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How Economics Can Save the World: Simple Ideas to Solve Our Biggest Problems by Erik Angner, 288 pp, Penguin Business Press (2023), ₹799

Thomas Carlyle, a 19th century British historian, referred to economics as a dismal science. In "How Economics Can Save the World", Erik Angner aims to defend the discipline by offering real, actionable, and evidence-based solutions to the biggest problems that confront humankind. As a Professor of Practical Philosophy at Stockholm University and the author of "Hayek and Natural Law" (2007) and "A Course in Behavioral Economics", Angner brings to the table a wealth of expertise to support his compelling arguments in favour of the transformative power of economics in shaping a more equitable and sustainable world.

In the ten chapters of the book, Angner addresses issues that are not conspicuously related to economics, while focusing on the economic tools available to both individuals and policymakers to navigate these issues. Angner's approach is refreshingly accessible, devoid of technical jargon and favours simple and easy-to-understand economic theories. The book draws from psychology, neuroscience, literature and theology to tackle questions that range from how to solve the climate crisis, to how to be good parents, as well as how to be happy.

The book starts with an introduction that provides a historical perspective on the evolution of economics, highlighting what economics was, should have been, should be and now is. Angner emphasises that economics is not solely, or even primarily, about making predictions. It is a moral and social science that encompasses a broader understanding of all aspects of human desires, behaviours, and activities. He illustrates the multifaceted nature of the economic inquiry, utilising tools as diverse as laboratory experiments, field studies, field experiments, surveys, economic theories and econometric models while underlining the "economic way of thinking".

Angner initially dives into the monumental question of how to eliminate poverty. The economic approach assumes that the only factor distinguishing the poor from the non-poor is money, and nothing else. Behavioural economists Sendhil Mullainathan and Eldar Shafir claim that the problem is exacerbated by the feeling of scarcity rather than scarcity itself, as it reduces people's bandwidth to notice, focus, deliberate, choose and make wise economic decisions. As such, giving poor people money, resources, opportunity, and making their lives easier to alleviate the feeling of scarcity will solve the problem of poverty, even if it involves taking from the rich. This perspective is shared by economists like Abhijit V. Banerjee and Esther Duflo, who support unconditional cash transfers as they are cheap, easy to manage, fair, and respect people's autonomy and dignity. Despite concerns about the misuse of funds or disincentivising work, empirical evidence in the form of randomised control trials by Johannes Haushofer and Jeremy Shapiro in rural Kenya suggests that such fears are unfounded.

While analytical egalitarianism dictates that the poor cannot be blamed for their poverty, in the chapter "How to get rich", Angner states that empowering individuals to make better financial choices does not contradict efforts to address systemic poverty, as the former involves thinking on the margin. The author advocates saving whenever you can and investing in index funds over individual assets due to their cost-effectiveness and diversification benefits, underpinned by the belief that markets are largely efficient. Borrowing judiciously is encouraged for consumption smoothing, but the importance of skill development to enhance earning potential is also emphasised. By adhering to these principles, individuals can better navigate the complexities of personal finance and pursue long-term prosperity.

Angner invokes the diminishing marginal happiness of money and the Easterlin paradox[1] to highlight an advantage of redistribution of wealth - maximising total happiness in a society. Economist Tibor Scitovsky suggests sacrificing comfort and spending money on things and activities that provide pleasure for sustained happiness, as the temporary boost in happiness subsides after people get used to the comforts. The economics of happiness also suggest that people can control their happiness levels by regulating aspirations and avoiding comparisons.

In addressing the challenge of "changing bad behaviour", the book explores the groundbreaking work of game theorist Cristina Bicchieri, who

1 Easterlin paradox (after Richard A. Easterlin) states that while happiness varies directly with income, it does not trend upward in correspondence with income growth over time.

focused on reshaping social norms. Angner elucidates the concept of social norms – how they are formed, how they sustain despite their harmful effects, and strategies for altering them. Bicchieri's work emphasised that merely providing resources and information is insufficient for tackling deep-rooted issues like child marriage, female genital mutilation, or open defecation, as these behaviours are often upheld by entrenched social norms and can override individuals' beliefs about right and wrong. However, research indicates that if a critical mass of individuals, around one-quarter according to some of the studies, deviate from the norm, it can trigger a cascading effect leading to the establishment of new norms. Thus, rapid social change is possible. The key lies in altering expectations, even when it is not preceded by a shift in the underlying values.

The author takes the idea of reshaping social norms further in the chapter titled "How to build community" by invoking the work of economist Elinor Ostrom, who championed the cause for economics by bringing out the best in people and fostering positive societal outcomes. She envisioned a polycentric society, rejecting the dichotomy between society and the state, and proposed that economists act as facilitators of self-governance. Game theory problems like the tragedy of the commons and prisoners' dilemma in real-life situations illustrate that individual rationality may not align with societal well-being. However, individuals have agency in choosing the "game" they play and altering its rules by setting boundaries and building institutions that can prevent unfavourable outcomes. Such institutions should be locally-driven, appropriately scaled, reflect community values, and incorporate monitoring and sanctions to deter free-riding. These institutions should blur the lines between individual and collective interests, operate with the consent of the governed, and feature conflict-resolution mechanisms, while also gaining recognition from governmental authorities. Through these principles, Ostrom offered a framework for addressing complex social dilemmas and fostering cooperative solutions.

In addition to fostering communities and driving social change, economics also offers valuable insights for personal growth and humility. Angner believes that overconfidence permeates various aspects of human decision-making, proving out to be both pervasive and costly, contributing to financial crises, accidents, and even wars. It acts as a force multiplier and gives an extra bite to other cognitive biases. Calibration, the alignment between subjective beliefs and objective reality, is therefore crucial; when subjective probabilities exceed actual frequencies, overconfidence ensues. Selection bias, hindsight bias, and a lack of feedback further perpetuate it. The author recommends strategies to mitigate overconfidence based on half a century of data, including considering alternative perspectives, seeking constructive feedback, and recognising one's 'circle of competence'. In doing so, individuals can make more informed decisions, grounded in empirical evidence and self-awareness.

The book also addresses the seemingly unrelated question of raising happy children while maintaining parental sanity and offers a rational and evidence-based approach amidst a flood of often contradictory and unsupported parenting advice. Building on the perspectives of economist Bryan Caplan, who views parenting as a significant upfront investment of time, attention, and financial resources, Angner underscores the economic nature of parental choices, which entail an opportunity cost and consequences for both parents and children. He highlights the insights of Emily Oster, who applied economic principles of rational choice to parenting decisions. While data analysis and randomised control trials can provide practical default options and advice on practices such as co-sleeping and sleep training, Oster emphasises the importance of considering individual circumstances, preferences, and uncertainties in such decisions.

Angner also believes that unregulated free markets may not always deliver the best results, and government intervention can sometimes improve what the markets deliver. In this vein, in the chapter titled "How to fix climate change", the author advocates the implementation of Pigouvian taxes on polluters, as also endorsed in "The Economists' Statement on Carbon Dividend". Such taxes can aid in internalising the negative externality of carbon emissions and align marginal social costs to the marginal benefits, leading to efficient production. Angner asserts that carbon taxes, irrespective of the level of taxation, along with import duties on goods from non-compliant countries, can drive innovation and encourage the transition to more sustainable production methods. Economist Julius J. Anderson's study in Sweden has shown that such taxes effectively cut emissions. When combined with measures like energy efficiency standards, they can drive substantial progress in fighting climate change without causing any harm.

The chapter titled "How to give people what they need" explores other areas where traditional markets may not provide the best outcomes. Here, Angner highlights the innovative approach of economist Alvin E. Roth[2], wherein rather than starting with a pre-existing market structure, he advocates beginning with the desired outcome and designing a market to facilitate it. One of his notable successes is in addressing the matching problem in kidney donation through market creation and centralised clearing houses. By developing trading cycles or chains, Roth argues that all participants in the kidney exchange reached a Pareto-optimal outcome, revolutionising the transplantation practices in the US. Angner underlines the importance of well-functioning markets, characterised by traits such as thickness, lack of congestion, safety, and simplicity in delivering positive outcomes. Moreover, market designers must be attuned to the values of the communities they serve and strive to make the world a better place through their designs.

In conclusion, Angner's book underscores the importance of acknowledging the relevance of economics in areas where it may not be immediately apparent. It emphasises that the discipline does not exist in isolation and the values and ideologies of a society play a critical role in shaping economic theories. While Angner tends to go overboard in defending the discipline at times, he also draws attention to the need for economists to be more inclusive, transparent, and open to interdisciplinary dialogue. Ultimately, the book is a call to leverage the insights of social sciences in general, and economics in particular, to address contemporary challenges more effectively.

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[2] Roth built an entire sub-discipline of economics called market design or mechanism design.

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