

THE T MAG

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Economics

A photograph of three men in dark blue suits and face masks standing in a grand, ornate room. The man on the right is holding a white envelope or document. The room features gold-colored wall decorations, a chandelier, and a large window with decorative panels. The text 'Saving the common good' is overlaid in white on the bottom left.

Saving
the
common
good

In search of the common good

A great way to conceptualize the common good is to use the 'veil of ignorance' theory. Imagine that you are yet to be born and ask yourself: 'In which world would I want to live?' not knowing in which family, when or where you might land. This neutral posture in approaching collective choices provides an ethical solution to the problem of defining the common good, or an "ideal society", given its many constraints.

As inequalities are rising almost everywhere in the world and global warming is threatening our societies, the common good needs to be saved. To try to find solutions, TSE, Challenges and Les Échos organized, with supporting partners, an international summit which took place in Paris and across the world on May 27 and 28. Gathering six Nobel laureates, ten CEOs, and many experts from different fields, the event covered global warming, inequalities, the Covid-19 crisis, as well as the future of transport, banking, and finance.

I would like personally to thank all the participants and teams who made the event possible: these two days of exchanges were extremely rich in recommendations and key ideas. Many of these and others can be found in the recent report that Olivier Blanchard and Jean Tirole delivered to the French government on the future of our societies.

In this magazine, you will find the main conclusions of the report as well as highlights of the 2021 common good Summit. As the pandemic is still raging, the world is in dire need of scientific guidance and the contents of this magazine illustrate just how much TSE is taking to heart its mission to contribute to the public debate and propose clear conclusions from academic research.

I wish you a pleasant read and hope to see you all soon in person in Toulouse or elsewhere.



Christian Gollier,
TSE Director

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Biannual magazine of the Toulouse School of Economics

1, Esplanade de l'Université,
31000 Toulouse
France

www.tse-fr.eu

contact@tse-fr.eu

Tél +33 (0) 5 67 73 27 68

Publication Director:
Christian Gollier

Managing Editor:
Joël Echevarria

Editor in chief:
Jennifer Stephenson

Production Manager:
Jean-Baptiste Grossetti

With the help of
James Nash

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News



TSE launches research center for health economics

TSE is proud to present its fourth research center. This new initiative will encourage innovative research that helps public and private organizations address health issues and improve quality and access to care both in France and worldwide.

The TSE Health Center's multidisciplinary team will focus on five key research areas: Pharmaceutical industry and regulation; Innovation in health; Public healthcare, long-term care and aging; Food and healthy behavior economics; and Economics of pandemics.

We are deeply grateful for the support of the three main donors - bioMérieux, GIE GERS, and the LEEM - as well as a sponsor, Urosphere.



Marie-Françoise Calmette joins government agency

In January 2021, the French Ministry for the Economy appointed Marie-Françoise Calmette (TSE-UT1C) as a member of the reference group for the evaluation of France's contributions to aid for trade from 2009-2019. Marie-Françoise will bring her knowledge as one of TSE's experts on the development of emerging countries.

TSE jobmarket placements

Congratulations to our Job Market candidates for their very good placements:

Nicolas Bonneton - University of Manheim Assistant Professor
Jacopo Bregolin - University of Liverpool Assistant Professor
Christophe Bruneel - KU Leuven Assistant Professor
Matheus De Souza Bueno - OECD
Joana Duran-Franch - Postdoc at Columbia
Jacint Enrich Moya - Postdoc at Pompeu Fabra
Christophe Gaillac - Postdoc Nuffield College
Kunal Khainar - Bank of England
Willy Lefez - Postdoc Berlin School of Economics
Charles Pébureau - Post doc at Stanford
Stefan Pollinger - Sciences Po Paris Assistant Professor
Kevin Remmy - Postdoc at University of Mannheim
Yang Yang - Nanjing University Assistant Professor
Miguel Zerecero - UC Irvine Assistant Professor
Ling Zhou - Postdoc University of Padova



Prizes



BDF-TSE prizes in monetary economics

These prizes are jointly awarded by Banque de France and TSE to distinguish academic researchers who have developed central concepts to improve our understanding of monetary economics and finance. On May 21, the Senior Prize was awarded to John Moore (University of Edinburgh). The Junior Prize in Europe was awarded to Silvana Tenreyro (LSE) and the Junior Prize outside Europe went to Emi Nakamura and Jón Steinsson (University of Berkeley).

Toulouse tops European rankings

The 2021 Shanghai Ranking has placed TSE at the top of the class for economics in France and the EU. The University of Chicago claimed the number one spot in the world rankings, with Toulouse in 22nd position.

Emmanuelle Auriol receives Antitrust Compliance award

Emmanuelle Auriol (TSE-UT1C), together with Erling Hjelmeng and Tina Søreide, won the Academic Award of the 2021 Antitrust Compliance Awards for her article 'Deterring corruption and cartels: In search of a coherent approach', published in *Concurrences* in 2017. The aim of the awards is to contribute and promote compliance in the antitrust field.

SBCA rewards TSE researchers

Two TSE members are among this year's recipients of the prizes awarded by the Society for Benefit-Cost Analysis (SBCA). James Hammitt (TSE associate professor - Harvard) received the Outstanding Achievement Award, while Henrik Andersson (TSE - UT1C) received the Richard Zerbe Distinguished Service Award (jointly with Massimo Florio).

Matthieu Bouvard named best young researcher

The annual prize for the best young researcher in finance and insurance has been awarded to Matthieu Bouvard (TSE-UT1C) and Kim Peijnenburg (Edhec). This prize is awarded by the Institut Louis Bachelier in collaboration with the SCOR Corporate Foundation for Science.

Paul Seabright wins 2020 Zerilli-Marimo Prize

This annual prize rewards work that highlights the role of the liberal economy in the progress of societies and the future of mankind. TSE-IAS-UT1C professor Paul Seabright received the award for his entire career.

A report for tomorrow

Olivier Blanchard
Jean Tirole

As the pandemic spread around the world last year, French President Emmanuel Macron asked former IMF chief economist Olivier Blanchard and TSE's Jean Tirole to preside over an independent commission on the challenges for post-Covid society. Recently delivered to the Elysée, their three-part report focuses on global warming, inequality, and demographic change. The lead authors answered our questions about the report and its main conclusions.

What motivated you to write this report?

Jean Tirole: Our societies are facing unprecedented challenges with the Covid-19 pandemic and its consequences. Emerging from the crisis, dealing with rising unemployment and bankruptcy risks, fostering economic recovery, or managing public and private debt will be complicated objectives for every government. In addition, the structural difficulties that prevailed prior to Covid-19 are still with us and have often been exacerbated by the pandemic. That is why, when President Macron asked us to chair a commission to address these structural issues, with the assurance that we would have complete freedom in selecting the commission's members and that we would be able to present our findings independently, we enthusiastically accepted.

Olivier Blanchard: We chose the 24 members primarily for their expertise in economics. They belong to very diverse intellectual and political currents. They are divided into three equal groups: French, European non-French and US-based. One of our members, Emmanuel Farhi (Harvard), sadly passed away last summer, just hours after participating in one of our plenary sessions. This report is dedicated to the memory of this exceptional man and researcher.

What are your recommendations on global warming?

JT: The urgency of global warming requires rapid and large-scale action, and success will largely depend on technological advances. We must avoid increasing the costs of ecological transition, which will be high in any case, by opting for measures that are not effective. The good news is that people are clearly concerned about global warming. The bad news is that they are reluctant to bear the cost of the ecological transition and its consequences on their way of life. At the same time, the lack of transparency on the cost and effectiveness of different measures does not make the discussion any easier.

The public's attitude towards green taxes is determined more by their visibility than their effectiveness. Although unpopular, carbon pricing is essential to the transition because not only does it encourage greener behavior and stimulates green R&D in a transparent and efficient way, but, perhaps more importantly, it allows better choices to be made and overpriced solutions to be ruled out. To implement a fair carbon price, it needs to be expanded. The existing system is weakened by abusive use of exemptions and subsidies for fossil fuels. We must also be particularly concerned about potential losers, such as modest households living in suburban and rural areas.

Main contributors

Part One Global Warming

Christian Gollier
Director, TSE

Mar Reguant
Associate Professor of Economics,
Northwestern

Part Two Economic Inequality and Insecurity

Dani Rodrik
Professor of Political Economy,
Harvard

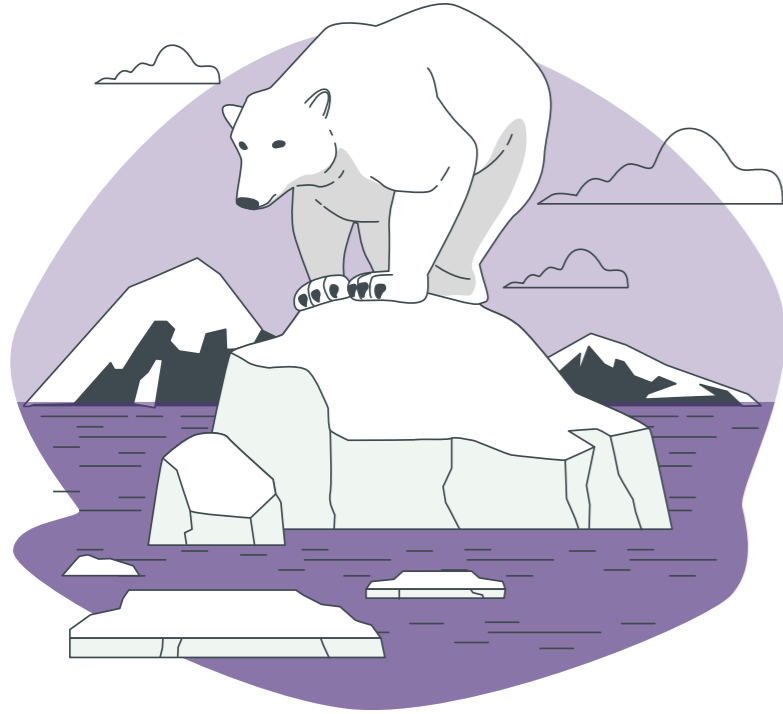
Stefanie Stantcheva
Professor of Economics, Harvard

Part Three Demographic Change

Axel Börsch-Supan
Director, Max Planck Institute
for Social Law and Social Policy

Claudia Diehl
Professor of Microsociology,
University of Konstanz

Carol Propper
Professor of Economics, Imperial
College Business School



“France should lead the Green Deal for Europe and create a ‘climate club’”

To avoid environmental dumping in other countries, this tax must be accompanied by a carbon adjustment at our borders. This is the only way our societies can face the challenge of global warming in the long run.

OB: The report also points out that governments need to encourage fundamental research breakthroughs to reach net-zero carbon emissions by 2050. In addition to carbon pricing, targeted subsidies, standards, bans, and incentives have a role to play.

These types of interventions are however more arbitrary than carbon pricing and more prone to lobbying, regulatory capture, and red tape, which means that we need to ensure good governance. We propose the creation of two independent bodies, if possible at the European level: the first, which we call EU-ARPA-E, would be used to finance high-risk, high-potential R&D projects; the second would be used to inform citizens and public decision-makers of the costs of different ways to achieve climate objectives.

Can France make a difference?

JT: France is responsible for less than 1% of greenhouse gas emissions. However, French public opinion largely supports measures to reduce these emissions, which is a major political asset in international negotiations. Together with other ambitious European countries, France should lead the Green Deal for Europe and create a “climate club” with the Biden administration, which would work toward a uniform and universal carbon price for the coalition and a WTO-compatible border carbon adjustment. Membership in such a club could quickly become attractive to other regions of the world, as it would confer trade and carbon dividend benefits that would offset the costs of losing the ability to engage in environmental dumping.

How unequal is France?

OB: France’s standard statistics on income, wealth and regional inequality are not bad by international comparisons. And unlike many other

countries, these statistics have not worsened in the recent period. Still, France faces a huge issue of unequal opportunities, particularly in education.

In a survey of a representative sample conducted specifically for this report, the team examined the French population’s views on inequality, economic insecurity, the labor market, and government policies. Overall, 73% of respondents believe that income inequality is a serious or very serious problem. Meanwhile, 70% believe children from high-income backgrounds receive a much better education; only 44% think that all students have the same chance of going to university. OECD data and PISA scores support this impression.

What can be done to address inequality?

JT: The report proposes several areas for improvement: access to a better education, a more redistributive tax system, institutions to encourage the creation of high-quality jobs, and global taxation agreements.

More has to be spent to reduce educational inequality, and it has to be spent in a smarter way. More resources must be devoted to the education and vocational training of disadvantaged students. Teacher salaries are too low in France, too few qualified candidates apply for teaching positions, especially in the science disciplines that are so essential to obtaining quality jobs. Apprenticeships must be extended, and more needs to be done to link vocational training to employment. Young people, especially those from disadvantaged backgrounds, need to be better informed about the importance of skills, jobs, and available careers. The choice of fields of study must reflect current and future job opportunities.

The report also proposes a progressive, unified inheritance and gift tax system, based on the beneficiary. Instead of taxing inheritances at each death, the new system would tax all gifts and inheritances received by the heir, so that those who receive more are taxed at higher rates. Preferential and reduced rates based on the relationship between the donor and the heir would remain possible. France has relatively high rates of inheritance tax, but loopholes imply that the inheritance tax brings limited funds to the Treasury. The tax should have a very broad base, including most or all assets. It should only apply at relatively high levels of transmission. To increase support for such a reform, the proceeds from inheritance taxation could be specifically allocated to measures helping the disadvantaged young to acquire a good education.

OB: The ultimate source of inequalities comes from the nature of technological progress, the nature of trade, and the way firms are organized.

It is obviously essential to prepare workers for the available jobs, and better can be done to improve professional training throughout professional life. One must however go further. The traditional approach has been to take the distribution of jobs as given. It should not be so. Firms’ choices of organization, of technology, the nature of research and development projects, are endogenous, and respond to incentives. This has led the commission to explore what can be done at this margin.

The relatively light taxation of capital relative to labor induces firms to privilege machines over workers. Higher taxation of capital, or a lower taxation of labor, would encourage firms to adopt more labor-friendly technology. One should however explore further avenues. Firms may be induced to offer better jobs and more career development opportunities to their workers. From that perspective, the French employment agency should evolve to have closer relations not only with job seekers, but also with firms, exploring how they can create better jobs and offer better careers.

On the research side, one can think of giving subsidies to study technological innovations which are more likely to complement workers rather than substitute for them. We realize that awarding R&D and investment subsidies on the basis of their impact on jobs requires information public officials may not have, and that the discretionary nature of such policies raises concerns about capture by lobbies; and so much more work needs to be done. But we believe that exploring these avenues is essential to tackling inequalities at the source. Pre-distribution and redistribution can only go so far.

Key recommendations on climate

1. Carbon pricing is essential to encourage greener behaviors, and to stimulate green R&D in a transparent and efficient way.

2. Exemptions and subsidies for fossil fuels must be quickly phased out.

3. Potential losers, such as modest households living in peri-urban and rural areas, should be compensated.

4. To prevent environmental dumping, the carbon tax must be accompanied by a carbon adjustment at borders.

5. R&D must be accelerated. An independent EU organization to finance high-risk, high-potential R&D projects must be created.

6. Targeted subsidies as well as standards, bans and incentives are warranted when carbon pricing reaches its limits. But these are complex and prone to capture. Another independent body should inform citizens and decision-makers of the cost of various climate actions.

7. France can set an example and put pressure on other countries, promoting innovations that benefit poor countries, and developing effective international agreements.

Key recommendations on inequality

1. School integration and increased spending on disadvantaged students must go hand in hand, improving access to education and employment.

2. More autonomy, accountability, and training should be given to schools and teachers to develop innovative approaches.

3. Teacher salaries, at least for new recruits, should be higher and reflect skills. Bonuses should encourage experienced teachers to work in disadvantaged areas.

4. Better design of inheritance tax, reducing loopholes, with revenues explicitly earmarked for equal opportunity redistribution.

5. Implement fairer taxation using AI, information exchange, and international agreements.

6. International best practices in continuing education include rigorous certification, with job training design based on interactions with private-sector employers.

7. Stimulate the creation of high-quality jobs, improve the internal organization of firms, influence technological progress, and redefine regulation to avoid social dumping.



What are the main demographic challenges?

JT: Improvements not only in life expectancy, but also in the quality of life in old age are a major achievement. However, they imply adjustments in the way society is organized. To keep the French pension system in balance, the increase in life expectancy requires either a reduction in benefits, an increase in contributions, or a higher age of retirement. Public pension expenditure is high in France, mainly because of very low rates of working people aged 55 to 64 and a very low effective retirement age. We thus need to rethink the system, both to face current challenges and to be flexible enough to face future issues. It is essential to begin by rationalizing the existing system.

Different avenues can then be followed to introduce flexibility, to take into account differences in careers and life expectancy, and ultimately create a system that is unified, transparent, and fair.

How can the pension system be rationalized?

OB: We propose a points system that is relatively simple and transparent. Over the course of their career, workers are awarded points: for example, 100 points if their salary is equal to the average salary prevailing at the time; 200 points if it is equal to twice the average salary, and so on. If certain conditions are met, points can be awarded for periods not worked (as is already the case for maternity leave, caring for relatives, or unemployment).

On retirement, the points acquired are converted into an initial retirement pension. The value of each point is the same for all pensioners and adjusted annually according to wage increases and demographic changes. Low-paid workers benefit from "free points" to enable them to receive a decent pension and possibly to retire earlier.

People who continue to work beyond the minimum retirement age and wait to request the liquidation of their rights continue to acquire points.

The number of points they acquire reflects not only the additional period of work but also the reduced number of years for which they can expect to receive a pension.

In the event of a transitory shock, whether it be macroeconomic fluctuations or the bulge in the age pyramid caused by the retirement of the baby boom generation, or Covid-19, there is a case for allowing deviations from the rules. The most obvious way to do this is to create an independent body to manage and monitor a reserve fund.

The report also emphasizes the need for penibility to be treated at the firm or industry level. Early retirement for hard jobs can obviously be desirable, but the retirement benefits between the early-retirement date and the legal age of retirement should not be mutualized. Making firms accountable for early retirement has several benefits: it forces them to offer better working conditions to their workers (to reduce chronic diseases) and it prevents them from offloading to other industries the extra costs their activities impose on society.

“73% of respondents believe that income inequality is a serious or very serious problem”

JT: We are convinced that such a reform – accompanied by measures designed to improve the demand for older workers by companies, to provide more flexible work conditions, better prevention and treatment of chronic illnesses, and to allow them to work longer if they wish – will cushion the blow from demographic changes and allow the system to adjust over time. The report also urges better integration to

address low labor force participation among the immigrant population, especially women. Several measures can be implemented to address this problem, which has additional consequences for the balance of the pension system.

If solutions exist, why has there been so little progress?

OB: Reforms are often poorly designed, explained, and implemented. The devil is often in the details, so it is essential first to analyze the challenges, the positive aspects and the negative aspects of different policies. This requires the contributions of a number of experts from scientific and social disciplines. Without public support, no reform has a good chance of success. We have seen this often in France in the recent past. From the outset, particular attention must be paid to perceptions, to the likely winners and losers. This implies a comprehensive approach. We have tried to provide an economist's view of the facts and possible policies, to consider what needs to be done to make these policies acceptable to the public, and to make practical suggestions for implementation.

JT: The three challenges on which we have focused – global warming, inequality, and population aging – raise complex technical and economic issues. Many of our decisions about how we respond must be made in a context of great uncertainty. But these three challenges are also time bombs that raise fundamental questions of equity both between and within generations.

Their immediate effects are much weaker than their long-term effects, which encourages policymakers to delay. But we must get to work now, because the cost of inaction will be much greater in the future.

Key recommendations on demographics

1. Workers accumulate points until they apply for their pension. Each point would give the right to the same amount.

2. People with low salaries or a difficult career path should receive "free points".

3. Working beyond the retirement age should earn points for both additional years worked and the reduced number of years receiving a pension.

4. People in strenuous jobs should be able to retire early, with their employers bearing the cost.

5. The value of a pension point should be calculated to balance the system, and indexed to wage growth instead of price inflation.

6. A rule that maintains a 2:1 ratio of work to retirement years would keep the system broadly in balance.

7. A new independent board should make decisions reflecting society's preferences, and a new reserve fund should protect against shocks.

8. Seniors should be encouraged to work longer by improving further education, working conditions, and the prevention and treatment of chronic diseases.

9. Firms should be incentivized to keep their older workers longer, if they so desire.

10. Immigrants, especially women, must be better integrated into the labor market.

What is the common good?

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What is the common good?

Jean Tirole

Toulouse School of Economics

For two days at the common good Summit, some of the world's greatest minds – including six Nobel Prize laureates in economics – debated the great challenges of our time, including the pandemic, global warming, rising inequalities, and the digital revolution. TSE's own Nobel laureate Jean Tirole gives his thoughts on some of these key issues.

The quest for the common good can unite us, regardless of our own particular views and interests. This Summit brought together officials, industry leaders and economists to discuss problems that face us all. I have learned a great deal from these extremely rich discussions. The panelists have identified numerous areas where the interests of individuals, social groups, and nations might be better aligned with those of the wider collective. It is clear that we need efforts to achieve the common good on multiple levels, from the family and workplace to the state and the global order.

Concerning the environment, for example, individuals and businesses must accept their contribution to the common good by paying a carbon price, while investors should accept lower returns on ESG investments. The issue of a carbon price is one of both justice and efficiency. Industries that escape the tax can pollute without paying and confront their responsibilities. The gilets jaunes were right to point to loopholes in the system for freight and air transport, farming, fishing, and taxis, among others. I fully agree with Christian Gollier's demand for a uniform carbon price including housing, transport, and imports from polluting countries where no carbon tax is levied. We must invest more in green R&D, with the right governance of the process, and must reallocate the burden through compensation for losers.

“This is a quest which can do a lot toward uniting us, regardless of our own particular views and interests”

The ravages of the pandemic are another reminder that the common good requires international solidarity, from closing tax havens to providing climate transfers and vaccines for the poorest countries. Abhijit Banerjee rightly pointed out that we must show more ambition and generosity. We need to invest \$50 billion, a trifle relative to public Covid-related spending, to vaccinate the world, not only for humanitarian and moral reasons, but also from a purely selfish perspective to prevent new variants from

emerging. Waiving patents is not the solution because we will risk having no vaccines for the next pandemic. Instead, we should give vaccines to poor countries, and control prices they pay for the rest of their needs, as the United Nations has tried to do with the medicine patent pool.

“The ravages of the pandemic are another reminder that the common good requires international solidarity”

The unprecedented speed at which Covid-19 vaccines have been developed is a testament to the power of modern technology in solving collective problems. However, Bengt Holmström raised some troubling statistics about European innovation: among the 20 biggest tech businesses in the world, 11 are American and 9 are Chinese. The future wealth that will finance our European social protections is missing. Rather than prescriptive solutions, we need intelligent industrial policy as developed in American research initiatives such as DARPA, BARDA, NSF, and NIH. The European Research Council successfully financed research grants that produced the BioNTech and AstraZeneca vaccines, but Commissioners have retained power over decisions by the new and complementary European Innovation Council. Industrial policy should be independent, developed and managed by scientists who understand the subjects, and who can terminate non-performing projects early on.

Unfortunately, fostering innovation does not always go hand in hand with combating inequality. The forum underlined the importance of an effective inheritance tax, which most economists support to promote equal opportunities. Behind the veil of ignorance, it makes little difference to my life whether I have 3 billion dollars or 200 billion, so it's desirable to redistribute some of this money to promote the equality of chances. The latter hinges on a more equal access to human capital (education) and financial capital. France exhibits a classic mixture of a high inheritance tax and loopholes; like many other countries, we also tax the donor rather than the beneficiary. As in other areas, we must tax smarter, not more, as was pointed out by Stefanie Stantcheva. On the other side of the Atlantic, taxation of the rich is extremely low and I'm eager to see Joe Biden address this situation.

I'd like to thank all those involved in this extraordinary event. Economics, like other human and social sciences, does not seek to usurp society's role in defining the common good. But it can focus discussion of our objectives by distinguishing ends from means. More importantly, once a definition of the common good has been agreed, economics can help develop tools that contribute to achieving it. We look forward to continuing this collective effort and to seeing you in Toulouse at the 2022 common good Summit.

'We must rehabilitate the path of science'

Emmanuel Macron

President of France

Capitalism has gone astray, argued President Emmanuel Macron in his keynote speech to the Summit. In place of the outdated Washington Consensus, he called on economists to make the pursuit of 'Common goods' – such as the preservation of the planet or social justice – the focus of our decisions for the 21st century.

Has the common good suffered in the pandemic?

“In Europe, the pandemic revealed the damage caused by a research and innovation policy lacking in ambition. We must rehabilitate the path of science, especially the social sciences. Objectivity and rationality must return to the public debate. Empirical diagnoses establish data and facts; theoretical and conceptual work illuminates and orientates, setting frameworks and benchmarks. Economists must re-investigate the big questions. We must re-examine our dogmas, break out of our habits, drawing lessons from the crisis.

Let's aim for more growth – the only way we can achieve more social protection, innovation, and investment in the ecological transition. Let's aim for more justice, in our societies and between continents – the only way to attack the inequalities that weaken our democracies. Let's aim for more sustainability, reconciling social and environmental objectives.

To achieve these goals, we need new ideas and approaches, without denying the lessons of history. This is why we expect scientists to shed light on the debate and inform political decision-makers. The next two days will allow us to take stock of our knowledge, providing a roadmap out of the crisis. This summit will allow us to move forward and I await with great impatience your proposals to save the common good.”



‘Tax the rich, protect the poorest’

Abhijit Banerjee

Esther Duflo

MIT, Nobel laureate, 2019

Winners of the 2019 Nobel prize for their experimental approach to alleviating global poverty, MIT economists Abhijit Banerjee and Esther Duflo formed a high-profile panel for the opening session of the common good summit, joined by TSE’s Jean Tirole. In the following excerpts from their discussion, they insist that rich countries can do much more to help the poorest.

Has the common good suffered in the pandemic?

Esther Duflo: Operation Warp Speed was a phenomenal effort by the US to invest in production of unproven vaccines. The problem is they invested in enough production capacity for the rich countries, not for the world. So from the beginning the pipes that were laid out were too narrow. And by February, the rich countries had bought most of the production. COVAX is not only terribly underfunded, it basically had no doses to purchase. And that was before things went pear-shaped in India. From the get-go, vaccination was thought about on a country-by-country basis, and not as a common good problem.

The rich countries were reasonably successful at using social programs and large expenditures to maintain solidarity. Both in Europe and the US, governments responded very quickly to protect the poorer and middle classes from the shock of lockdown. This is encouraging and should teach us how we can think about the future. Do we want a social protection system which does not have a punitive attitude?

At the beginning of the pandemic, a lot of people in the US were getting more money from unemployment insurance than their salary and the political establishment and the conservative press said: ‘People are not going to go back to work.’ Economists found that this just did not happen – there was no deleterious impact of this very generous help on labor supply. This success highlights the potential of a more civilized version of capitalism.

Abhijit Banerjee: Where the world really failed was that poor countries spent 2% of GDP bailing out their people, rich countries spent 20%. The poorest people in the world got the least amount of money. This is one of the most glaring aspects of this pandemic.

Interest rates are extremely low and there is a lot of wealth that needs some place to be parked. So there is no reason to be so cheap. The \$50bn that the IMF suggests for vaccinating the whole world is

“It seems relatively straightforward to be in favor of a tax on very high wealth”

just a drop in the ocean. We can get away with being generous, the economic system is quite forgiving of it. The pandemic highlights the ridiculousness of the goal of 0.7% GDP for foreign aid. Just 1% of OECD countries’ GDP would pay for all the vaccines, as well as social support to the poorest.

What is a good level of taxation?

AB: I would support much more aggressive wealth taxation than anybody is realistically proposing. There are some incentive arguments to be made but I’m not very compelled by them. It’s completely fair to have much more aggressive taxation of the rich. It’s a tragedy that it doesn’t happen.

ED: Sometimes people say we shouldn’t tax wealth because we already tax income. But if you are very wealthy, most of your wealth is in the stock market and, once it’s reinvested, you are never taxed on it. If you’re paying, say, 2% tax on your wealth, this is equivalent to about a third of its income, since people can make at least 6% on their wealth. This would make sure that a billionaire pays the same income taxes as a nurse or a teacher. Irrespective of your view

“The pandemic highlights the ridiculousness of the goal of 0.7% GDP for foreign aid”

on redistribution, it seems relatively straightforward to be in favor of a tax on very high wealth.

AB: One of the big challenges in poor countries has been: What can you collect? That’s partly a matter of state capacity, it’s also about the availability of tax havens. But the technologies have improved a lot; we should be more confident about raising taxes.

The relationship between GDP per capita and taxes is very strongly increasing: In poor countries, 15% of GDP is a relatively high number; in France, it’s more like 45%. This extreme difference limits the capacity of the state to invest in things like health and education infrastructure, so it’s one of the reasons for the current disaster.

ED: Biden’s global corporate tax would be excellent. Given the politics in the US Senate, it is likely to be very small. But once you have a small tax, you have to put all the machinery in place and this allows for the tax to be made larger in the future. It’s the same if they manage to pass a wealth tax. Even at a very low level, this would establish the principle of keeping track of how much wealth people have.



Saving the climate

The fight against global warming was at the heart of the discussions at the 2021 common good Summit, with an introduction by French Minister of the Ecological Transition Barbara Pompili, followed by a panel on the cost of the transition, with ExxonMobil Europe President Philippe Ducom, SNCF Chairman and CEO Jean-Pierre Farandou, and TSE Director Christian Gollier. Here are some of the key takeaways from their debate.

SNCF's new CEO, Jean-Pierre Farandou, began by outlining the company's environmental goals: "Traveling by train is much less polluting than flying or driving, and our objective is to convince individuals and companies to choose the train. We aim to divert 10% of road traffic to our business, which means doubling the use of trains for passengers and goods within 10 years. This will require new infrastructures, especially for freight. In France, we need solutions: For instance, 20% of our trains run on fossil fuel because the local network is not electrified.

"I am a strong believer in hydrogen. It could be the solution for a successful transition"

Jean-Pierre Farandou, SNCF CEO

"I am a strong believer in hydrogen. It could be the solution for a successful transition. The world will always need more energy. If we make massive investments, we could reach net zero by 2050."

Hydrogen is also a solution that is being researched by ExxonMobil, said its Europe President, Philippe Ducom: "Solar panels and windmills will not be enough to change our whole society. We will need massive innovations and

"We need technology, a regulatory framework, infrastructure, and a carbon market"

Philippe Ducom, ExxonMobil

technologies. We are working on carbon capture and storage, CCS. These technologies, once made cheaper, will be easier to develop on a large scale."

"We are looking into low-carbon fuels from agriculture, or algae, as well as hydrogen. We are trying to make industrial processes greener. Our new branch will develop these solutions and sell them to the world. We need technology, a regulatory framework, infrastructure, and a carbon market, with a long-term vision of the carbon price."

TSE Director Christian Gollier has long been an advocate of a high carbon price, and he warned that we must brace ourselves for the huge cost of ecological transition:

"If we look at the big picture, we will replace most of the things we use today and this will be very costly"

"Nobody knows what our zero-carbon societies will look like. If we look at the big picture, we will replace most of the things we use today and this will be very costly. We should prepare populations for this cost.

"Massive green R&D investments will be crucial in the coming years because we need breakthrough innovations for cheaper green energy. A carbon price will push innovators to work because, right now, green innovations are not profitable. As with the pandemic and the need for vaccines, we need solutions very fast and a massive collaboration of economic actors in the same direction.

"Europe needs to protect itself from countries that aren't taxing carbon emissions. A solution would be to assemble a team of countries sharing the same carbon price and taxing imports from outside countries.

"It is extremely important that we have a debate on building a social contract with companies, letting them decide what the best way to decarbonize their activity is and making sure that they, and their competitors in the world, internalize the consequences of their actions. The cost of inaction vastly exceeds the cost of action."



Barbara Pompili
Minister for the Ecological Transition

Keynote on common good and the Ecological Transition at the 2021 common good Summit

"The market has limits, and the ecological shift will have political consequences that will mark our entire century. The question asked by Jean Tirole - how to save the common good - invites us to rethink all our organizations, and it is not surprising to see this question resurface at the end of the health crisis. We need to build an economy that is useful and resilient to the challenges of tomorrow.

It is together that we will succeed, and we will because the dominant ideology is gradually crumbling. It is always the most vulnerable who pay the highest price when the common good is ransacked; they cannot adapt when their housing or their vehicle is no longer up to standard.

The common good had long disappeared from the scene and today it is back with a bang, at the center of the debate.'

'Electric vehicles could be the solution'

Introducing the second roundtable on the future of mobility, TSE's Mathias Reynaert detailed the three main market failures of our current systems: global warming, air pollution and congestion. Transdev CEO Thierry Mallet and Geopost-DPD CEO Boris Winkelmann added their perspectives on the challenges of decarbonizing transport.

'Transport in the city centers has been electrified and developed so that there are many alternatives to cars. But in the suburbs there aren't many solutions for consumers and companies. People are currently trapped in their cars. They don't necessarily have other options, so the objective is to propose a better alternative in terms of public transport. When we propose a high-quality service, as we've done in Germany on small train lines, consumers switch to public transport.'

In 2016, we had 15 electric vehicles in the world. We now have 1,500 and will have around 5,000 in the next five years. When we consider the full lifetime cost of a bus in France, we are right now already at an equilibrium. That isn't the case in Germany or in the US because fuel isn't taxed in the same way and electricity is particularly cheap in France.'

Thierry Mallet
CEO TransDev

'The issue with electric vehicles is the electricity generation, as only a greening of the electricity system would mean green electric cars. Another issue is the cost, as we don't anticipate electric vehicles to reach price parity with thermic cars in the next five years.'

Finally, there is also a network issue because we need charging stations on the map for people to buy electric cars.'

Economists agree that a carbon price would give the right incentives to steer the market to electric vehicle adoption. This solution would be much more efficient than the current different regulations.'

Mathias Reynaert
TSE

'The pandemic took us to an incredible activity level as the transport of goods skyrocketed. A revolution of our logistics system is coming, with new micro-hubs located in the city centers, allowing less traffic in cities as consumers can get their goods more easily (home delivery or in a Pickup point, in a locker...). La Poste is aiming at net-zero emissions when delivering in city centers across Europe. While the price of electric vehicles is still high, it's now reasonable and we've been able to make significant investments in that regard'

Boris Winkelmann
VP Groupe La Poste – CEO DPDgroup

Financing the green transition

As the world is getting warmer, financial institutions and companies have to take action to anticipate the impact of global warming and its demands on the future economy. BNP Paribas CEO Jean-Laurent Bonnafé, TSE's Catherine Casamatta, White Case partner Saam Golshani and BlackRock vice chairman Philipp Hildebrand discussed the prospects for sustainable finance.

Industries are fast changing their approach to sustainability, explained BlackRock's Philipp Hildebrand: 'No company can ignore the risks of unsustainable investments. Beyond the moral issues, the current choice of companies is to have a long-term vision and to aim for future low-cost financing that will only be available if they have undertaken an ecological transition.' This sentiment was echoed by BNP Paribas CEO, Jean-Laurent Bonnafé: 'A company that does not adapt will be a player that will leave the economy in 10 years and will not be able to be supported, because it will no longer be able to repay its loans.'

"Companies that propose more virtuous visions can obtain financing at a lower cost today"

Green bonds are getting hot

In the new financial ecosystem, sustainability pays. 'Banks have swiftly adapted in the past 10 years,' said Jean-Laurent Bonnafé. 'We now look at the amount of cashflow that companies provide for the ecological transition. We are a world leader in green bonds and we see that investors are willing to invest in projects that are socially beneficial, despite the lower return on investment. Companies that propose more virtuous visions can concretely obtain financing at a lower cost today. Investors are increasingly asking for a new approach, which is to invest in projects that make sense.' Philipp Hildebrand added that this new interest for green bonds is no fad: 'We already have 30% of sustainable investments, but this is only the beginning of this massive reallocation. Over the next few decades we are facing the biggest economic transformation in history. We have to be aware of the magnitude of the change. We are not in a green bubble at all; on the contrary, this is just the beginning. We are at a turning point similar to the one we experienced after the 2008 financial crisis.'

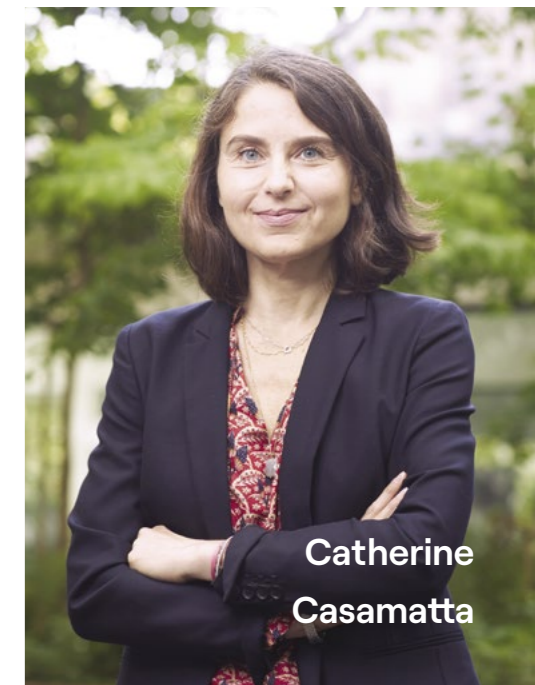
Sustainability standards

To enforce such a profound change in the way companies are valued, TSE's Catherine Casamatta insisted the world needed new indicators to track the sustainability of economic actors: 'To evaluate the impact of companies, we must first be able to compare their balance sheets and their actions, which is currently very complicated as we do not have a

"To activate the capital needed for the ecological transition, the private sector must be able to base itself on visible international standards"

standard for communicating social performance results. Rating agencies' systems are very different from one agency to another. Fortunately, the European Union has recently launched a procedure to standardize the situation.'

When will these new standards be available to governments, agencies, and banks? The panelists agreed it would take time but Philipp Hildebrand expressed hope that information technology and digitization could speed up the process. Saam Golshani was skeptical about the prospect of a quick turnaround: 'It takes at least 10 years for standards to catch up with economic reality, so it's realistic to expect these new tools within the next decade.'



Catherine
Casamatta

Deaths of despair: A tale of two Americas

Angus Deaton

Princeton, Nobel Laureate 2015

Angus Deaton received the Nobel prize in 2015 for his work on consumption, poverty and welfare. In these edited excerpts from his keynote speech at the common good Summit, the celebrated Princeton economist hits out at the injustices of America's deep educational divide. The current pandemic, he hopes, is an opportunity to protect the less fortunate from predatory corporate interests and labor market failures.

A bachelors degree has increasingly become a passport not only to a good job – that is worth doing and whose rewards have increased over the past half century – but also to good health, a long life, and a flourishing social life. Without it, you risk being a second-class citizen.

From 2014–2017, life expectancy in the US fell for three years in a row, something that had not happened since the last pandemic in 1918. Death is the last stop on the long road of despair. The starting point is the labor market that is increasingly failing those without a BA. The fraction of non-elderly adults who are employed has been declining for less educated men for half a century and for less educated women since 2000. In boom times, participation in work increases, but the rise in each boom never obtains the previous peak. The same is true for wages.

The failing labor market spills over into the rest of life. Unions not only raise wages, they also monitor working conditions and are often a center for social life. But unions are now almost non-existent in the private sector and have little power in Washington. Marriage has declined among the less educated. Instead, many Americans participate in serial cohabitations that are scarcely able to bring the support and contentment that can come from lifelong family commitments.

Morbidity has risen alongside mortality. In an extraordinary reversal of a law of nature, middle-aged Americans now report more pain than elderly Americans. Once again, this is true only for those without a BA.

Half of the increase in deaths of despair comes from opioid overdoses. For this, pharmaceutical companies, supported and defended by politicians, bear huge blame for addicting so many people in search of enormous profits. Meanwhile, suicide rates rose to levels that used to characterize the most dreadful societies on Earth.

“Despair is made worse by upward redistribution from poor to rich. The US healthcare system delivers the lowest life expectancy of any rich country but costs twice as much as it should”

Despair is made worse by upward redistribution from poor to rich. The US healthcare system delivers the lowest life expectancy of any rich country but costs twice as much as it should. Hospital and pharma executives are paid huge salaries as they destroy low-education labor markets through the cost of health insurance. The excess costs of the American system over the next most expensive system in terms of share of national income, Switzerland, are enough to finance America's military with money to spare.

“Remarkably, the rising epidemic of ‘deaths of despair’, now running hundreds of thousands of people per year above the rate in the mid 90s, is largely confined to those without a college degree”

The very richest people in America – Bezos, Gates, Musk, et al – are all men who developed companies that made new and useful things. If growth is driven by a Schumpeterian process of creative destruction, a case can be made that those fortunes contributed to the common good. That said, they might also owe much to the exercise of destructive market power. And nothing in Schumpeter tells us how large their rewards ought to be.

Then came Covid. Inequality shot up first in the labor market. Many highly educated people continued to work online. Some of the less educated stayed at work but risked contracting the virus, while others had no work to go to. Unemployment rose most rapidly for women, many of whom had childcare responsibilities. The Cares Act and later federal spending appears to have offset the financial effects of unemployment and kept up demand for essential production such as food. Because much of the federal spending was conditioned on low income, it is likely that income inequalities decreased. There is a well-justified concern about children's education, especially for those without adequate internet access or with low levels of parental support and supervision.

Wealth inequalities, exacerbated by low-interest rate policies that inflate the value of assets, have exploded during the pandemic. One estimate is that American billionaires have added a trillion dollars to their net worth. Easy money and

the rising fortunes of capital have put the American stock market on steroids. Well-educated elites have seen their portfolios shoot up over the past decade, rocketing further over the past year, while they work safely at home on Zoom and WebEx. Meanwhile, at least 587,000 Americans have died of Covid.

What to do now?

The deficits necessarily incurred during the pandemic are already leading to debates. A British proposal for a one-time temporary wealth tax would be mostly borne by housing and pensions. The IMF has suggested temporary taxes – Covid-19 recovery contributions – on high incomes, profits or wealth. All such proposals face political resistance as well as the practical difficulties of evaluation and avoidance. But given the fortunes made during the pandemic and the many deaths disproportionately borne by those who did not benefit financially, failure would be a definitive sign that we are not all in this together.

The burden of taxation must be adjusted to be fairer, and to be seen to be fairer. Corporations need to be made to pay the taxes they owe, and international treaties need to eliminate the shifting of assets to avoid taxes. Power needs to be distributed back to labor, and away from firms. The long-term harassment of unions needs to stop and anti-trust should be reinvigorated. We need fewer ex-corporate lawyers as judges.

A single-payer healthcare system – that covers everyone from birth and enforces price controls – would remove a metastasizing cancer on American health and wealth that redistributes from poor to rich. The Biden administration is moving in the direction of the European welfare state, although it has not grasped the nettle required to finance it: a value-added tax that is the embodiment of widely shared contributions for widely shared benefit. It should.

Inequality and the common good

"Capitalism has a deep issue regarding its missions and objectives. It wants to reward innovation and yet prevent yesterday's innovators from stalling innovations. This contradiction must guide inequality policies: either we tax too much and prevent innovation, or we don't tax enough and let successful innovators, rich people, block new innovations."

Another important issue is that, right now, not everyone can become a successful innovator, so there is a crucial need for a better and more equal education system."

Philippe Aghion
INSEAD

"When the food supply in Britain fell dramatically in the Second World War, the general thought was that everyone must be protected from hunger by rationing and control. So everyone could get food at decent prices. What began as a threat ended up being an opportunity for everyone, including the poor. For the first time, people were being fed in a way that changed a preexisting inequality situation. That lesson was picked up and led to the initiation of the welfare state where these things are shared. This makes democracy much more potent. The question could easily be asked by somebody outside: If the rich in India do so little for the local poor, then why is it the responsibility of Lithuania, or Italy or France? The answer is I believe a Smithian one – that mutual sympathy, no matter where people are suffering, can move people anywhere to help. But one of the many variates is that domestic inequality makes international inequality survive and thrive."

Amartya Sen
Nobel prize, 1998

Can we build a fairer, more equal society? Tackling inequality was one of the great 21st century challenges focusing the minds of key thinkers at the common good Summit. Here, we present some of the thoughts of world-leading experts.

"Companies have a responsibility to contribute to common good. They need to act on inequality, on global warming. If a company doesn't hire underprivileged employees, it won't represent the society. We are also losing money when we ignore untapped potential for innovation and growth. Maybe companies could help regarding education as well."

Bernard Gannier
Chairman, PwC France and Maghreb

"The world is facing massive issues of inequality, in income, wealth, and opportunities. One of the questions is how to reduce these inequalities without hurting productivity, innovation, and growth. We provide a framework to think about this, a matrix, that distinguishes between policies that are at the pre-production; the production, and the post-production stage. Pre-production policies typically include education programs and inheritance taxes. At the production stage, we can find active labor market policies, on-the-job training, or R&D tax credits. Post-production policies are typically progressive taxation and social insurance."

Three proposals that I think are promising are, first, to improve the inheritance tax, by moving to a beneficiary-based system that is progressive in the total amount received over one's lifetime. Second, we have to invest in the capacities of fiscal agencies so as to improve tax enforcement. Third, the taxation of multinationals is a very important avenue for raising revenue and improving the current corporate tax system."

Stefanie Stantcheva
Harvard

Who will pay for new vaccines?

Pierre Dubois, director of the new TSE Health Center, joined Pierre Fabre CEO Eric Ducourneau, bioMérieux CEO Alexandre Mérieux and Unitaid chair Marisol Touraine at a common good Summit roundtable, with the issue of Covid-19 vaccine patents at the heart of their discussions. The TSE Professor tells us about the challenges of the pharmaceutical industry.

Scientific innovations in the pharmaceutical industry improve production processes to save resources. But they are also creating new possibilities and moving the frontier: curing some cancers, infectious diseases, and many other life-threatening illnesses. These things cannot be done before the innovation, even with an unlimited budget. The recent Covid-19 vaccines have been a great example of the importance of research and innovations."

Push vs pull

Economists have tried to find the best way to finance these innovations and came up with two possible solutions: Either we push innovation through investments that are not linked to

results and are important to set up a good environment for innovation, or we pull innovation through support and rewards to innovators. Push examples include better education in science, the funding of fundamental research laboratories, as well as direct subsidies. Pull incentives cover patents, price regulation, or market commitments."

We need both approaches today. But we still face big issues, such as less financially attractive health problems that the current model does not incentivize anyone to solve: one can think of malaria, tuberculosis, HIV, and other rare diseases. The other challenge is international cooperation. The current vaccine crisis illustrates just how much we need to work on making health access more equal everywhere in the world."

"We need new and better models to design tomorrow's health innovations"

One world

International rules must be designed to allow prices to be set according to the income of different countries. But this will only work if we prevent drugs that arrive in poorer countries from being sold at low prices in richer countries."

Currently, we do not have mechanisms for the transfer of technology and know-how. This is one of the main obstacles to sharing innovations around the world and thus developing production capacities in poor countries. We need new and better models to design tomorrow's health innovations and to make sure that we keep pushing the boundaries while ensuring fair access to these discoveries."

"States have unlimited and immediate access to patient data. They are therefore in a much better position than pharmaceutical companies to foresee breakthrough medical innovation. Companies need governments to guide them to efficiently develop and launch new drugs for the benefit of patients. In this area, the United States are ahead of Europe where the industry cannot rely on the European or national agencies to provide binding opinions at key stages of product development. The Food & Drug Administration (FDA) is instrumental for the development of medicines and vaccines on the other side of the Atlantic, as they provide visibility and minimize uncertainties."

Eric Ducourneau
CEO, Pierre Fabre

"Research and development is critical to advancing healthcare for everyone, as exemplified by the Covid-19 crisis. In response to this pandemic, we have felt the full weight of our responsibility towards citizens and patients all over the world. This situation has generated momentum of unprecedented scope and speed, driving innovation globally in the fields of diagnostics, treatments and vaccines."

Alexandre Mérieux
Chairman and CEO, bioMérieux

"The American announcement has the advantage of focusing minds on the big problem of health inequalities for which we haven't found sufficient solutions. Still, the best solution is to be more generous and to provide more vaccines and treatments, as well as to organize technology transfer."

Marisol Touraine
Chair, Unitaid

What happened to good jobs?



Daron Acemoglu
MIT

A highly influential thinker on matters of political economy and development, Daron Acemoglu is also at the forefront of research into the future of work. In a session titled 'Good and bad jobs', the winner of TSE's 2019 Jean-Jacques Laffont prize argued that the common good will continue to be eroded unless we rein in capital's bargaining power and rethink ideas about technological change and the value of meaningful labor.

If you look at societies like feudal Europe, or the Ottoman or Chinese empires, you see detached elites and masses of people who make no meaningful contribution to how the society is organized, governed or functions. We risk recreating a different version of this today. The crux of the matter is to create good jobs. This has been the most important channel through which post-war societies have been able to erase social hierarchies and create a common good.

We need higher wages and some degree of stability. You cannot have good jobs that pay 7\$ an hour on zero-hours contracts. And there must be meaningful career-building opportunities. Good jobs are more than just economic constructs. They are critical for making people feel that they are playing a useful social role; that they are contributing to economic production.

In the three and a half decades that followed the Second World War, the US and Europe had plentiful good jobs. Workers without even a high-school degree could get well-paid, secure jobs with a very clear ladder of promotion. Growth was very rapid,

“If you embrace automation, then when you want to compete against China, you will think your only choice is to get rid of workers to cut costs”

“Good jobs are more than just economic constructs. They are critical for making people feel that they are playing a useful social role; that they are contributing to economic production”

with real wages for workers with very different backgrounds increasing steadily. Whether in mining, offices, retail, or on factory floors, many people took pride in their jobs and gained social meaning from their participation.

“The tax structure can be changed – it's not that easy; capital has a lot of bargaining power and tax havens make it very difficult to increase taxes on capital”

Today, there are very few good jobs left for people without college degrees, and increasingly those without postgraduate degrees. In the US, real wages for people in these groups are stagnant or falling. In France, you don't see the big declines in wages because there is much better social protection; but this has led to more people losing their jobs so the situation is not that much better.

One view is that this is the inevitable path towards a meritocratic society: “We're moving towards better technologies based on robotics, software, AI, and it's good that routine jobs should be automated.” I disagree with that perspective because it undersells the importance of social and institutional changes that we have made. More importantly, it trivializes and ignores the technological choices that have underpinned this transformation.

In the 50s and 60s, most businesses would see labor as one of their main resources and stakeholders. Partly due to globalization, but more importantly due to ideological shifts, a very different mindset emerged: Companies were to be run for the benefit of managers and shareholders, and labor became a cost, not a resource. One good way to maximize what shareholders can get is to reduce wages. So in the 90s companies start making more money but they don't pay more to their workers. In fact, companies and managers are very handsomely compensated when cutting wages and employment.

Even though post-war technological change in Europe and the US included a lot of automation, it went hand in hand with other technologies that increased worker productivity, creating new types, opportunities, and occupations. From the 1980s, there are much less technological changes that are helpful for humans, but there is much more automation. Why? If you take this perspective, then when you want to compete against China, you will think your only choice is to get rid of workers to cut costs.

The technological leadership of the world, and especially the US, has passed to a handful of companies whose business model is based on automation. Google is bigger than GM was in terms of its contribution to GDP, but GM employed close to a million workers; Google today employs 80,000. We need companies of all types and approaches, but the problem is that Google's model has become the world's model for business and technology.

US and European governments used to play much more of a leadership role in determining the direction of technological change. Today, because of shareholder values, international competition, and tax havens, capital's bargaining power relative to labor has increased.

We now tax capital very little compared to labor. This international trend is very visible in the US where the types of capital involved in automation equipment and software pay 5% or less tax; if you employ labor, you pay more than 25%, sometimes 35% tax. That means companies have an enormous fiscal incentive to automate. All of these things have created an artificial and inefficient excess of automation. The cost of this goes beyond just inequalities, it corrodes the social fabric of how we view ourselves as a society organized around the common good.

If this is the right diagnosis, the responses are straightforward. The tax structure can be changed – it's not that easy; capital has a lot of bargaining power and tax havens make it very difficult to increase taxes on capital. But international cooperation can get us there; Biden's plan, though quite modest in terms of a minimum global corporate tax, is one step in that direction.

Government leadership in innovation has to play an important role. And we have to understand that labor is a critical asset and go forwards with a shared vision in which different voices, companies, and perspectives play a role in how we structure the economy and decide the future direction of technological change.

Where are Europe's tech giants?

Can Europe build its own Silicon Valley? Keeping pace with the rise of the Big Data barons, and platform markets that are spreading and mutating with incredible speed, is a Sisyphean task for policymakers and economists. In a robust exchange of views at the common good Summit, 2016 Nobel laureate Bengt Holmström clashed with the European Commissioner for the Internal Market over his role in fostering digital innovation.

"My job is not to regulate, but to organize," insisted Commissioner Breton. "This is not directed against anyone, but we need rules in our digital space as we have for land, sea and air. And this is what Brussels has done with the Digital Services Act and the Digital Market Act. The last time Europe organized its digital space was in the early 2000s, with the e-Commerce Directive. We are now probably organizing the rules for the next 20 years, ensuring fair competition to protect innovation. We missed the first wave of the information revolution – for personal data – but we are now better positioned than everyone for the new, much bigger wave concerning industrial data. In the next 5-10 years, you will see powerful new European players in this space."

"Regulation is not easy in the digital world. It doesn't work to stop Facebook from doing what it shouldn't, but it does give people the keys to what is acceptable"

Luc Julia, Scientific Director, Renault

Data is gaining preeminence as a wealth driver, agreed Holmström. "Digitization is not really the new kid on the block. The value of data, platforms, and scalability are the big new things. It's not just about having the data, it's about using it efficiently." However, the MIT professor highlighted Europe's failure to compete with China and the US. "One of the disturbing facts is that among the top 10 biggest or most valuable companies in the world there are no EU companies. Seven of those 10 are

platform businesses. Of the top 100 most valuable startups in the world, there are only two EU entries. It's not that there are no startups in Europe, but it seems they sell out somewhere else."

Striking a more optimistic note, the Commissioner stressed the vibrancy and emerging strengths of EU innovation. "The vaccine strategy is a story of European startups: Four of the five vaccines have been developed in Europe with European money. ASML are the world leader in making microchips and are indispensable for the digital space. So I see another story on the ground. But it's true that we have to catch up, to accelerate. My mission is to provide what is needed for this energy and young talent to do in the digital space what they did in the pharmaceutical space. We will generate data like never before in Europe. Our automotive industry is still driving innovation. Connected cars with supercomputers provide a lot of data, and automakers will be happy to share some of this to create innovation. So we are working to have the right data pool, on a voluntary basis."

So why has Europe fallen behind? Holmström believes policymakers need a lighter touch. "Why do you think the ecosystems in the US and Asia have grown so big?" he asked. "Is it because the government has organized and orchestrated? There is a problem with size and privacy but to argue that the government has to tell these kids how to play in the sandbox seems an error in mindset. The evidence is obvious: Companies can do it very well themselves."

"We are not organizing the ecosystem; the stakeholders are," retorted Breton. "It is absolutely not a top-down approach, we are business-oriented people. I've run companies

all my life – I'm the first CEO to be a Commissioner. Before I joined, my department was organized like a Communist country. I said to the industry: How do you want to organize yourselves? We organized ourselves as their counterpart. And it seems to work."

"We need regulations to ease the tension between our love of technology and its big-picture failures"

Jacques Crémer, TSE

"You are not following business, you are putting constraints on business," the Nobel laureate hit back. "Both the US and China have left these companies to innovate, they have not started with regulation because it's so uncertain. Data is totally different to a traditional good. Once we've seen how this new world plays itself out, we will be in a better position to regulate. We should give more slack to companies in the beginning and invest in training of entrepreneurs."

As Europe struggles to catch up, has the pandemic changed the rules of the game? "There is a pre-Covid and a post-Covid situation," said Breton. "The US government has never before put so much money in private companies, because of the crisis. China too. The level playing field is something to watch very carefully here. For the next fight in industrial data, let's ask all the players from the industry: What are the constraints? What do you need? And then work together. We are using our capacity not just to do this openly, but also to invest and do a little of what the US is doing for our own companies."



Cancelling France's debt would be a mistake

Concluding the Summit, Olivier Blanchard, Peterson Institute for International Economics, H el ene Rey, London Business School, and Jean Tirole exchanged ideas about the future of debt and its sustainability. Here we feature some of the highlights from their discussion.

Are there good reasons to take on debt?

"We are living in a very special environment with negative real interest rates, which allows us to increase debt, if needed, without problem," said Olivier Blanchard. "This sharp drop in rates is linked to excess savings worldwide and to the demand for safe assets such as government bonds. Governments have the advantage of having to pay very low or even negative interest on their debt, which puts them in an extremely favorable situation."

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Olivier Blanchard, PIIIE

In this context, he added, the focus must be on government spending. "While interest rates are low, there is limited scope for monetary policy. So it is up to fiscal policy to do the job. Without public spending to get the economy moving again, there is no salvation." Olivier Blanchard suggested that the floodgates of public spending should be kept open until full employment is reached. But he sees warning signs across the Atlantic: "As a result of Joe Biden's stimulus package, there is an excess of demand in the United States and therefore a risk of inflation and rising interest rates. But I also think there's a limit to that risk and that it's very limited to the US."

Assessing the right level of debt is very difficult, noted Jean Tirole, as many parameters have to be taken

into account. "For some countries, a debt of 40% of GDP may be excessive, while others can bear a burden of 200%. For example, it depends on who holds the debt: Japanese debt does not scare investors because it is mostly held by Japanese citizens and banks. Another important parameter is the growth rate: If it exceeds the interest rate, it becomes easy to pay back the debt because it mechanically shrinks in relative terms over time. Debt denomination and maturity, and room for manoeuvre in the fiscal space are other important factors."

H el ene Rey reminded viewers not to be overly pessimistic: "While debt has a bad reputation, it is not a bad thing in itself, because debt is what allows us to share the burden of crises across several generations." The London Business School professor stressed that it is necessary to spend during a crisis but also to stabilize the trajectory of the debt-to-GDP when the economy is doing well. "This is what guarantees our future ability to borrow. It does not necessarily mean paying off the debt; it can be rolled over and growth can decrease the debt-to-GDP ratio provided spending is under control. But this is typically where we do not perform well in France: we are not efficient in decreasing spending and freeing up margins of manoeuvre in periods of economic stability. Part of the issue in France is that we lack an independent institution which helps guarantee a sustainable debt to GDP trajectory for the medium to long run and we miss a robust democratic debate on costs and benefits of public spending

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H el ene Rey, LSE

and priorities. There is a lack of transparency, clarity and not enough engagement of the parliament based on sound analysis when we debate public finances."

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Olivier Blanchard agreed that long-term planning is worth financing through debt: "When we have a plan for future generations, whether it is for education or to fight global warming, we can go into debt because we are using today's money for tomorrow." All three panelists dismissed the "radical" possibility of a cancellation of national debt. "There is no reason at present to think about cancelling the debt, it is sustainable," said Olivier Blanchard. "When we talk about cancelling debt, we are talking about two options. The first is the cancellation of the entire debt, which would lead to the bankruptcy of many economic actors, which would be catastrophic. The other version is a cancellation of the debt held by the European Bank or the Bank of France, except that this type of cancellation would have no effect since it would only be an accounting operation with no effect on the French economy."

Jean Tirole added that the idea of debt cancellation is motivated by incorrect beliefs: "It would be detrimental mistake, for the holders of the debt, but also for the country which would lose investor trust and be forced to immediately balance its budget, even though it has not been able to do so for the past 50 years."

