Book Reviews

Edited by Robert Herren

Economics for the Common Good. JEAN TIROLE. Princeton, NJ: Princeton University Press, 2017, Pp. 563. $29.95.

The book provides a very good case on how economics can help advance the public good through insightful accounts of institutional frameworks, organizational relationships, industry structures, and the challenges that define the global economy. The author starts with an informative discussion of what economics is, why people might be intrigued and confused by it, and the recent convergence of the social and behavioral disciplines of which economics has become a critical part. The author points to the biases that dominate economic thinking and how developments in other social sciences, most notably psychology, explain how those biases impact human decisions. The biases toward markets as a primary way of dealing with economic problems involving resource allocations have sometimes led policy makers to ignore the information problem that is inherent in decision making. In chapter 2, Tirole presents strong argument for the moral limits of the markets in cases with significant noncommercial components like valuing a life and organ donation, where incentives are poorly understood. In this and other parts of the book, Tirole carefully attempts to explain instances where market transactions lead to large externalities and convey that the public good will be enhanced by intuitive and informed approaches as societies deal with problems such as inequality, poverty, and environmental degradation.

In Part II the book outlines how and why economics should engage in civil society. There is an inherent danger of being trapped in a corner for offering a perspective that may be considered politically slanted, when the academic economist leaves the environment that has tolerance for ambiguity to one that demands a quick solution to a problem. In order to add value to debates, one must be conversant with ideas that matter and proffer perspectives that are defensible. There is a lengthy discussion about the life of a researcher which is a combination of advice on the importance of research and the state of economic research which may not appeal to a non-economist. A more interesting discussion occurs in Chapter 5 (Economics on the Move) where the author delves into examples of how economics has moved beyond the traditional model that assumes that human decisions are predicated on rational decision making. Based on the author's own work, he argues that beliefs, altruism, image, and concern for larger society play significant roles in decision making.

In his perspective on an institutional framework for the economy (Part III), there is an emphasis on two main ideas (value creation and accountability). Tirole concludes that the state and market are complementary, and not merely substitutes, and probes deeper into the familiar sources of market failure including information asymmetry and imperfect competition. In a decision-making structure that is a mix of private and state institutions, which is the case for most economies, efficient decisions require relevant and timely information and a good understanding by all stakeholders of the impacts of decisions. Corporate governance, dominated by capitalist governance, faces conflicts between owners and decision makers. Tirole stresses that the compatibility of social responsibility and the market economy can advance the public good as long as it is done in a way that encourages accountability and independent confirmation of information. One gets a sense that the author favors a modern state that needs reforming so that it can effectively set the rules to correct market failures and yet be able to provide public goods efficiently and at relatively low costs.

In a lengthy discussion of the great macroeconomic challenges (Part IV) Tirole addresses the climate, labor markets, Europe, finance, and the global financial crisis. His discussion of the global climate and the reasons for the slow progress in dealing with it including free riding, carbon leakage, incentives favoring delay, and the inability of trade to significantly address it are familiar to most who are concerned about climate change. Challenges remain even with economic instruments such as carbon tax and tradeable emission permits. Using France as an example, Tirole provides a good comparative discussion on why current labor market contracts and policies are not able to address the increased job insecurity in the new economy due to factors such as technological change and globalization. In each of these cases the author emphasizes the role of accountability as central to resolving it. Because increased job insecurity is primarily the fault of employers, they should bear more of the burden to society. In order to ensure greater risk sharing in Europe, Tirole suggests a federalist approach as a solution to limit the moral hazard problem that currently exists. The importance of finance to economic growth is stressed, but with a caution toward the risks of excessive speculation and lax regulation. The role of economics includes disseminating research knowledge in a timely manner to inform decisions about regulation and financial market policies.

Tirole book concludes with a discussion on the challenges associated with industry structure. The currency of the discussion is appealing. Part V first offers broad recommendations on industrial policy that are consistent with other guidelines in the book. As organizations change due to digitization, questions about how businesses are regulated, data are collected and used, and who profits from digitization present challenges to economies and societies. These offer more immediate challenges in healthcare as privacy and trust become central issues. Tirole extends the discussion to cover the potential impacts of digitization on work, employment and income inequality, and how current laws are inadequate to deal with the new realities.

The discussion on the role of innovation on economic growth is familiar. But an efficient intellectual property institution is essential to determine the extent of how innovation advances the public good. It builds on the inherent tradeoff that intellectual property is intended to incentivize innovation if it accords market power to the innovator to allow for profits; but this market power may lead to an increase in the cost of use and diffusion. There is then a struggle with determining what and when benefits accrue to various stakeholders in society. It is not clear that Tirole provides a definitive answer to this struggle, but he identifies some of the advantages and disadvantages of alternative arrangements such as open source software development and patent pools. Intellectual property institutions are further complicated because innovation may involve private and public financing, and that some software developers may not require explicit payments on their innovation. This complexity means that a decision maker may lack information to make the best decisions including the price of access to service.

Finally, in the regulation of firms, the design of contracts with good incentives for both the regulated and regulators must engender trusts that encourage accountability on both sides. Reform for the public good is hampered by incomplete contracts that may encourage ex ante opportunistic behaviors by firms and regulators. The author draws on extensive knowledge and examples from Europe and the United States, which show that economics faces familiar challenges in spite of the form of industry structure that emerges, as it strives to contribute to the public good.

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The Economics of Contemporary Latin America. BEATRIZ ARMENDÁRIZ AND FELIPE LARRAÍN B. Cambridge, MA: The MIT Press, 2017. Pp, xix, 439. $ 45.00

The Economics of Contemporary Latin America delivers an in-depth and illuminating analysis of the origins of persistent barriers against economic development faced by generations in Latin America from colonial times to the 1990s. The authors identify the colonial legacy of excessive dependence on primary commodity exports, the four-decade protectionism of import-substitution industrialization, the Great Depression of the 1930s and the debt crisis of 1982 as major obstacles explaining why Latin American economies have not transitioned from a developing status to a developed status similar to that for their Northern neighbors. Authors use the findings from the colonial times to the 1990s to provide foundations for detailed analyses of Latin America's economic growth, poverty, income inequality and the continuing problem of populism by government leaders, during the twenty-first century. Although Latin America has made substantial progress towards economic development over the last thirty years of the twenty first century, Latin America is still far away from achieving economic development (p. 347). In the final chapter, the authors discuss policy options for economic development in Latin America "and the main challenges that lie ahead" (p. xvi).

The authors have three main aims. The first aim is to explain how the Latin American people are poorer than people in the United States and Canada, despite Latin America's rich endowments in natural resources and human capital. The second aim is to explain why not even a single Latin American country has achieved "high living standards and high-quality, democratic institutions similar to those enjoyed by the vast majority of citizens in Canada, the United States and Western Europe" (p. xiii). The third aim of the book is to explain "why the average Latin