

The Case for Economic Reasoning

IN THE WAKE of the global financial crisis, many observers—including the Queen of England, who asked why economists hadn't foreseen the crisis—questioned the usefulness of traditional economics. Heterodox economists even called for alternative approaches. But French economist Jean Tirole spells out the usefulness of rigorous economic thinking for society in deep, yet accessible, language in his book *Economics for the Common Good*.

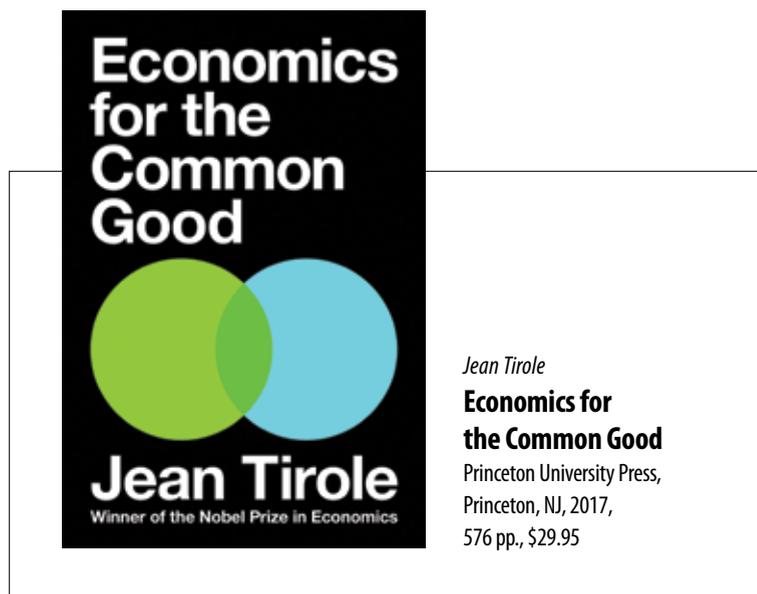
The strength of the book is its breadth. It brings clarity and simplicity to many complex topics covering various fields in economics ranging from climate change, labor market laws, and the global financial crisis to the euro crisis and the gig economy. Many illustrative examples—mostly from France—make the book accessible, and each chapter can be read on its own.

I particularly recommend the chapters on digitalization and the future of work, as they propose answers for challenges ahead.

The chapter on innovation addresses a number of interesting questions. How should property rights over data be regulated so that new firms won't face barriers to entry? What are the implications

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of artificial intelligence and machine learning technologies that allow platforms to break up production into simple tasks and to discriminate among customers via surge pricing? How does the drift to a superstar economy—in which a small group of giant companies dominates—affect the optimal tax system in a dematerialized world of increasingly easy international tax arbitrage? Tirole, to his credit, does not focus simply on the efficiency



gains of new technologies but also studies their impact on income and wealth inequality.

The heart of the book proposes a shift away from the classic debate of state versus markets, or left versus right, and steers it toward state-with-markets thinking. The role of governments is not to produce goods instead of markets, but rather to complement markets by regulating them through the establishment of common ground rules. However, instead of simply promoting competition, Tirole's book supports policies that improve welfare and regulation backed by careful economic reasoning.

Most interestingly, Tirole provides numerous examples of misleading simple economic intuition. Intuition often focuses only on direct effects and typically overlooks those that are indirect and equally important. For example, strict environmental laws in one country might reduce oil consumption and hence pollution—the direct effect—and at the same time reduce the demand for oil and hence its price. But the lower price of oil in turn makes it a more attractive energy resource in the rest of the world, possibly increasing pollution—the indirect effect.

In sum, Tirole builds on, but goes beyond, standard economics and explains to the layman the work of an academic researcher. Many readers will benefit from reading this great book, rich with insights into a broad spectrum of policy questions. **FD**

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