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Jean Tirole, Nobel Laureate: The power of market between ethics and regulation

Jean Tirole, Nobel Laureate, is the chairman of the Jean-Jacques Laffont - Toulouse School of Economics Foundation and scientific director of the Institute for Industrial Economics. He is also affiliated with MIT, where he holds a visiting position, the Ecole des Hautes Etudes en Sciences Sociales, the Institut de France and the Institute for Advanced Study in Toulouse, which he co-founded in 2011. Professor Tirole's research covers industrial organization, regulation, finance, macroeconomics and banking, and psychology-based economics. He has also published over two hundred articles in international reviews, as well as twelve scientific books. Published in French in 2016, his latest book entitled "Economics for the Common Good", is accessible to a wide audience under translation into a number of other languages. In 2014, he was awarded by the Nobel Prize for Economics for his analysis of market power and regulation, subject that Jean Tirole brings to the Trento Economics Festival in a meeting with Tito Boeri.

“It is a long time I am trying to have Jean Tirole as a speaker here in Trento – confides Tito Boeri, scientific director of the Economics Festival – and this year I succeed. All the work of professor Tirole is dedicated to the imperfection of markets but his main feature is that he proposes solutions as well. Yet, his work is really encyclopaedic and every single aspect of the subject is thoroughly examined”. After greeting the Festival as “fabulous” Nobel Prize Tirole starts introducing main topics of his presentation: economists' role, imperfection of markets and their morality.

“Economists are not good enough to do forecasting, jokes Tirole. Medical doctors can say you are at risk for a heart attack, but they cannot say when. At the same time, an economist can provide the best solution on the basis of evidence, but they have difficulty in communicating the risks of the worst solutions”.

The starting point in Tirole's theory is market failure, as identified in the past century by Arthur Cecil Pigou. To the Pigou idea of externality of markets, Tirole adds also the concept of internality, that is the long-term benefit or cost to an individual that they do not consider when making the decision to consume a good or service. To make it simple, he makes the example of doping in sports: “doping is internality for who assumes the dope (since he will probably suffer of it in a future), while it is an externality for the competitors (since they are subjected to an unfair play)”.

Nonetheless, even if we assisted to market failure, in Tirole's vision market goes on to exist and cannot be ignored and at the same time the alternative of a heavy government control has already revealed to be not realistic. “The right solution”, explains Tirole, “is to find a balanced complementarity between market and government”.

Yet, markets can be even “repugnant” in Tirole's words. “Think about organ sales, market of adoption, voluntary slavery, prostitution, the case-study of ‘Titanic lifeboats’, till the paradox of ‘dwarf-tossing’ – lists Tirole -. And what about if your dog is killed by a car, you cook it and eat it? It is immoral?”.

At this purpose, Tirole quote the work of Jonathan Haidt “The righteous mind”, whose main principle is “do not harm”. “Moral changes form an age to another – outlines Tirole – if only we think that just fifty years ago it was considered immoral a relationship between two people of the same sex, while nowadays not anymore. So, the same idea of morality can be applied to marketplace”.

Watch the interview here: https://www.youtube.com/watch?v=UTGjb54_5Jw

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