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Economics for the Common Good

by **Jean Tirole**

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With the majority of the general public convinced that economics is about private profit only and with intellectual heavyweights like Jean Tirole, one of the most prominent academic economist of our time (2014 Nobel Prize winner), the publishing of his book titled *Economics for the Common Good* (the title of the 2016 French original is *Economie du bein commun*), created expectations that could not be higher. Nonetheless, the main question regarding these expectations depends on the reader. For non-economists – with the exception of the diehards, since they believe that economics has triumphed over human values and do not have questions one way or the other – the main dilemma is whether the author will convince the reader that economics, if not is, at least can be used for the common good. For economists, the question is how he will do it.

The book starts as every good book should: with the clarification and specification of the main notion – the common good. Definition of the common good, our collective aspiration for society, according to Tirole, requires, to some extent, a value judgement. He finds it in the "behind the veil of ignorance" approach, which can be traced back to Thomas Hobbs and John Locke, and were rather recently revived by John Rawls (1999). Basically, this means answering the question: "In what social system would you like to live?" *ex ante*, with complete ignorance about yourself, your talents, or perhaps lack of them, and your features. Being aware that this definition of the common good is both not objective and unambiguous, Tirole rushes to a more important issue for his book. Taking into account that people do pursue their self-interest and do it over the common good, but also that the people, whatever their place in society is, react to the incentives facing them, he specifies that: "The quest for the common good therefore involves constructing institutions to reconcile, as far as possible, the interests of the individual with the general interest" (p. 3). As to the content of the common good, the author is equally specific: "Economics, like other human and social sciences, does not seek to usurp society's role in defining the common good" (p. 5). The role of economics, once a definition of the common good has been agreed upon, in whatever way, is to distinguish the ends from the means and to help develop tools that contribute to achieving it.

The author specifies two aims of the book: a contribution that is a journey through the economics of the common good. The first one is that the book is a tool for questioning, that conveys his personal views on economics. The second is to share his passion for the discipline. The 563-page long passionate journey is divided into five legs, five parts of the book, followed by extensive and very useful endnotes.

Part I (*Economics and Society*) deals with the relationship between the two, and starts with a direct question to the reader: do you like economics? Well, the insight from the economist's corner is that most of the people do not like it. Tirole, nonetheless, is eager to find an explanation for it and he points out that people often believe what they want to believe, rather than what the evidence points to. When political parties promote a vision of an economy free of difficult choices, stubborn economists, at least most of them, insist on reality "rather than fairytale" – an obvious reason why economics is often (since David Ricardo) called "the dismal science".

However, insisting on reality is not the consequence of some moral superiority of economists but rather of their specific methodology: one that takes into consideration general equilibrium and long-term consequences. Various cognitive biases, due to the use of heuristics (Daniel Kahneman 2011), unconstrained by the rigours methodological straightjacket of economics, produce first impressions, focused to the direct and short-term effects of a given economic policy, those that can be easily understand, without going any further. Tirole demonstrates how wrong they can be by referring to the telling examples of ivory trade and the Kyoto Protocol. Furthermore, cognitive bias towards the identifiable victims does not help economists and their relations with the public. "An economist is obliged to think about invisible victims as well, and so the public sometimes accuses that economist of being indifferent to the suffering of the visible victims" (p. 24). Economists generally have great confidence in the market and price mechanism, not as a perfect way for resources allocation, but as the only effective one. Tirole demonstrates that by using the case of bandwidth allocation and comparing it to the government allocation free of charge. It is not market, but hubris – the government's excessive confidence in its ability to make complex choices in the realm of economic policy – that created many grave outcomes. The author emphasises that economics must be better understood and that this is everyone's responsibility, but predominantly that of economists. Tirole is optimistic: "Politicians hesitate to adopt unpopular policies because they fear electoral backlash, so if the public had a better understanding of economic mechanisms, this would be a public good" (p. 31). Perhaps, too optimistic.

Since market is a superior mechanism of allocation of resources, the author asks a relevant question: what are its moral limits? As Michael J. Sandel (2012) points out, a range of goods and services must not be trivialised by the market, a revival of Immanuel Kant's insight about price and dignity that is above any price. According to Tirole, many people answer the question about limits of the market by their own moral indignation and then the crucial questions should be: (1) Who is the victim? (2) What is the basis of your belief? (3) Is there any justification for infringing the (market) freedom other than indignation. That brings down the discussion to debate on market failures: information failures, externalities, and internalities – the behaviour of the individual that conflicts with his/her own interest. The answers to these questions provide the ground why, both from positive and normative viewpoint, some markets are regulated or even prohibited. Because, for example, introduction of incentives, as demonstrated by Samuel Bowles (2016), can undermine intrinsic, morally-shaped motives. But by avoiding market reasoning, by specifying that something is sacred, in the realm of dignity, our conclusions on policy issues becomes deficient. Yes, human life has a (statistical) price and that information produces an important input for many policy considerations, starting with the benefits of the construction of motorways, which saves lives. Yes, there is a human organs market, though not a free one, and information and demand and supply from that market enables economists to develop algorithms for human organ allocation that maximise social welfare, like the one developed by 2012 Nobel Prise winner Alvin Roth. The public should understand that exchange does not necessarily involve money and that economics studies more generally the matching of supply and demand, and according to Tirole "promoting the common good by producing better methods of allocation" (p. 45).

Perhaps the most interesting issue within the realm of the moral dilemmas regarding the market is whether it is a threat to social cohesion. Tirole goes back to the basics of market economy, pointing out that the market makes relationships anonymous. For those concerned with anonymity, the author provides important insight: this is the very purpose of the market, as it is supposed to free people from the economic power others can exercise. It is about freedom that market brings, since gift economy can create dependency. For those concerned that the market reinforces the selfishness of its actors, which makes them less capable of forging effective bonds with others, Tirole points out that the market "becomes a mirror to our souls that reflects realities of our societies, facets of ourselves, and preferences that we would rather conceal – from ourselves as well as the others" (p. 50). *Sapienti sat*!

Part II (*The Economist's Profession*) starts with a debate on the position of the economist in civil society. Tirole considers that interaction of academic economists with the real world and getting out of their ivory towers is the best way for them to understand the problems of economy and society and to develop original topics of research. Furthermore, he is positive that researchers have an obligation to society to take a position on questions on which they have acquired professional competence. Nonetheless, the devil is in the detail of such engagement. The issue of additional remuneration of these activities, which is not only welcome but indispensable, should be considered taking into account the danger of the research being "captured" by their personal stakes. The media temptation is much worse for academic economists. Tirole points out that "the media is not … a natural habitat for an academic" (p. 72). The point is that, on one hand, the distinctive character of academics, "their DNA", is doubt. On the other hand, effective media messages must be simple, even simplistic. Finally, the call of politics could be strong, along the lines of the French tradition of *l'intellectuel engage*. The problem with this approached is that with the political affiliation of academic economist, the audience forgets the substance of the argument, comparing the political affiliation with their own. By becoming politically engaged, academic economists risk losing their freedom of thought. Also, long-term perspective, the natural perspective of academic work could be substituted for short-term political requirements. Tirole recommends two important antidotes: "(a) debate ideas, never persons (no *ad hominem* arguments); (b) never say anything you are not prepared to defend before your peers in a seminar or a conference" (p. 74). As to the integrity of academic work, the bottom line is the system based on the peer-reviewed professional journals, accompanied by an impregnable anonymity of the referees. Tirole's nod to Churchill is evident: "like democracy, the system of peer review is the worst system except for all the others" (p. 98).

The chapter titled "The Everyday Life of a Researcher" is basically a condensed and consistent picture of economics methodology, answering questions about models in social science and their purpose, "methodological individualism" – a trade mark of economics, empirical testing by econometrics and experiments (both field and laboratory). In answering one of the most frequent questions "Is economics a science?" with between the line sour comment "you did not predict the 2008 crisis", Tirole explains what kind of science economics is and why financial and economic crises cannot be predicted. The first reason is shared with most sciences, like for example, seismology: "lack of data or partial comprehension of the phenomenon" (p. 90). The second is specific to the social and human sciences, such as economics, and it is rooted in interdependency – the choice of one individual depends on the choice of another; not only do people react to incentives, they also react to the behaviour of other people, leading to the "self-fulfilling prophecies" and "multiple equilibria".

A few controversies related to economic research have been explored in the book: are economists foxes and hedgehogs (a nod to Isiah Berlin), what is and should be the role of mathematics and game theory, together with academic consensus about the value of information theory. Tirole is positive what is the necessary condition for the advancement of economics: with methodological consensus it is "the head-on clash of ideas and criticism between peers [that] allows everyone to move forward" (p. 99). No prisoners should be taken in the seminar rooms.

The author thoroughly reviews recent developments in economics focused on altering some of the cornerstones of economics and opening new areas of research. The introduction of *homo psychologicus* enables us to explore why we procrastinate, why we make mistakes in forming our beliefs, and to consider empathy, altruism, however fragile it may be, trust and self-image as important factors of decision making. The introduction of *homo juridicus* empowers us to explore the mechanisms in which legal and social norms affect human behaviour. The introduction of *homo darwinus* allows us to include the process of natural selection in the explanation of economic development. Finally, the introduction of *homo religious* enables us to introduce new insights and, in that way, provide a better explanation of economic phenomena, especially economic growth. Tirole points out that: "We are witnessing a gradual reunification of the social sciences. This reunification will be slow but it is inevitable, as [social sciences] are interested in the same individuals, the same groups, and the same societies" (p. 152). Furthermore, the author is firm on the normative ground: "The convergence that existed until the end of the nineteenth century must be reestablished" (p. 152). The problem is, though, that the divergence occurred, not because of the object of the research, but because of the differences in methodology. How those differences can be sorted out and whether that should it be done at all, or should competition between methodologies be fostered, remains an open issue.

Part III (*An Institutional Framework for the Economy*) deals with two institutional issues: one is related to the modern state and the other is related to the modern corporation and its social responsibility. Tirol sees the rationale for the state in the market failures (arranged into six groups, similar to all intermediate microeconomics textbooks), although he emphasises market efficiency and integrity of the market and its consequence – improved households' buying power, including middle-income and low-income households. The author is especially concerned with externalities and often, not only in this chapter, but throughout the book, refers to Pigouvian taxes (Arthur C. Pigou 2013) as a social welfare maximisation mechanism. Nonetheless, Tirole is explicit that the failures of the state are ubiquitous and that "a defective state can neither contribute to the market's efficiency nor offer an alternative to it" (p. 162). The incentives inherent to politicians give a rational for the introduction of technocrats and independent authorities, e.g. central banks, that, for *ex ante* given ends select the most appropriate means. The author provides the rule of the thumb for government intervention: "In its modern form the state ideally sets the rules and intervenes to correct market failures, rather than substituting itself for the market as a mediocre manager of enterprises" (p. 170).

The modern corporation is organised in such a way that the decision-making power is granted to the financiers. There are some good reasons for that, not only due to the scarcity of capital. It is the pressure of the factors' market that makes a corporation responsible. Tirole emphasises: "A company that treats its employees badly to increase its short-term profits acquires bad reputation, and in long-term will have difficulty attracting and motivating recruits" (p. 178). Nonetheless, the corporation can be engaged in enterprise philanthropy (sacrificing profit) and delegated philanthropy (not sacrificing profit), though, according to the author, it is empirically difficult to draw a clear distinction between the two. The insight that corporate social responsibility is compatible with a market economy concludes this not very useful chapter. What follows is the right stuff.

Part IV (*The Great Macroeconomic Challenges*) deals with four of them: climate change, labour market challenges, Europe at the crossroads and the financial industry. Climate change is something very important to Tirole, perhaps more than to some other economists. He makes his case effectively, framing the issue within the economic theory and the notions of "tragedy of the commons" and "the free ride problem", leading to the "carbon leakage problem" – a phenomenon that carbon pollution has moved to countries with the lowest carbon costs for investors. After evaluating the 1997 Kyoto Protocol and the 2015 United National Climate Change Conference and their results, the author proposes a solution to prevent the temperature increase based on the insight that: "Imposing a uniform price for carbon on all economic agents throughout the world would guarantee the implementation of any mitigation policies whose cost was lower than the price of carbon" (p. 213). That can be done in two ways: (i) worldwide carbon tax; and (ii) tradable emission permits. The comparative analysis of the two options gives priority to the tradable emission permits, especially with transparent markets for their trade instead of over-the-counter arrangements.

One of the most relevant chapters of the book is the one on the labour market challenges. Most of the extremely useful insights are based on findings from the French labour market, its rigidity, and the unemployment it creates, but all those insights are relevant to virtually all countries of Southern Europe, and some of them for all other countries across the world, especially in the era of globalisation, technological change, and migrations. Tirole is straightforward about his own country: "…unemployment is in part a choice that French society has made" (p. 233) and his aim is to explain how that happened. Apart from the unemployment rate, which is much higher in France than in Northern European countries (Germany, the Netherlands, Scandinavian countries) and the developed English speaking countries (US, UK, Canada, Australia), the French labour market has produced a malaise in the workplace, which includes: (1) insufficient mobility and imperfect matching of employees to jobs; (2) conflictual relationships as a consequence of the preceding point; (3) a strong sense of job insecurity. It is evident that unemployment in France is structural, much more than cyclical, and the crucial culprit for that is the French labour law. Eventually in court – with a decision that takes 13.6 months on average (35 months in the event of an appeal) – the employer has to prove that there was "real and serious case" for the dismissal.

Taking all that into account, the rational response of employers is to employ a smaller number of people that they really need and most of employment is based on the fixed-term contracts, not permanent jobs. The prevalence of the fixed-term contract decreases the probability for employed people to get a new permanent job, hence insufficient mobility and conflictual relationships, since even if there are bad personal relationship within a firm, the obvious option of leaving the firm and finding the new (permanent) job is not a (likely) option. Finally, with companies unable to shed labour in times of crises, the probability of its bankruptcy increases, creating a sense of job insecurity. Although *prima facie* paradoxical, protective labour legislation does create job insecurity.

Once again, it was demonstrated that (exaggerated) protection of employees creates not only structural unemployment but many other adverse effects. Tirole's recommendation is straightforward: the employer who dismisses workers should pay; the costs he incurs to the welfare system must be internalised, another application of Pigou's principle. Hence the fine to be paid should be in the amount of the external costs, the one to the unemployment insurance fund. The fine should not be paid to the dismissed worker, but it "could be earmarked to reduce social security contributions paid by employers who keep their workers on: the penalty is then fiscally neutral for business as a whole" (p. 243). With such a strong incentive not to dismiss workers, the labour legislation could be reformed and liberalised, i.e. become more employer-friendly. Furthermore, since the fine is proportional to the individual costs to the welfare system, predominantly unemployment insurance, firms have incentives to keep the employees who will have a harder time finding a job and to invest in on-the-job training of employees, enriching their human capital. The outcomes of such a reform, according to the author, will be benefits in terms of lower unemployment, better jobs and will decrease the burden on public finance. Nonetheless, as Tirole points out: “Job losses make the headlines, job creation much less so … and the lack of job creation is by its very nature invisible” (p. 255). Obviously, such a political economy constellation explains why presidents change is France, but not the labour law, and provides for rather grim perspectives for its labour market reform.

Tirole provides very succinct and powerfully explanation of the Eurozone crisis, the one that burdens the whole European project with heavy doubts. The basic flaws of the European Monetary Union are discussed, entirely in line with the findings of the optimal currency area theory. Then, the scenario of Greek (Southern Europe) crises are painted, rightfully suggesting to a reader that, due to the bad incentives to all players, that was a disaster waiting to happen. With huge fiscal deficits and easy access to funding with the low unified euro interest rates, sovereign debts, primarily Greek, reached exorbitant levels. Tirole made a few very good points about the Greek crises. First, in the other monetary union, the United States, President Obama refused to bail out California in 2009, and there is a long tradition of such refusals. Such moves limit moral hazard as one of the most important issues regarding fiscal deficits and sovereign debts. Second, because there is a widespread perception of the IMF as something wrong, Tirole points out that “…the IMF provides services for countries in financial difficulties: no country is ever forced to use its services” (p. 280). Hence, assistance of the IMF is voluntary. Third, the author is very specific: “Although I consider Greece’s debt unsustainable, and very likely to weight on the country future, the situation is more complex than the proposal to simply forgive the debt would suggest” (p. 285). Taking all that into account, the author spells out that the two extreme scenarios, and Grexit and the entrenchment of the Troika in Athens should be avoided, without specifying which one should not.

A 64-million-dollar question is next: What option do the EU and the Eurozone have today? A sour remark at the begging of the answer – “one cannot simultaneously insist on more sovereignty and greater risk sharing” (p. 290) – gives the flavour of the answer. According to Tirole, there are two options: (a) the improved Maastricht option; and (b) the federalist option. The very few remarks about the first option, most of them negative, imply that this option is not the option. The other one, the federalist option, is a proper one, but Tirole is prudent enough to shed light on the prerequisites for federalism. In economic terms, federalism is risk sharing mechanism, and “… every insurance contract must be signed behind the veil of ignorance. You wouldn’t sell me insurance if you suspect that my roof had a good chance of falling in tomorrow” (p. 293). Well, there are many of these roofs in Europe and most of them are in its southern part. Tirole concludes that this is the reason why a high degree of risk sharing is probably unacceptable to the countries of northern Europe.

The second prerequisite for federalism in Europe is that countries living together need effective common rules to limit moral hazard. It is about effective rules of that kind. Again, Tirole concludes that the countries whose institutions produce an unemployment rate of 5 percent will not wish to be a part of a shared insurance system with those whose choices create 20 percent unemployment rates. Even a Euro-enthusiastic reader would consider this convincing insight a as bucket of cold weather to the idea of federalism. This goes hand in hand with Tirole's caveat: "Consequences of federalism should be understood by everyone before we set out on this path" (p. 294).

Perhaps, for most of the readers, the pinnacle of the book are two chapters on the financial sector: one about the sector itself and the other about the 2008 financial crisis. Tirole starts the first one by explaining all the benefits of finance, inseparable from modern market economies, followed the explanation of the danger of the derivatives (with not quite appropriate French examples) and securitisation (with excellent example of the US sub-prime mortgages) and the mechanism of financial bubbles. Frictions in financial markets are explained with a little help from behavioural finance, setting the ground the financial regulation as the only way out of the financial market failures. The concept of capital adequacy is explained reasonably clear for the non-specialist, with the introduction to the Basel I and Basel II Accords. The general conclusion about financial regulation is concerns the relations between rigidity and flexibility of the rules. Any increase in flexibility of supervision must have as its counterpart a greater distance between the supervisors and the supervised. "Conversely, if we fear for the integrity of supervision and evaluation, we will have to return to mechanical rules" (p. 325).

As to the explanation of the 2008 financial crises, Tirole has no doubts. "One thing is sure: the 2008 crises is a textbook case for the theory of information and incentives courses taught in economics departments" (p. 327); excess liquidity with low interest rates as well as the inflow of money from emerging economics to the developed countries financial markets. All that substantially increased risky real estate loans in the US, not only because the US administration encouraged more households to become home owners, and created the bubble at the real property markets. Securitisation of the mortgage loans was extensive, meaning that the banks (original lenders) did not care about the risk (did not have "skin in the game") and rating agencies, due to the conflict of interest, gave AAA ratings to securitised products (assets) that did not deserve them. On top of this, there was excessive transformation of short-term liabilities (provided by interbank borrowing and money markets) into long-term assets. This made banks very vulnerable to refinancing of their assets, and associated interest rate risk, which put additional pressure to the central banks not to intervene by increasing reference interest rates.

All these developments were not coincidental, but the consequences of deliberate actions by the banks, aimed at decreasing the equity capital for a given size of their balance sheet for obvious reasons – "less equity capital means a higher return for the shareholder who provide it" (p. 332). Furthermore, moving mortgages from the balance sheet of the banks to another entity substantially reduced the bank's capital requirements – a way of getting around bank regulations. The post-crisis environments feature a few distinctive peculiarities. One of them is historically low interest rates that are, according to Tirole and the convincing arguments he provided, here to stay for the long-term. Accordingly, Zero Lower Bound is something that should be taken into account when evaluating the prospects for intervention through monetary policy.

The second peculiarity is the new regulatory environment or at least the need for it. The consideration of that environment and the formulation of regulatory policies have been, according to Tirole, driven by the fear of systemic risk, but he points out the danger that too stringent regulation would lead to the economy functioning far below its potentials. There are two crucial starting points of regulatory reform. The first is the standardisation of products and their trade in organised, rather than over-the-counter markets, and establishing well-capitalised clearing houses for transparent trade. The second one is insulation of retail banks, those who are fully regulated and supported by the central banks for their liquidity, by structural separation of retail banks from investment banks.

The shopping list of the desirable regulation continues with the established need for countercyclical character of equity capital requirements (whilst praising Basel III standards for moving in that direction), regulation of both liquidity and solvency of banks, and the need for macroprudential approach, based on the idea that the solidity of a bank does not depend only on its own equity and liquidity, but also on the solidity of other banks. The recommended reform of the remuneration of the senior managers is based on the idea of deferred compensation, in which "managers' compensation is vested over time and granted only when it becomes clear that the managers' performance was not a flash in the pan" (p. 346). Special attention is paid to rating agencies and their regulation, especial taking into account that new prudential regulation for insurance companies retains the principle of using ratings to estimate the risk that insurers are exposed to. And the end of recommendations for the financial sector regulation Tirole provide a caveat: "The current state of our knowledge and … the limited availability of the data that would allow supervisors (or economists) to calibrate capital and liquidity requirements precisely should encourage us to be humble" (p. 348).

The final segment of the book, Part V (*The Industrial Challenge*) is a sheer joy for an industrial economist with a lot food for thought and wisdom about the most important development in the real sector, competition policy and economic regulation. Tirol reinforces the need for effective competition policy irrespectively of whether the dominant position is held by private or public company, reviewing all the bad effects of market power. A number of convincing arguments against industrial policy follows, with a set of criteria for the evaluation of a specific industrial policy endeavour should fulfil to be implemented. Looking at these criteria leads the reader to believe that very few industrial policy endeavours would be implemented.

What follows is a story of two-sided markets, platforms, a consequence of digitisation of the economy and the most important recent development in the real sector. Tirole explains that the economic model of platforms depends on the relative elasticity of demand and on the externalities between different sides of the market; he refers to the timing issues ("the chicken and the egg problem") explained in detail in David S. Evans and Richard Schmalensee (2016). The compatibility between the platforms and their opening up are briefly considered. The author considers the platforms as regulators, i.e. that they regulate relations between sellers and buyers, for the common benefit. The issue of uniform price ("price coherence") is analysed with the caveat that: "Regulators should … refrain from mechanically applying the classic principles of competition policy where they are simply not applicable" (p. 393). It is evident that information technology markets are highly concentrated, albeit for good reasons (network externalities and economy of scale), so the issue is how to deal with such markets. Tirol's answer is to make them contestable, brings back to life the theory of the contestable markets (Willian J. Baumol, John C. Panzar and Robert D. Willig 1982), and for that reason he is ready to support antitrust cases against tying sales in the digital sector, as that practice can increase barriers to entry.

Nonetheless, the digital economy provides challenges for society, in addition to the need for rethinking competition policy. The first issue is the one of trust in terms of recommendations and, much more controversial, trust in the confidentiality of personal data, a key resource of digital economy. An additional one is the question of who owns (personal) data and how it can be answered, especially in future health care industry and insurance services where personal data, including genetic background, can estimate personal risks precisely, with adverse effects to insurance as risk sharing activity. Tirole considers the impact of the digital economy on employment, concluding that the amount of self-employment is increasing, along with the fragmentation of labour into microjobs and the decline of salaried employment, thought the last process is not straightforward, with the reasons of that kind of employment similar to the Coasian rationale for the form (Ronald Coase 1937). Further digitalisation will endanger jobs for those whose work can be automated and it "hollows-out the distribution of jobs into ether high-paying skilled positions or low-paying basic services" (p. 423).

For Tirole, intellectual property is a necessary evil that seeks to stimulate R&D and artistic creation and, in that way, creates incentives for innovations – an engine of growth for the economies that are at the "technological frontier". Several issues are considered: managing royalty stacking, including cooperation and patent polls, as well as technological standards. Institutions of innovation, those that link inventors and finance are reviewed, with the author emphasising that innovations happen more and more in small entrepreneurial start-ups rather than in large companies and the explanation of the open source phenomenon, with Tirole concluding that "there is nothing economically mysterious… even if it might initially appear puzzling in terms of conventional economic reasoning. Economics is everywhere" (p. 453).

The final chapter focuses on sector regulation. Tirole, after all an industrial economist, points out the features of the regulatory reform that in the past thirty years has changed the way infrastructure sectors operate: (i) improved incentives for efficiency; (ii) rebalancing tariffs; (iii) opening up to competition; (iv) independence of regulatory authorities. A substantial part of the chapter focuses on incentive regulation and the tension between the absence of profit and incentives, as well as on prices of regulated companies. Two important issues of regulation of access to the networks and of competition and universal services are reviewed. Sharp thinking about all relevant issues and very valuable insights is music for the ears of an industrial economists, but perhaps non-specialists will not appreciate that music as much as it deserves.

A fascinating book! So many relevant topics considered in a user-friendly way. For economists this is an opportunity to check their specific knowledge and for many of them to learn more about new developments in economics, especially in the areas of financial and sectoral regulation and competition policy for the digital economy, and about new development in multisided markets and intellectual property rights. For non-economists, this is a very readable, user-friendly compendium of modern economics. However, the reader out of the field must be very committed, because the reading will not be easy. Not because of the style, but because of the topics that are covered.

Perhaps, the bottom line of the book is that there are no easy solutions and that a lot of work of economists – not only them – is needed for the appropriate solution to be found. Nonetheless, the market is here to stay, and technological developments will both demand and enable more market.

A final remark about the personality of the author revealed by his approach: the approach is based on a humble attitude, unlike some of the laureates of the Nobel Prise in Economics. Tirol neither considers himself a celebrity, nor does he behave like one. There is no arrogance but only evidence and open questions about whether he is right about something. His between the lines message is very clear: modesty is a virtue in the world of economics.

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