also* carbon tax
- equity capital requirements, 342, 343, 348. *See also* Basel accords
- essential infrastructures or facilities, 455. *See also* infrastructure, and competition
- ethics: of academic researcher’s role in public affairs, 76; in determining economic policies, 59. *See also* morality
- euro, advantages of, 266
- euro crisis: comparison with United States, 279–80; competitiveness and, 267–70; debts and, 270–82; failure of institutions and, 350
- European Central Bank (ECB): financial crisis of 2008 and, 316, 326; independence of, 169, 506n12; “no bailouts” clause and, 279; as provider of liquidity across Eurozone, 317; recapitalization of Greek banks and, 285; role with regard to struggling countries, 288–89; Spanish real

- estate bubble and, 273; in troika, 525n29
- European project, 265–67
- European Union (EU): achievements of, 265; law of (see *acquis communautaire*); limited labor mobility in, 266; options for, 289–95; UK vote in favor of leaving (Brexit), 29, 349, 482, 487n15. *See also* Maastricht Treaty
- Eurozone, 265–67; challenges faced by, 288–89; economists' views of, 482; European Central Bank and, 317; options for, 289–95
- evolutionary economics, 149–50
- exchange: not necessarily involving money, 45; Ultimatum Game and, 131
- experience rating, 244
- experiments, 88–90
- externalities: accountability of a business for, 186; of CO₂ emissions, 213; confused with moral issues, 37–38; created by inequality, 160; defined, 488n8; regulation or prohibition of a market in response to, 36; in two-sided market, 383–84. *See also* market failures
- Fannie Mae, 334, 533nn12–13, 534n14
- federalism, 289–90, 292–95
- Federal Reserve, 321, 326, 328, 506n12
- finance: benefits and risks of modern instruments in, 303; hypertrophied sector of, 314–15; irrationality in financial markets, 306–7; remuneration in, 54, 184–85, 314, 344–47; speculation in, 304; for technology startups, 445–47, 450; turning toxic, 298–306; uses of, 296–98. *See also* derivatives; securitized assets
- financial crisis of 2008, 326–35; disappearance of markets during, 319; economists' failure to predict, 67, 108, 350–52, 537n43; emphasis on short-term profitability and, 184; European Central Bank and, 316, 326; European countries with banking problems in, 327, 532n2; excessive maturity transformation and, 331–32; excessive securitization and, 328, 330–31, 333, 338; factors leading to, 327–35, 350; failure of EU's Emission Trading Scheme and, 208; failure of institutions and, 350; French effects of, 241, 518n23; lasting effects on growth and employment, 326; low interest rates as legacy of, 335–39; real estate bubble and, 328–30, 532n4; regulation in postcrisis environment, 339–50; risks remaining in aftermath of, 349–50; toxic over-the-counter arrangements and, 221
- financial intermediaries, 120
- firms: governance of, 174–85; social responsibility of, 185–91
- fiscal devaluation, 269–70
- foreign exchange swaps, 297, 526n1
- fossil fuel energy sources, subsidized, 198–99
- fossil fuels, carbon leakage from taxation of, 202
- foxes and hedgehogs, 101–4
- France: consumers' wariness of competition in, 356; deteriorating public finances of, 261; economists' views of 2017 election in, 482; lack of entrepreneurial culture in, 417–18; public spending by, 170, 507n17; restrictions on competition in, 358–59; state reforms proposed for, 171, 173, 507nn20–21; tradition of economic planning in, 251. *See also* labor market in France
- fraud, research, 97–98
- Freddie Mac, 334, 533nn12–13, 534n14
- free rider problem: climate change and, 189, 200–203, 209, 210, 211, 213, 218, 226, 228; delegated philanthropy and, 189; intellectual property and, 432
- frictions in markets, 102–3; in financial markets, 318–20
- Friedman, Milton, 98, 190, 496n17, 497n33
- Fuld, Richard, 313, 346
- fundamental value of financial asset, 307–8
- funeral market in US, 42

556 INDEX

- gambler's fallacy, 499nn7–8
- game theory, 109–15, 119–21; biologists' contributions to, 149; economic modeling and, 86; pure, 119. *See also* Dictator Game; prisoner's dilemma; Ultimatum Game
- general equilibrium, 102; groupthink and, 318
- generosity. *See* altruism
- gift economy, 47–48
- globalization: competition for talent and, 53–54, 422, 492nn44–46; damage to some workers caused by, 260–61; first and second waves of, 491n40; inequality and, 52–53; labor market policies and, 232, 233
- global warming: economic models of, 83–85; as example of prisoner's dilemma, 114; Kyoto Protocol and, 21–22; migration projected in response to, 263; requiring global solution, 22; unchangeable beliefs about, 18, 485n1. *See also* climate change
- Google, 384, 407; Android and, 388, 448, 451, 452
- governance of firms, 174–85
- great moderation, 337
- greed, 48–49
- Greek debt crisis, 267, 282–89; bailouts and, 279, 287, 525n31; buyers of Greek bonds prior to, 313
- Green Climate Fund, 226, 514n42
- greenhouse gases (GHGs), 83, 157–58, 195–99. *See also* carbon emissions
- greenwashing, 189, 209–10
- Grexit, 286–88
- groupthink, 318
- health care: cost-benefit analysis of, 489n11; inequality in, 60–61; physician's role in future of, 544n8; taboos on discussing economic tradeoffs in, 40
- health data, 407, 408–9, 413
- health insurance, 159–60, 401, 409–14
- heuristics, 19–20, 481
- high-frequency trading, 313–14, 530n27
- Hobbes, Thomas, 2
- homo economicus*, 122, 123–24
- horizontal policies, industrial, 367
- hostage-taking, ransom for, 41
- housing shortages: in France, 235–36; rent controls contributing to, 26, 55–56
- housing subsidies, 56
- hubris, 28, 346–47
- I, Daniel Blake* (film), 232
- identifiable victim, 22–24; condemning behavior in absence of, 46; hostage-taking and, 41; of labor market dysfunction, 23, 24, 255
- immigration. *See* migration
- import controls, 361
- incentives: with counterproductive effects, 39–40, 141–43; intrinsic motivation and, 143–46; law as a set of, 147; for managers of business, 183–85; politicians and officials responding to, 155, 164; in quest for the common good, 3
- incentive theory, 115
- independent authorities, 1, 163–69, 459
- independent work, 414, 418
- indignation, 35, 46–47
- industrial economics, 361–63
- industrial policy: economists' skepticism toward, 367–70; guidelines for, 370–73; rationales for, 365–67; of South Korea, 370, 373, 540n22
- industrial weaknesses in Europe, 374–77
- inequality, 50–61; beliefs about causes of, 57–59; bonus culture and, 345; carbon pricing and, 222–26; causes of, 52–54, 57–59, 491n37; in countries less subject to market economy, 490n30; decreased between nations, 52; digitization and, 421–22, 425, 426; economic analysis of, 51–57; evaluating possible solutions for, 54–57; immigration and, 59; intergenerational, 59–60, 235–36; liberalization of trade and, 59; in a market economy, 160; measuring, 51–52, 490n34; non-financial dimensions of, 60–61; prostitution and, 45; reduced under European Union, 265; sale of kidneys and, 43;

- savings resulting from increase in, 338; share of production going to labor and, 52, 491n39; technological change and, 52, 491n37. *See also* redistribution
- information: about corporate responsibility, 189; allocation by the market and, 28; insurance destroyed by, 412, 413; management of the firm and, 180, 181; in organizations, 120, 121; prices in financial markets and, 319–20; self-manipulation and, 135–37; trust and, 137–38; updating probabilities in the light of, 126. *See also* asymmetries of information
- information technology. *See* digitization of society
- information theory, 12, 115–18, 119–21
- infrastructure, and competition, 363–64, 365, 455–56, 459, 460, 471–78
- innovation: culture and institutions that facilitate, 431; economic growth and, 430–31; job creation by, 417; in response to competition, 359–60; in small startups, 443–45; SMEs in Europe and, 375. *See also* intellectual property; technological change
- Inside Job* (film), 352
- insider trading, 306
- insurance. *See* deposit insurance; health insurance; unemployment insurance
- integrity, as benefit of competition, 360–61
- intellectual property, 431–35
- interest rates: bubbles and, 309, 310, 336, 338, 529n21; after financial crisis of 2008, 335–39; for public debt, 316–17
- interest rate swaps, 298
- intermediaries, 120
- internal devaluation, 270
- internalities, 36, 38. *See also* procrastination; self-control
- International Monetary Fund (IMF): Greek debt and, 283, 284, 288, 525n29; liquidity provision by, 317; purpose of, 280–81
- Internet. *See* digitization of society; platforms, two-sided
- investment banks: financial crisis of 2008 and, 322, 326, 340 (*see also* AIG; Bear Stearns; Lehman Brothers); functions of, 530n26; proposed separation from retail banks, 341–42
- invisible hand, 161, 162
- ivory from elephants, 20–21
- James, William, 17, 137
- judiciary, independence of, 164, 506n8
- just world, belief in, 18–19
- Kant, Immanuel, 2, 33, 40, 46
- Keynes, John Maynard, 78–79, 105, 107, 351, 426
- Keynesian theory, 92–93, 98
- Kyoto Protocol, 21, 114, 197, 202–3, 206–9, 225, 228
- labor contracts: economic analysis of, 242–45; in France, 233, 238–39, 240–41, 517n15, 517n17; in southern European countries, 23, 24
- labor market: challenges of, 231–33; reforms in Germany, 252
- labor market in France, 232, 233–42; collusion between management and labor in, 248–49; employment policy and, 236–39; for entertainment workers, 247, 249–50; implementing reform of, 251–55, 519n39; judicial dismissal procedures and, 245–47; labor code and, 262–63, 420; malaise associated with, 231, 239–41; need for reform of, 241–42; perverse incentives in, 245–50; proposed reforms of, 242–45; reward-penalty system proposed for, 244, 245, 246, 249, 250, 253, 254; sector agreements and, 262–63, 376–77, 522n56; subsidized jobs in, 237–38; unemployment in, 233, 234–37, 238, 240, 241, 250–51; urgent challenges of, 261–64; vocational training system and, 255–56, 521n44. *See also* labor contracts
- labor market in southern Europe, 232, 261; in Greece, 283; reforms in Italy and Spain, 253, 520n41; unemployment in, 232, 255–57, 326; urgent challenges of, 261–64

558 INDEX

- Laffont, Jean-Jacques, xi, 66, 116, 155–156, 455, 470
La loi du marché (film), 231
 law and social norms, 147–49
 leakage problem, 21–22, 201–3, 209
 Lehman Brothers, 313, 322, 326, 334, 338, 340, 346
 liberalism, 161–62
 life-and-death choices, 40–42
 Linux, 447, 451, 452, 548n26
 liquidity: banks transforming maturity to, 297; information in financial markets and, 319; regulation of, 342–43
 liquidity provision. *See* central banks
 Little People, catapulting of, 44–45, 489n19
 lobbies. *See* pressure groups; special interests
 local suppliers, 361, 538n7
 Locke, John, 2
 lotteries to manage scarcity, 24, 26, 27
 lump of labor fallacy, 257, 259, 482
- Maastricht Treaty, 273–75, 278–79, 289, 290–92
 machine learning, 107, 378, 409, 423, 425, 497n35, 541n1
 macroeconomics, evolution of, 92–93
 Macron Law, 358, 542n13
 macroprudential approach, 344
 manufacturing sector, 373
 marginal cost, 466–67; network services and, 467, 474
 the market: advantages over planned economies, 33–34, 156, 157; complementarity between the state and, 156–57, 160–63, 355–56; different countries' beliefs about, 33; efficiency and integrity of, 157; French distrust of, 156; as instrument, not end in itself, 3, 34; managing scarcity by means of, 24; moral criticisms of, 8, 34–36; opposition to supremacy of, 1–2; public intervention in, 362–63; restriction of political power and, 1; social cohesion and, 47–50, 61
 market design, 45
 market failures: asymmetries of information leading to, 103, 327; categories of, 157–60; corrected by the state, 161, 170; economic policy based on, 122; financial crisis of 2008 and, 327–28; geographic limitations to correction of, 163; industrial policy and, 366, 371; moral limits of the market and, 36–40; regulation or prohibition in response to, 35–36, 170. *See also* externalities
 market power, 52, 159
 market price, 25
 market segmentation, 362, 399
 Markov perfect equilibrium, 119
 Marshall, Alfred, 105
 mathematics in economics, 104–9. *See also* game theory; information theory; modeling in economics
 maturity transformation, 297; bank runs and, 315; excessive, 331–32
 medical care. *See* health care
 medicine: contrast between economics and, 23–24; digital health care and, 409; future of, 543n8; state of knowledge in, 70
 merit goods, 34, 488n4
 methodological individualism, 87, 123, 141, 499n1
 migration: economic benefits of, 259, 263, 482, 522n51; European attitudes toward, 22; European migration crisis of 2015, 263; labor market issues and, 232; unemployment and, 258–59
 minimum income, 61
 minimum wage, 55, 61, 232, 256
 Mitterrand, François, 165
 modeling in economics, 82–85; competitive market paradigm and, 101–2; empirical tests of, 87–90; in industrial economics, 361–62; need for mathematics in, 105–8; theory and, 85–87
 Modigliani-Miller hypothesis, on financial structure, 181–82
 monetary policy, and financial crisis of 2008, 327, 328, 337, 532n4
 monopolies: in government-regulated network industries, 355–56, 363–64, 455–59, 471; intellectual property

- and, 432, 433, 437 (*see also* patents);
lack of innovation in, 360
- monopoly rents, 360–61
- Montesquieu, 48, 155
- moral hazard: Adam Smith's awareness
of, 150; defined, 409; federalism
and, 293; information theory and,
116–17, 457; insurance and, 293,
410–11, 413; regulation of network
industries and, 457; securitized
mortgages and, 302; sovereign
borrowing and, 281; truck drivers
and, 419
- morality: eroded by shared responsibility,
132–33; indignation used to justify,
35, 46–47; reservations about certain
markets based on, 40–47. *See also*
ethics
- moral limits of the market, 33–46
- moral wriggle room, 131–32
- Morgenstern, Oskar, 110
- multihoming, 387–88
- multiple equilibria, 91
- multiple margins, 435, 437
- multitasking, 142

- Nash, John, 110, 498n37
- Nash equilibrium, 110
- natural monopolies, 455. *See also*
infrastructure, and competition
- negative income tax, 422
- negative interest rates, 535n21
- neo-Keynesian macroeconomic models,
93
- network externalities, 397–98
- network industries: basic issues at stake
in, 455–56; competition and, 358,
363–64, 455–56, 459–60, 471–72,
475, 476, 478–80; fourfold reform
of, 456–60; incentives in regulation
of, 460–66; independence of
regulators of, 165, 459; pricing in,
466–71; public service obligations
and, 478–80; regulation of network
access in, 471–78. *See also* sector
regulation
- neuroeconomics, 122
- “new man,” Soviet myth of, 3, 485n2
- normative choices, 19
- nudging, 134, 501n21

- Obama, Barack, 220, 279. *See also*
Affordable Care Act
- OPEC oil cartel, 114
- open source software, 447–53
- organ exchanges, 45
- organ markets, 42–44, 489n17
- ostracism, experiments on, 135
- over-the-counter transactions, 301, 340,
341, 530n26, 535n27; defined,
527n8
- oxytocin, 138–39

- panics, financial, 315–17
- Paris Climate Change Conference (COP
21), 209, 210–13, 224
- patent assertion entities, 453–54
- patent pools, 437–41, 547n13,
547nn15–17, 548n20
- patents, 432–33, 434–35; standard-
essential, 441–42, 548n21
- patent thickets, 435
- patent trolls. *See* patent assertion entities
- paternalism: libertarian, 134, 501n21;
in means of redistribution, 479;
to protect people from their own
choices, 125, 158–59; for real estate
loans, 330
- payment cards, 382, 385, 387, 388, 391,
394, 396
- peer evaluation, 96
- peer-reviewed professional journals,
77–78, 97–98
- perfect Bayesian equilibrium, 115, 119
- personal data, 401, 403–9, 413
- pharmaceutical industry, vertical
business model of, 389–90
- Phillips curve, 92
- Pigou, Arthur Cecil, 84, 161, 185
- planned economies: failure of, 33–34,
156, 157; Vichy regime in France as,
507n15
- platforms, two-sided, 379; business
model of, 383–85; compared to
vertical business model, 390–91;
compatibility between, 387–88;
competition policy and, 392–400;
facilitating interactions, 379, 381–
82; with lag in development of two
sides, 385–87; microjobs available
through, 414–15; open systems

560 INDEX

- platforms, two-sided (*cont.*):
 - in computer market and, 388–89;
 - providing services in exchange for personal data, 407–8; as regulators, 391–92; reliability of, 401
- Plato, 17, 73, 137, 485n3
- Poincaré, Henri, 66
- policy. *See* economic policy
- politically engaged intellectuals, 73–75, 493n5
- politicians: condemnation of, 30, 156, 163, 164; independent authorities in tension with, 163–69; restricted by supremacy of the market, 1
- pollution: acid rain caused by, 158, 203, 205, 220; environmental taxation and, 185, 254; market failure involving, 157–58. *See also* carbon emissions
- Popper, Karl, 81
- populism: attacks on expertise and, 163, 169, 481; fears about work and, 233, 260, 264; free of difficult choices, 19; opposition to united Europe and, 285, 286, 287; rise of, 28–29, 481
- postal services, 455, 456, 479, 480
- poverty: beliefs about merit and, 58–59; decreased in developing countries, 52, 53, 59, 260–61; health care and, 60–61. *See also* inequality
- poverty trap, 55, 58, 492n50
- predictions: by algorithms, 397, 413, 424–25, 497n35; of economists, 83, 90–91, 97, 107, 112, 350–51, 426, 497n33, 537n43; of foxes vs. hedgehogs, 104; public decision-making and, 215, 367
- pressure groups, 91
- price caps: for network monopolies, 458, 471, 474; for public projects, 461
- price coherence, in two-sided platforms, 393–96
- price comparison websites, 396–97
- price competition, 357–59; elasticity of demand and, 383; online, 381–82
- price-earnings ratio, 312
- price regulation: for allocation of resources, 24, 25, 26; by platforms, 391. *See also* price caps
- principal–agent theory, 115
- prisoner's dilemma, 112–14, 498n39
- privatization: for the common good, 4–5; of natural monopolies, 455, 458, 464
- procrastination, 124–25. *See also* internalities; paternalism
- productivity, in response to competition, 359–60
- profit maximization, 85–86
- Progreso* program, 89
- pro-social behavior, 127–28; demand for businesses' commitment to, 188–89; intrinsic motivation and, 143–46; law and, 147–49; memory and, 134–35. *See also* altruism
- prostitution, 45, 50
- protectionism: European project and, 265, 482; labor market and, 232, 260–61
- prudential regulation, 321–25; complicated by asymmetries of information, 301, 314; economists' uncertainty about, 349. *See also* banking regulation; Basel accords
- public debt: cost to the people, 280–81; difficulty of measuring, 277–78; factors affecting sustainability of, 275–77; interest rates for, 316–17; Maastricht approach to, 278–79, 290; of US states and cities, 279–80, 281–82. *See also* bailouts of governments; Greek debt crisis
- public good games, 500n16
- public goods, 485n4; intellectual property and, 431–32
- public-private partnerships, 460, 527n3
- public procurement, 355, 376, 460
- public utilities. *See* sector regulation
- Puerto Rico, bankruptcy of, 279–80
- quantitative easing, 337, 524n18, 535n22
- queues, 24, 25, 26
- railroads, 363, 459, 464, 473, 475. *See also* network industries
- Ramsey-Boiteux rule, 468–71, 474, 550n12
- randomized control trials (RCTs), 88–89
- random sampling, 88, 495nn9–10

- rating agencies, 347–48, 532n46;
 - as concentrated market, 533n8;
 - extrafinancial, 189–90, 510n23;
 - scales used by, 528n13; securitization and, 303, 330–31
- rational choice theory, 19, 122;
 - deviations from, 103; economic modeling and, 83–84
- rational expectations revolution, 496n17
- Rawls, John, 2
- real estate bubbles, 309, 310–12, 529n25;
 - in *The Big Short*, 320; financial crisis of 2008 and, 328–30, 532n4; in poorer countries of Eurozone, 270, 272–73; sovereign debt crises and, 272. *See also* bubbles, financial
- real estate loans: by French banks largely to solvent households, 533n5;
 - subprime, 166–67, 187, 302, 318, 320; to US households before 2008, 328–29
- real estate prices, and inequality, 54
- reciprocal altruism, 130–31, 146
- reciprocity, 139–40, 146, 504n46
- redistribution: beliefs about causes
 - of inequality and, 57–59;
 - environmental policy and, 222–23;
 - in homogeneous populations, 59;
 - ineffective policies for, 54–57; low interest rates leading to, 336; market economy and, 160; by minimum wage, 55, 61, 256; network utilities and, 469–70, 478–80; between regions under federalism, 294–95; by tax system, 50, 51, 160, 256, 479; trade-off between growth and, 57; by universal service obligations, 478–80. *See also* inequality
- regulation: of financial markets, 321; in response to market failure, 35–36, 170. *See also* banking regulation; prudential regulation; sector regulation
- regulatory capture, 162, 167, 464
- regulatory infrastructures, 348
- religion, and economics, 150–52
- remuneration: agency problem and, 313;
 - in financial sector, 54, 184–85, 313, 314, 344–47; tenuous connection between performance and, 177
- renewable energy sources, 206, 208, 212, 215, 366
- rent controls, scarcity created by, 26, 55–56
- rent seeking: competition and, 361;
 - greed unchecked by institutions and, 49; by platforms, 395–96;
 - speculation connected with, 305. *See also* economic rent
- representative agent, 109
- research and development (R&D): in corporations vs. startups, 443–45;
 - industrial policy and, 366, 367;
 - intellectual property and, 432
- rights, behind the veil of ignorance, 4
- robots, 232, 259, 378, 401, 423, 541n1
- Rousseau, Jean-Jacques, 2
- royalty stacking, 435–41
- the sacred, 40, 50
- safe assets, excess demand for, 338–39
- Samuelson, Paul, 98, 105, 107, 537n43
- scarcity, managing, 24–27
- sector regulation, 355–56, 455–80;
 - access to network and, 471–78;
 - asymmetries of information and, 456–58; basic issues at stake in, 455–56; competition for the market and in the market, 459–60; fourfold reform in, 458–59; incentives in, 460–66; independence of regulatory authorities in, 165, 459; pricing in, 466–71; public service obligations and, 478–80. *See also* network industries
- secular stagnation, 221, 338, 535n23
- Securities and Exchange Commission, 321
- securitized assets, 298, 301–3, 528n12;
 - financial crisis of 2008 and, 328, 330–31, 333, 338
- self-control, 38, 137. *See also*
 - internalities; paternalism;
 - procrastination,
- self-employment, 414–15, 418, 420, 421
- self-fulfilling prophecies, 91
- self-interest: economic efficiency
 - achieved through, 161; empathy and, 127; failure to consider, 3;
 - harmonious allocation of resources

562 INDEX

- self-interest (*cont.*):
 - based on, 101; at heart of market economy, 48, 49; rational choice theory and, 19, 122
- self-management. *See* employee-run firms
- shadow banking, 322, 333–34, 349–50, 534n15
- Shanghai Ranking, 94
- sharing economy, 381, 392; taxation and, 427–28
- Sherman Antitrust Act, 362
- signaling, by open source programmers, 449–50
- signaling costs, in digital economy, 381
- signaling theory, 115, 150
- skin in the game, 302, 330
- SMEs (small and medium-sized enterprises): banking regulation and, 322; dependence on banks, 183, 297, 312, 336, 374; European industrial weakness and, 374–77; rationales for industrial policy and, 366, 367; securitization of loans to, 302; threshold effects limiting growth of, 375, 540n25
- Smith, Adam, 17, 48, 124, 150–51, 161, 162, 185, 189, 468
- social cohesion: the market and, 47–50, 61; state's responsibility for, 161
- social contract, 1, 2, 160
- socially responsible investment (SRI), 175, 187–88, 191. *See also* corporate social responsibility (CSR)
- social norms, 147–49
- social sciences, reunification of, 152
- social welfare systems: beliefs about causes of inequality and, 58–59; ineffective redistribution and, 55; of modern state, 170, 171, 172
- southern Europe: Germany's mercantilist policy and, 269; high national debt in countries of, 273. *See also* labor market in southern Europe
- sovereign wealth funds: commodity prices and, 537n41; invested in United States, 328
- special interests, 155, 167, 168, 356–57
- speculation, 304–6
- Stability and Growth Pact, 275, 278, 282. *See also* Maastricht Treaty
- stagflation, 92
- standards, technological, 441–43
- startups, 369, 443–47; biotechnology, 368–69, 389–90
- state: captured by special interests, 155; complementarity between the market and, 156–57, 160–63, 355–56; failures of, 162–63; reform of, 169–73
- stereotypes, 140–41
- stock market bubbles, 309, 312
- stock markets, 304–5
- stock options, 183, 344, 509n13
- strategic uncertainty, 91
- students of economics, experiments on behavior of, 99–101
- subprime mortgage loans, 302, 318, 320; crises precipitated by, 166–67, 187
- subsidies for public services, 467–68
- superstar firms with high markups, 52
- supply and demand, 24–25, 45, 102, 161
- sustainable development, 186–88
- swaps, 297–98, 526n1
- systemic risk, 321
- taxation: beliefs about determination of wealth and, 58; digitization of work and, 427–29; Greece's resistance to collection of, 218, 513n33; multinational corporations' optimization of, 190, 428, 510n24, 546n33; need for reform of, 55; poverty trap in system of, 55, 492n50; redistributive, 50, 51, 160, 256, 479; value-added tax (VAT), 270, 427, 429, 479. *See also* carbon tax
- taxi industry, 358, 360, 364, 415–17
- teaser rates of interest, 299
- technocrats, 163–69
- technological change: economic growth and, 430; employee fears about, 365; fallacy of fixed quantity of work and, 259; industrial policy and, 368–69; inequality and, 52, 491n37; not leading to unemployment, 426; polarization of jobs resulting from, 423–24; political demands by workers and, 232–33; theoretical models for analyzing, 107–8. *See also* digitization of society; innovation

- technological standards, 441–43
- telecommunications: cell phones and, 358, 387; competition in, 358, 363–64, 472–73; infrastructure for, 456; monitoring quality in, 464; price paid by user of, 467, 469–70; public service obligations in, 478–79
- theory in economics, 82
- tie-in sales, 399–400
- Titmuss, Richard, 144
- Tocqueville, Alexis de, 168
- tourist test, 543n18
- toxic loans, to local French authorities, 298–301
- tradable emissions permits, 219–21;
 - in economic modeling, 84, 85;
 - exchange rates in global market for, 228–29, 515n47; existing markets for, 203–4, 228, 511n11; financial transfers to poorer countries for, 515n45; under Kyoto Protocol, 207, 208, 512nn19–20; managing uncertainty in market for, 221–22, 514n40; as national choice within international agreement, 226; for pollutants causing acid rain, 220, 514n37; previous distaste for, 46; rationale for, 37–38. *See also* carbon pricing
- trade: promoted by euro, 266. *See also* protectionism
- trade liberalization, and inequality, 53, 59
- trademark, 433
- trade secret, 432
- tragedy of the commons, 114, 200–201, 208, 436
- transaction costs, 380, 381
- troika, 283, 288, 525n29
- trolley problem, 40–41
- Truman, Harry, 72
- Trump, Donald, 29, 212, 482
- trust, 137–40; demanded in market economy, 48, 49; in digital economies, 401, 402–5, 418; replacing formal incentives, 143; stereotypes and, 140–41
- trust game, 138–39; variant of, 146, 504n46
- Tsipras, Alexis, 282
- Two-pack, 291
- two-sided markets. *See* platforms, two-sided
- Uber, 415–17; driver's commission in, 395; employment status of drivers for, 420–21; information for customer and, 392, 418; taxi market and, 358, 360, 364, 415–17
- Ultimatum Game, 131
- unbundling, of patent licenses, 440–41
- unemployment: in France, 233, 234–37, 238, 240, 241, 250–51; labor market reform and, 251–52; long-term, 234, 236; minimum wage and, 61; not produced by technological progress, 426; reducing working hours and, 257–60; relative rates of, in European and English-speaking countries, 232, 234; in southern Europe, 232, 255–57, 326
- unemployment insurance: redistributive impact of federalist approach to, 293; cost of a layoff and, 185
- universal income, 422
- value, created by the firm, 185–86
- value-added tax (VAT): fiscal devaluation using, 269–70; on French labor, 427; on online purchases, 429; redistribution and, 479
- Veblen, Thorstein, 150
- veil of ignorance, 2–4; inequality and, 160; trolley problem and, 41
- venture capitalists, 120, 183, 445–47, 450
- vertical business model, 389–90
- videogames, 379, 382, 383, 385–86, 387
- virtual currencies, 308–9
- von Neumann, John, 110
- voting: market failure associated with, 38; self-image and, 128, 130
- Weber, Max, 151, 181
- winner's curse, 111, 531n38
- WTO: China's accession to, 359; in enforcement of climate agreements, 227, 229
- Zero Lower Bound (ZLB), 337