

# ECONOMICS AND THE COMMON GOOD AFTER COVID

MIT Sloan Latin America-Universidad de Chile

September 3, 2020

Jean TIROLE



# I. COMMON GOOD

---

Many situations where the interests of citizens, companies, states, countries diverge from the general interest

- *Citizen* who emits carbon, drives too fast, refuses to vaccinate his child or overconsumes antibiotics
- *Business or bank* that takes risks, jeopardizing the employment of its workers or the savings of its customers (or taxpayer money); that abuses its monopoly power
- *State*: excessive public debt, poor education, inequality, financial crisis...
- *Country*: primacy of the national interest over interest of the world (global warming, trade wars, fiscal competition...)

Common feature? Individual interests trump the general interest (wrong incentives).

# AMBITION OF ECONOMICS OF THE COMMON GOOD

---

Build economic institutions that align actors' interests with the general interest.

## *Instruments*

- *Persuasion*. Encourage good citizen behavior and corporate social responsibility (CSR), design norm-based interventions (NBI)...
  - Boost awareness of the consequences of individualism, selfishness
  - But limits to what can be done by trying to change the norms.  
Global warming: 28 years of exhortations (other examples: corruption, tax evasion, cost containment, incivilities...)
- *Incentives* are needed to put the general interest back in the center.

Can combine (*persuasion* + *incentives*): tobacco in public places.

# DEFINING THE COMMON GOOD

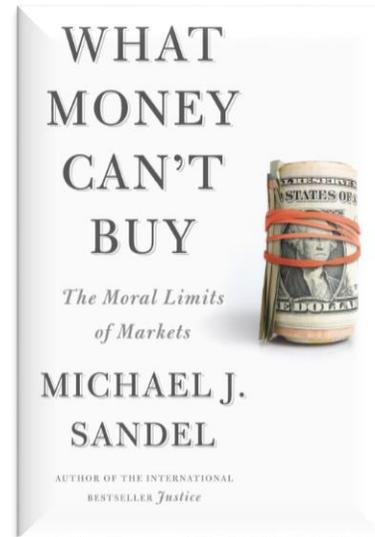
---

- *Veil of ignorance*. Thought experiment: abstract ourselves from our attributes and our position in society, to place ourselves behind the veil of ignorance
- *Not a La-La land*
- *Delivers*
  - health insurance (market goes against solidarity)
  - equal opportunity/right to education,
  - correction of other forms of inequality (e.g. gender inequality)
  - religious / ethnic tolerance
  - fight against monopolies [agreements that restrain trade, abuses of dominant position]
  - banking regulation...
- *Without prejudging instruments*
- *With a long-term vision*

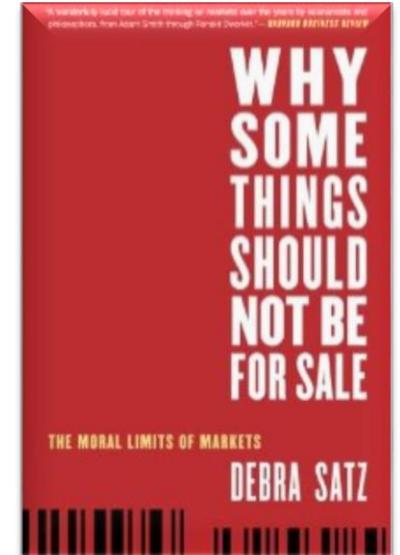
## II. THE MORALITY OF MARKETS

Some philosophers' bone of contention: distrust of markets, more broadly of incentives

with rather different viewpoints, from



to



*Sandel: What's wrong with markets?*

A wide range of goods and services, including **babies for adoption, surrogate motherhood, sexuality, drugs, military service, votes, and organs for transplantation**, are not to be commoditized through markets, no more than **friendship, admissions to elite universities or Nobel Prizes** are to be bought, or **genes and other life forms** to be patented.

# MARKETS AND MORALITY IN ECG

What's wrong with "What's wrong":

- **Moral postures:** feelings of revulsion are an unreliable source of ethical inspiration. Indignation: warning signal, but should not go beyond
- **Moral assertions can override freedom of others** [sexual acts between persons of same sex or different races.]
- **Markets exist** whether we want them or not: prostitution, organ markets, surrogate motherhood... Issue is to regulate/prevent them if we so decide, not to assume them away. We cannot stick our heads in the sand.

Economics as a moral and philosophical science.

"What's wrong with markets" must build on identification of market failures, which is a central task of economics.



# MARKET FAILURES

---

## 1) *Externalities and repugnant markets*

### *Classic externalities*

- Environmental externalities (e.g, carbon emissions)
- Babies for adoption (correlation between willingness-to-pay and future love for child?), child labor, slavery
- Market for votes (seller and buyer exert an externality on other citizens)

### *Image externalities*

- Dwarf-tossing
- Market for women's reproductive labor, prostitution

### *Health-related examples*

- Vaccines (underconsumption) and antibiotics (overconsumption)
- Breakdown of insurance (disclosure of good health  $\Rightarrow$  suspicion on those who don't).

## 2) *Imperfect markets*

- Market power
  - Price gouging, contracts written under duress.
- Information
  - *Incomplete information*: Lack of understanding of LT consequences (organ sales, contract pregnancy and bonding with child, addictiveness of OxyContin...). Disinformation: vaccines (measles vaccine & autism)
  - *Asymmetric information*: No commodification of friendship, admission in universities, scientific prizes, love.

### 3) *Internalities*

#### Examples

- Failure to pursue self-interest: Self-control
  - Voluntary slavery
  - Drugs, alcohols, smoking, junk foods (banning advertising Dubois et al *REStud* 2018, taxing, prohibiting)
  - Organ sales
  - Opioids: free samples; still allowed in US
- Internalities and (image) externalities: doping in sports.

### 4) *Inequality*

- Behind the veil of ignorance...
- Health inequality, like educational-opportunity inequality, one of the worst forms of inequality (very little moral hazard)

## 5) *Morality and public policies are also shaped by cognitive biases*

### *Example: motivated beliefs*

Believe what we want to believe, see what we want to see

- Don't want to see that our society is unequal: organ sales, prostitution, etc.
  - Moving prostitution elsewhere
- More generally, we condemn behaviors clashing with our desired beliefs about society.
  - Bans on *public* executions [France from 1939 through 1981]

### *Applications to health*

- Homeopathy:  $\frac{3}{4}$  of French believe efficient. [Homeopath consultation covered + reimbursement rate: 30% (80% in Alsace-Moselle). Then several complementary schemes partly undo deductible]

Other cognitive biases: heuristics

# GOVERNMENT FAILURES (1)

---

## **Dysfunctional state**

- Capture
- Pandering to electorate (state as follower/ pollster). Short-termism
- Jurisdictional aspects.

## **Modern state**

- Go beyond the sterile dualism of state and market, which are complements.
- Yesterday, state = provider of jobs
- The modern state must set the rules of the game and intervene to correct market failures and not substitute for them.
- Reconsider each of its policies: does it serve the public interest? If so, could it be provided by another branch of the public sector, or by the private sector?

## **Comeback of industrial policy**

- A good or bad thing?

# GOVERNMENT AND MARKET FAILURES (2) The case of Covid 19

---

## **Short-termism**

- Lack of preparation (masks, ventilators...): global health crises are no longer rare events (also: antibio-resistance, bacteria and viruses released by permafrost), but “not yet frequent enough” to be a state priority

## **National interest is paramount**

- Underreporting/limited information sharing/lack of lockdown coordination
- Vaccines: the race to corner supplies

## **Current trilogy (contact tracing/testing/social distancing) fraught with agency**

- Social distancing is subject to standard epidemiological externality
- Contact tracing and testing may be underused, especially when they are most useful (imposing constraints)

Contact tracing may lead to manipulations (stop competitor, hospital or exam) or used for invalid purposes by governments.

### III. HEALTH AND THE COMMON GOOD

---

*Large number of market failures* Incentive misalignments

- are often country specific
- but are everywhere in the decision chain
  - country
  - government
  - health insurer & hospital & pharmaceutical company
  - doctor
  - patient.

The industrial challenge in health

# A COUPLE OF EXAMPLES (non-exhaustive list!)

---

## *Countries*

- Rich countries free ride on each other (like for climate change): want other countries to pay for innovations: reimbursement, external reference pricing...

## *Governments and neglected markets*

- Medical wastelands
- Innovation geared toward solvent clienteles [rich individuals & countries; mass markets => low investment in developing vaccines for malaria, TB, and certain strains of HIV & in orphan diseases ]

## *Pharmaceutical companies and health care system*

- Mergers, killer acquisitions, price gouging, tactics to delay entry of generics...

## *Physicians*

- Caring profession; but also market power (specialists), pandering to the patient (due to physician shopping), conflicts of interest, insufficient knowledge updates...

# A DIFFICULT DIALOG

---

*Health economists' difficult dialog with politicians, public opinion and other social scientists*

*Cost-benefit analysis (CBA) is used in the assessment of trade-offs in health-related decisions*

- Value of statistical life
  - VSL describes an individual's marginal rate of substitution between money and mortality risk in a defined time period and is income and age dependent.
  - Measurement: willingness to pay to reduce mortality risk/to accept to take a dangerous job.
- DALYs [lost years of "healthy" life = years lost due to premature mortality + (weighted) years lost due to disability] ; QALYs...[Non-fatal health burden: similar approach].

# ETHICS (1) BENEFITS OF COST-BENEFIT ANALYSIS

*Coherency objective:* Useful to avoid that policies that cost a few hundred dollars per year of life saved are neglected, whereas others that cost millions/billions of dollars per year of life saved are implemented.

*Considering trade-offs is unavoidable*

- Choices between equipments/treatments that differentially impact mortality
- Award of legal damages
- Automobile and safety standards, transportation infrastructure...

*Philosophers' trolley dilemma and its modern implications*

- Should a doctor kill one healthy person to transplant organs and save 5 others who are about to die? Covid: shortages of ventilators.
- Software in autonomous car: should it sacrifice the driver to save 5 pedestrians?  
[Bonnenfon et al, *Science* 2016]

Counterfactual to cost-benefit analysis?

# ETHICS (2) LIMITS OF COST-BENEFIT ANALYSIS

---

*Criticisms: How utilitarian should we be?*

- *Distributive issues*
  - VSL heavily reflects *income* (across individuals, across countries)
  - *Age*: pollution control saves mainly lives of old people, who have a lower life expectancy
- *Sacred character of human life*: Life as priceless as are family, marriage, friendship, loyalty to one's country, democracy, equality or graveyards  
=> is comparison between a few child deaths associated with airbags with a larger number of adult lives saved legitimate?

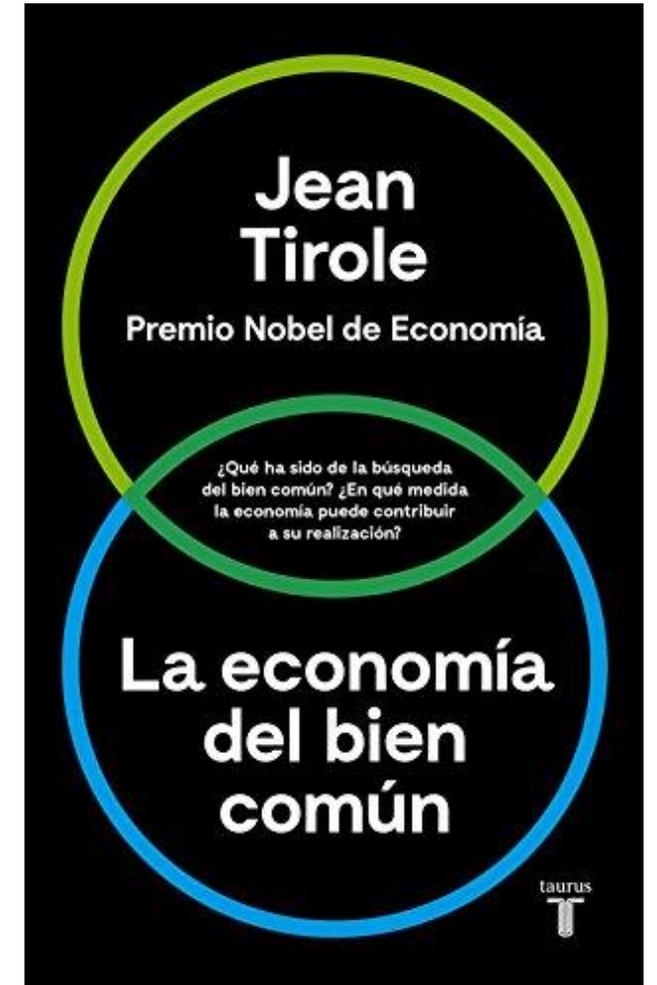
# CONCLUDING REMARKS

## *Pre-covid*

- Amazing opportunities (AI, biotech...)
- Key societal challenges: global warming, future of labor, international cooperation, inequality, regulation, debt...

## *Covid will accelerate evolution of society*

- Must use economics and social sciences analysis and confront ethical dilemmas
- One deciphering key: the common good



**THANK YOU FOR YOUR ATTENTION**