

# COEURE PROJECT

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## We live a period of doubt vis-à-vis experts

- General rise in populism (experts are part of elites), little fact-checking, motivated beliefs
- Affects particularly fields exposed to society: economics, medicine & biology, climate change, evolution theory...

## A few remarks concerning the role of economists in policymaking

- Difficult interface between research and policy advice
- What economists are (no) good at
- Couple of examples of successful/unsuccessful interaction

## Difficult interface between research and policy advice

### *a) Possible sources of corruption*

- Money
- Access to data (whether public or private, should be made unconditional; availability)
- Media temptation/yearning to be a public intellectual
- Politics
  - Don't want to disappoint fellow travelers
  - Categorized (free marketer/ Keynesian; left/right...)  
⇒ economics unfortunately discredited

## *b) Communication*

- “On the one hand...” vs. soundbites
- Changing one’s mind

# What economists are (no) good at

## Good at

- identifying forces,
- taking a normative point of view (framework)

## Bad at

- predicting
  - Obstacles: 1) imperfect knowledge, imperfect data, 2) lack of knowledge about current situation (off-balance sheet exposures, SPV...); 3) self-fulfilling equilibria.
  - Comparison with medicine or earthquake science

Example: financial crisis.

## 2) ECONOMISTS' WELTANSCHAUUNG

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### *Economists*

- “Incentives are key.” Effective, when properly applied. Aware of a number of caveats: Low-powered incentives desirable with noisy performance measurement, teams, collusion with monitors or capture, repeated interactions, multitasking, adverse selection...

Nonetheless, premise remains that incentives work/can be made to work. Main focus accordingly remains on achieving compliance through contractual incentives, mechanism design.

- “Markets often fail, but, properly regulated, they are key to economic organization.”

# The market for virtuous indignation

## a) Negative sentiments: e-mails, op-eds, books...

- Not new: Edmund Burke (1793)  
“But the age of chivalry is gone. That of sophisters, economists, and calculators, has succeeded; and the glory of Europe is extinguished for ever.”
- List of complaints about economics’ Weltanschauung
- The equation economics = markets = laissez-faire
- The equation economists = selfish and insular individuals

- b)** Economics complex yet familiar: lay persons have opinions
- c)** Grand claims vs. trade-offs. Media communication: not conducive to development of background knowledge.

Let's look into this in a bit more detail...

## *a) Economists as social scientists*

### The economist as protector of the invisible victim

- First impression: direct effect of an economic policy
- Secondary effects (examples: leakage problem, ivory trade, rent control, employment protection)?

Difference with medicine (except epidemiology): secondary effects usually not borne by direct beneficiaries of policy. Economist viewed as indifferent to the sufferings of visible victims.

### The economist not immune to error

Oversimplified models, too much trust in empirical work

## The economist as bearer of bad news (shooting the messenger)

Economic analysis exposes our deep values.

Obfuscation/camouflage strategies; supporting observations in policy reframing:

- Motivating law and policy by overarching ethical goals such as *fairness and equity* avoids a confrontation with tell-tale signs that our morality is not necessarily what we strive to believe it is.
- Restatement of Contracts: refers to the sanctity of contract and the resulting “*moral obligation*” to honor one's promises (quasi-religious attitude).

## The economist as the destroyer of social norms

Expressive impact. Spillovers in uncontrolled aspects of life.

[Bénabou-Tirole Laws and Norms]

## The economist as breaker of taboos

- Health and environmental economists' difficult dialog with policy-makers and other social scientists.
- Trade-offs in health-related decisions (allocation of medical budgets or safety choices-product liability cases; comparison between a few child deaths associated with airbags with a larger number of adult lives saved-) vs. sacred character of every human life.
- Life as priceless as are family, marriage, friendship, loyalty to one's country, democracy, equality or graveyards.
- ⇒ Allocations made by lotteries, by non-elected boards, or on first-come-first-served basis.
- Trolley dilemma and its modern implications.

## 2) WHEN IS ECONOMISTS' ADVICE FOLLOWED?

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- Ministries vs. independent agencies
- Non academic economists in public sphere

## Examples of successful/unsuccessful interaction

1. Banking union
2. Two-sided markets
3. IP
4. Carbon pricing
5. Labor market reform

## Banking union

- Large potential benefits (expertise, separation). Jury still out.
- But reason why this worked = obscure topic for public opinion.

## Two-sided markets/economics of platforms

- Research, then dissemination
- Payment cards

## Intellectual property

- Patent pools
- Standard setting

# Failures

## Carbon pricing

- Economics successful for many other pollutants
- So far, outright failure for GHGs (even though  $\geq 40$  carbon markets worldwide)
- Our generation's selfishness?

## Labor market reform in France

- Politics paramount
- Invisible victim problem