

Market Reasoning as Moral Reasoning: Why Economists Should Re-engage with Political Philosophy[†]

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There are some things money can't buy—friendship, for example. If I want more friends than I have, it clearly wouldn't work to buy some. A hired friend is not the same as the real thing. Somehow, the money that would buy the friendship dissolves the good I seek to acquire.

But most goods are not of this kind. Buying them does not ruin them. Consider kidneys. Some people favor a market in human organs; others are opposed. But those who oppose the buying and selling of kidneys cannot argue that a market in kidneys would destroy the good being sought. A bought kidney will work, assuming a good match. So if a market in human organs is objectionable, it must be for some other reason. Money can buy kidneys (as the black market attests); the question is whether it should be allowed to do so.

In my book *What Money Can't Buy: The Moral Limits of Markets*, I try to show that market values and market reasoning increasingly reach into spheres of life previously governed by nonmarket norms (Sandel 2012). In procreation and childrearing, health and education, sports and recreation, criminal justice, environmental protection, military service, political campaigns, public spaces, and civic life, money and markets play a growing role. I argue that this tendency is troubling; putting a price on every human activity erodes certain moral and civic goods worth caring about. We therefore need a public debate about where markets serve the public good and where they don't belong.

In this article, I would like to develop a related theme: When it comes to deciding whether this or that good should be allocated by the market or by

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nonmarket principles, economics is a poor guide. On the face of it, this may seem puzzling. Explaining how markets work is a central subject of economics. So why has economics failed to provide a convincing basis for deciding what should, and what should not, be up for sale?

The reason lies in the conception of economics as a value-neutral science of human behavior and social choice. As I will try to show, deciding which social practices should be governed by market mechanisms requires a form of economic reasoning that is bound up with moral reasoning. But mainstream economic thinking asserts its independence from the contested terrain of moral and political philosophy. Economics textbooks emphasize the distinction between “positive” questions and normative ones, between explaining and prescribing. The popular book *Freakonomics* states the distinction plainly: “Morality represents the way we would like the world to work and economics represents how it actually does work.” Economics “simply doesn’t traffic in morality” (Levitt and Dubner 2006, pp. 11, 46, 190; see also Robbins 1932).

Moral Entanglements

Economists have not always understood their subject in this way. The classical economists, going back to Adam Smith, conceived of economics as a branch of moral and political philosophy. But the version of economics commonly taught today presents itself as an autonomous discipline, one that does not pass judgment on how income should be distributed or how this or that good should be valued. The notion that economics is a value-free science has always been questionable. But the more markets extend their reach into noneconomic aspects of life, the more entangled they become with moral questions.

To be clear, I am not writing here about the standard textbook limitations on markets. A considerable body of economic analysis is devoted to identifying “market failures,” or situations in which unaided market forces are unlikely to produce an efficient result, such as imperfectly competitive markets, negative and positive externalities, public goods, imperfect information, and the like. Another body of economic literature addresses questions of inequality. But this literature tends to analyze the causes and consequences of inequality while claiming to be agnostic on normative questions of fairness and distributive justice. Outsourcing judgments about equity and fairness to philosophers seems to uphold the distinction between positive and normative inquiry.

But this intellectual division of labor is misleading, for two reasons. First, as Atkinson (2009) has recently observed, “economics *is* a moral science,” despite protestations to the contrary. Efficiency only matters insofar as it makes society better off. But what counts as better off? The answer depends on some conception of the general welfare or the public good. Although “welfare economics has largely disappeared” from mainstream economics in recent decades, Atkinson writes, “economists have not ceased to make welfare statements.” Articles in journals of economics “are replete with welfare statements” and reach “clear normative

conclusions,” he states, even though the principles underlying those conclusions go largely unexamined. Mostly, the conclusions rest on utilitarian assumptions. But as John Rawls and other philosophers have pointed out, utilitarianism seeks to maximize welfare without regard for its distribution. Atkinson calls for a revival of welfare economics that acknowledges the defects of utilitarianism and considers a broader range of distributive principles.

A second reason to doubt that economics can be a value-free science of social choice points beyond debates about distributive justice to debates about commodification: Should sex be up for sale? What about surrogate motherhood, or pregnancy for pay? Is there anything wrong with mercenary armies, and if so, how should military service be allocated? Should universities sell some seats in the freshman class in order to raise money for worthy purposes, such as a new library, or scholarships for well-qualified students from poor families? Should the United States sell the right to immigrate? What about allowing existing US citizens to sell their citizenship to foreigners and swap places with them? Should we allow a free market in babies up for adoption? Should people be allowed to sell their votes?

Some of these controversial uses of markets would improve efficiency by enabling mutually advantageous exchanges. In some cases, negative externalities might outweigh the benefits to buyers and sellers. Even absent externalities, however, some market transactions are objectionable on moral grounds.

One such ground is that severe inequality can undermine the voluntary character of an exchange. If a desperately poor peasant sells a kidney, or a child, the choice to sell might be coerced, in effect, by the necessities of his or her situation. So one familiar argument in favor of markets—that the parties freely agree to the terms of the deal—is called into question by unequal bargaining conditions. In order to know whether a market choice is a free choice, we have to ask what inequalities in the background conditions of society undermine meaningful consent. This is a normative question that different theories of distributive justice answer in different ways.

A second moral objection is not about fairness and tainted consent, but about the tendency of market practices to corrupt or crowd out nonmarket values worth caring about. For example, we might hesitate to create a market in children on the grounds that putting them up for sale would price less-affluent parents out of the market or leave them with the cheapest, least desirable children (the fairness argument). But we might also oppose such a market on the grounds that putting a price tag on children would objectify them, fail to respect their dignity, and erode the norm of unconditional parental love (the corruption argument).

Even where markets improve efficiency, they may be undesirable if they corrupt or crowd out nonmarket norms of moral importance. So before we can decide whether to create a market in children, for example, we have to figure out what values and norms should govern the social practices of child-rearing and parenting. In this sense, market reasoning presupposes moral reasoning.

For those who assume that all values are merely subjective preferences not open to reasoned argument, it may seem odd to suggest that some ways of valuing goods are more appropriate, or fitting, or morally defensible than others. But such

judgments are unavoidable, and we make them—sometimes implicitly, sometimes explicitly—whenever we decide whether this or that good should be up for sale.

Economists are not unaware of the moral objection to monetizing all relationships. For example, Waldfogel (1993; 2009), like many economists, questions the rationality of gift giving. Analyzing what he calls the “deadweight loss of Christmas,” he calculates the utility loss that results from people giving gifts rather than the cash equivalent. He attributes the practice of in-kind gift giving to “the stigma of cash giving.” But he does not ask whether this stigma might be justified. He simply assumes it is an irrational obstacle to utility that should ideally be overcome. He does not consider the possibility that the stigma against monetary gifts, at least among lovers, spouses, and other intimates, may reflect norms worth honoring and encouraging, such as attentiveness and thoughtfulness.

Alvin Roth (2007) also recognizes moral objections to the commodification of certain social practices, when he writes of “repugnance as a constraint on markets.” To contend with such repugnance, he designs in-kind kidney exchanges and other mechanisms that avoid outright buying and selling. Unlike Waldfogel, he does not treat repugnance as an irrational, utility-destroying taboo; he simply accepts it as a social fact and devises work-arounds. Roth does not morally assess the repugnant transactions he discusses. He does not ask which instances of repugnance reflect unthinking prejudice that should be challenged and which reflect morally weighty considerations that should be honored. This reluctance to pass judgment on repugnance may reflect the economist’s hesitation to venture onto normative terrain.

But the project of devising in-kind exchanges presupposes some moral judgment about which instances of repugnance are justified and which ones are not. Consider human organs. Everyone recognizes that lives could be saved by increasing the supply of organs for transplantation. But some object to the buying and selling of kidneys on the grounds that removing an organ from one person and transferring it to another violates the sanctity and integrity of the human body. Others object on the grounds that buying and selling kidneys objectifies the human person by encouraging us to view our bodies as property, as collections of spare parts to be used for profit. Still others favor a market in kidneys on the grounds that we own ourselves and should be free to profit from our bodies in whatever way we choose.

Whether an outright market in kidneys or an in-kind exchange is morally defensible depends, at least in part, on which of these stances toward the body and human personhood is correct. If the first view is right, then all forms of organ transplantation, paid or gifted, are objectionable, notwithstanding the lives that could be saved. If the second view is right, then gifted but not paid kidney transfers are morally defensible. Insofar as kidney exchanges preserve the gift ethic and avoid promoting a mercenary, objectifying attitude toward the human body, they address the moral concern underlying the second view. If the third view is right, we should not limit kidney transfers to in-kind exchanges, but should allow people to buy and sell kidneys for cash.

Some of the most corrosive effects of markets on moral and civic practices are neither failures of efficiency in the economist’s sense, nor matters of inequality. Instead, they involve the degradation that can occur when we turn all human

relationships into transactions and treat all good things in life as if they were commodities. The economic literature that acknowledges stigma and repugnance makes implicit judgments about these questions; otherwise, it would be unable to propose either market solutions or quasi-market alternatives. But it does not articulate and defend the basis of these judgments. Doing so would carry economic reasoning beyond the textbook distinction between positive and normative inquiry and call into question the conception of economics as a value-neutral science of social choice. I will try to show how this is so by considering arguments for and against the use of market mechanisms in some contested contexts.¹

The Line-Standing Business

When Congressional committees hold hearings, they reserve some seats for the press and make others available to the general public on a first-come, first-served basis. Corporate lobbyists are keen to attend these hearings, but are loath to spend hours in line to assure themselves a seat. Their solution: Pay thousands of dollars to professional line-standing companies that hire homeless people and others to queue up for them (Montopoli 2004; Copeland 2005; Lerer 2007; Palmeri 2009).

A company called LineStanding.com describes itself as “a leader in the Congressional line standing business.” It charges \$50 dollars an hour for line-standing services, of which a portion is paid to the people who stand and wait. The business has recently expanded from Congress to the US Supreme Court. When the Court hears oral arguments in big constitutional cases, the demand for seats far exceeds the supply. But if you are willing to pay, LineStanding.com will get you a ringside seat in the highest court in the land. Business was brisk for the Obama healthcare case in July 2012, when the line began forming three days in advance. For the same-sex marriage cases in June 2013, some people queued up five days in advance, making the price of a seat in the courtroom about \$6,000 (for reports of this practice in the popular press, see Cain 2011; Smith 2013; Associated Press 2013; Liptak 2013).

On efficiency grounds, it is hard to find fault with the line-standing business. The homeless people who spend hours queuing up receive a payment that makes the waiting worth their while. Those who employ their services gain access to a Congressional hearing or a Supreme Court argument that they are eager to attend and willing to pay for. And the company that arranges the deal makes money too. All of the parties are better off, and no one is worse off.

¹ A number of the sections of this paper draw upon Sandel (2012), especially from pp. 21–133. For those interested in following up specific discussions, here are the relevant page references to the 2012 book: “Ticket Scalpers and Line Standers,” pp. 21–23; “Markets and Corruption,” pp. 33–35; “Refugee Quotas,” pp. 63–65; “Fines vs. Fees,” pp. 65–70; “Tradeable Procreation Permits,” pp. 70–72; “Paying to Shoot a Walrus,” pp. 82–84; “Incentives and Moral Entanglements,” pp. 88–91; “The Case against Gifts,” pp. 98–103; “Crowding out Non-market Norms,” pp. 113–120; “The Commercialization Effect,” pp. 120–22; “Blood for Sale,” pp. 122–125; “Two Tenets of Market Faith,” pp. 125–127; and “Economizing Love,” pp. 127–133.

And yet some people object. Senator Claire McCaskill, a Missouri Democrat, has tried to ban paid Congressional line standing, without success. “The notion that special interest groups can buy seats at congressional hearings like they would buy tickets to a concert or football game is offensive to me,” she said (as quoted in O’Connor 2009; see also Hananel 2007).

But what exactly is objectionable about it? One objection is about fairness: It is unfair that wealthy lobbyists can corner the market on Congressional hearings, depriving ordinary citizens of the opportunity to attend. But unequal access is not the only troubling aspect of this practice. Suppose lobbyists were taxed when they hired line-standing companies, and the proceeds were used to make line-standing services affordable for ordinary citizens. The subsidies might take the form, say, of vouchers redeemable for discounted rates at line-standing companies. Such a scheme might ease the unfairness of the present system. But a further objection would remain: turning access to Congress into a product for sale demeans and degrades it.

We can see this more clearly if we ask why Congress “underprices” admission to its deliberations in the first place. Suppose, striving mightily to reduce the national debt, it decided to charge admission to its hearings—say, \$1,000 for a front row seat at the House Appropriations Committee. Many people would object, not only on the grounds that the admission fee is unfair to those unable to afford it, but also on the grounds that charging the public to attend a Congressional hearing is a kind of corruption.

We often associate corruption with ill-gotten gains. But corruption refers to more than bribes and illicit payments. To corrupt a good or a social practice is to degrade it, to treat it according to a lower mode of valuation than is appropriate to it (on higher and lower modes of valuation, see Anderson 1993). Charging admission to Congressional hearings is a form of corruption in this sense. It treats Congress as if it were a business rather than an institution of representative government accessible to all citizens.

Cynics might reply that Congress is already a business, in that it routinely sells influence and favors to special interests. So why not acknowledge this openly and charge admission? The answer is that the influence peddling and self-dealing that already afflict Congress are also instances of corruption. They represent the degradation of government in the public interest. Implicit in any charge of corruption is a conception of the purposes and ends an institution (in this case, Congress) properly pursues. The line-standing industry on Capitol Hill is corrupt in this sense. It is not illegal, and the payments are made openly. But it degrades Congress by treating access to public deliberations as a source of private gain rather than an expression of equal citizenship.

This does not necessarily mean that queuing is the best way to allocate access to Congressional hearings or Supreme Court arguments. Another alternative, arguably more consistent with the ideal of equal citizenship than either queuing or paying, would be to distribute tickets by an online lottery, with the provision that they be nontransferable.

How Markets Leave Their Mark

Before we can decide whether a good should be allocated by market, queue, lottery, need, merit, or in some other way, we have to decide what kind of good it is and how it should be valued. This requires a moral judgment that economists, at least in their role as social scientists, hesitate to make.

Part of the appeal of market reasoning is that it seems to offer a nonjudgmental way of allocating goods. Each party to a deal decides what value to place on the goods being exchanged. If someone is willing to pay for sex or a kidney, and a consenting adult is willing to sell, the economist does not ask whether the parties have valued the goods appropriately. Asking such questions would entangle economics in controversies about virtue and the common good and thus violate the strictures of a purportedly value-neutral science. And yet it is difficult to decide where markets are appropriate without addressing these normative questions.

The textbook approach evades this quandary by assuming—usually implicitly—that putting a price on a good does not alter its meaning. It assumes, without argument, that the activity of buying and selling does not diminish the value of the things being bought and sold. This assumption may be plausible in the case of material goods. Whether you sell me a flat screen television, or give me one as a gift, the television will work just as well. But the same may not be true when market practices extend their reach into human relationships and civic practices—sex, child rearing, teaching and learning, voting, and so on. When market reasoning travels abroad, beyond the domain of televisions and toasters, market values may transform social practices, and not always for the better.

Refugee Quotas and Childcare Pickups

Consider, for example, a proposal for a global market in refugee quotas. Each year, more refugees seek asylum than the nations of the world are willing to take in. A law professor, inspired by the idea of tradable pollution permits, suggested a solution: Let an international body assign each country a yearly refugee quota, based on national wealth. Then, let nations buy and sell these obligations among themselves. So, for example, if Japan is allocated 10,000 refugees per year but doesn't want to take them, it could pay Russia, or Uganda, to take them instead. According to standard market logic, everyone benefits. Russia or Uganda gains a new source of national income, Japan meets its refugee obligations by outsourcing them, and more refugees are rescued than would otherwise find asylum (Schuck 1994, 1997).

The argument in favor of the scheme is that countries would likely accept higher refugee quotas if they have the freedom to buy their way out. Yet there is something distasteful about a market in refugees, even if it's for their own good. But what exactly is objectionable about it? It has something to do with the tendency of a market in refugees to change our view of who refugees are and how they should be treated. It encourages the participants—the buyers, the sellers, and also those whose

asylum is being haggled over—to think of refugees as burdens to be unloaded or as revenue sources, rather than as human beings in peril.

One might acknowledge the degrading effect of a market in refugees and still conclude that the scheme does more good than harm. But the example illustrates that markets are not mere mechanisms. They embody certain norms. They presuppose—and promote—certain ways of valuing the goods being exchanged.

Economists often assume that markets are inert, that they do not touch or taint the goods they regulate. But this is untrue. Markets leave their mark on social norms. Market incentives can even erode or crowd out nonmarket motivations.

A well-known study of some childcare centers in Israel shows how this can happen (Gneezy and Rustichini 2000a). The centers faced a familiar problem: parents sometimes came late to pick up their children. A teacher had to stay with the children until the tardy parents arrived. To solve this problem, the centers imposed a fine for late pickups. If you assume that people respond to financial incentives, you would expect the fine to reduce, not increase, the incidence of late pickups. Instead, late pickups increased.

What explains the result? Introducing the monetary payment changed the norms. Before, parents who came late felt guilty; they were imposing an inconvenience on the teachers. Now, parents considered a late pickup as a service for which they were willing to pay. They treated the fine as if it were a fee. Rather than imposing on the teacher, they were simply paying him or her to work longer. If the goal of the payment for late pickups was to cover the additional costs of lateness, they were arguably a success; but if the goal of the payments was to discourage lateness by penalizing it, they were a failure.

Fines versus Fees

It is worth considering the difference between a fine and a fee. Fines register moral disapproval, whereas fees are simply prices that imply no moral judgment. When the government imposes a fine for littering, it makes a statement that littering is wrong. Tossing a beer can into the Grand Canyon not only imposes cleanup costs. It reflects a bad attitude that we want to discourage. Suppose the fine is \$100, and a wealthy hiker decides it is worth the convenience. He treats the fine as a fee and tosses his beer can into the Grand Canyon. Even if he pays up, we consider that he's done something wrong. By treating the Grand Canyon as an expensive dumpster, he has failed to appreciate it in an appropriate way.

Or consider the case of parking spaces reserved for use by the physically disabled. Suppose a busy but able-bodied contractor wants to park near his building site. For the convenience of parking his car in a place reserved for the disabled, this contractor is willing to pay the rather large fine. He considers it a cost of doing business. Even if he pays the fine, wouldn't we consider that he is doing something wrong? He treats the fine as if it were simply an expensive parking lot fee. But in treating the fine as a fee, he fails to respect the needs of the physically disabled

and the effort of the community to accommodate them by setting aside certain parking spaces.

In practice, the distinction between a fine and a fee can be unstable. In China, the fine for violating the government's one-child policy is increasingly regarded by the affluent as a price for an extra child. The policy, put in place over three decades ago to reduce China's population growth, limits most couples in urban areas to one child. (Rural families are allowed a second child if the first one is a girl.) The fine varies from region to region, but reaches 200,000 yuan (about \$31,000) in major cities—a staggering figure for the average worker, but easily affordable for wealthy entrepreneurs, sports stars, and celebrities (Moore 2009; Bristow 2007; Coonan 2011; Ming'ai 2007).

China's family planning officials have sought to reassert the punitive aspect of the sanction by increasing fines for affluent offenders, denouncing celebrities who violate the policy and banning them from appearing on television, and preventing business executives with extra kids from receiving government contracts. "The fine is a piece of cake for the rich," explained Zhai Zhenwu, a Renmin University sociology professor (Moore 2009). "The government had to hit them harder where it really hurt, at their fame, reputation, and standing in society" (for discussion, see also Xinhua News Agency 2008; Liu 2008).

The Chinese authorities regard the fine as a penalty and want to preserve the stigma associated with it. They don't want it to devolve into a fee. This is not mainly because they're worried about affluent parents having too many children; the number of wealthy offenders is relatively small. What is at stake is the norm underlying the policy. If the fine were merely a price, the state would find itself in the awkward business of selling a right to have extra children to those able and willing to pay for them.

Tradable Procreation Permits

Some Western economists have called for a market-based approach to population control strikingly similar to the one the Chinese seem determined to avoid: that is, they have urged countries that seek to limit their population to issue tradable procreation permits. For example, Kenneth Boulding (1964) proposed a system of marketable procreation licenses as a solution to overpopulation. Each woman would be issued a certificate (or two, depending on the policy) entitling her to have a child. She would be free to use the certificate or sell it at the going rate. Boulding (pp. 135–36) imagined a market in which people eager to have children would purchase certificates from (as he indelicately put it) "the poor, the nuns, the maiden aunts, and so on."

The plan would be less coercive than a system of fixed quotas, as in a one-child policy. It would also be economically more efficient, since it would get the goods (in this case, children) to the consumers most willing to pay for them. Recently, two Belgian economists revived Boulding's proposal. They pointed out that, since

the rich would likely buy procreation licenses from the poor, the scheme would have the further advantage of reducing inequality by giving the poor a new source of income (de la Croix and Gosseries 2006).

Some people oppose restrictions on procreation, whether mandatory or market-based. Others believe that reproductive rights can legitimately be restricted to avoid overpopulation. Set aside for the moment that disagreement of principle and imagine a society that was determined to implement mandatory population control. Which policy would be less objectionable: a fixed quota that limits each couple to one child and fines those who exceed the limit, or a market-based system that issues each couple a tradable procreation voucher entitling the bearer to have one child?

From the standpoint of economic reasoning, the second policy is clearly preferable. The freedom to choose whether to use the voucher or sell it makes some people better off and no one worse off. Those who buy or sell vouchers gain (by making mutually advantageous trades), and those who don't enter the market are no worse off than they would be under the fixed quota system; they can still have one child.

And yet, there is something troubling about a system in which people buy and sell the right to have kids. Part of what is troubling is the unfairness of such a system under conditions of inequality. We hesitate to make children a luxury good, affordable by the rich but not the poor. Beyond the fairness objection is the potentially corrosive effect on parental attitudes and norms. At the heart of the market transaction is a morally disquieting activity: parents who want an extra child must induce or entice other prospective parents to sell off their right to have a child.

Some might argue that a market in procreation permits has the virtue of efficiency; it allocates children to those who value them most highly, as measured by the ability to pay. But trafficking in the right to procreate may promote a mercenary attitude toward children and corrupt the norm of unconditional love of parents for their children. For consider: Wouldn't the experience of loving your children be tainted if you acquired some of them by bribing other couples to remain childless? Might you be tempted, at least, to hide this fact from your children? If so, there is reason to conclude that, whatever its advantages, a market in procreation permits would corrupt parenthood in ways that a fixed quota, however odious, would not.

In deciding whether to commodify a good, we must consider more than efficiency and fairness. We must also ask whether market norms will crowd out nonmarket norms, and if so, whether this represents a loss worth caring about.

Paying to Shoot a Walrus

Consider another kind of tradable quota—the right to shoot a walrus. Although the Atlantic walrus was once abundant in the Arctic region of Canada, the massive, defenseless marine mammal was easy prey for hunters, and by the late nineteenth century the population had been decimated. In 1928, Canada banned walrus

hunting, with a small exception for aboriginal subsistence hunters whose way of life had revolved around the walrus hunt for 4,500 years.

In the 1990s, Inuit leaders approached the Canadian government with a proposal. Why not allow the Inuit to sell the right to kill some of their walrus quota to big-game hunters? The number of walruses killed would remain the same. The Inuit would collect the hunting fees, serve as guides to the trophy hunters, supervise the kill, and keep the meat and skins as they had always done. The scheme would improve the economic wellbeing of a poor community, without exceeding the existing quota. The Canadian government agreed.

Today, rich trophy hunters from around the world make their way to the Arctic for the chance to shoot a walrus. They pay \$6,000 to \$6,500 for the privilege. They do not come for the thrill of the chase or the challenge of stalking an elusive prey. Walruses are unthreatening creatures that move slowly and are no match for hunters with guns. In a compelling account in the *New York Times Magazine*, Chivers (2002) compares walrus hunting under Inuit supervision to “a long boat ride to shoot a very large beanbag chair.” The guides maneuver the boat to within 15 yards of the walrus and tell the hunter when to shoot. Chivers describes the scene as a game hunter from Texas shot his prey: “[The] bullet smacked the bull on the neck, jerking its head and knocking the animal to its side. Blood spouted from the entry point. The bull lay motionless. [The hunter] put down his rifle and picked up his video camera.” The Inuit crew then pull the dead walrus onto an ice floe and carve up the carcass.

The appeal of the hunt is difficult to fathom. It involves no challenge, making it less a sport than a kind of lethal tourism. The hunter cannot even display the remains of his prey on his trophy wall back home. Walruses are protected in the United States, and it is illegal to bring their body parts into the country.

So why shoot a walrus? Apparently, the main reason is to fulfill the goal of killing one specimen of every creature on lists provided by hunting clubs—for example, the African “Big Five” (leopard, lion, elephant, rhino, and cape buffalo), or the Arctic “Grand Slam (caribou, musk ox, polar bear, and walrus).

It hardly seems an admirable goal; many find it repugnant. But from the standpoint of market reasoning, there is much to be said for allowing the Inuit to sell their right to shoot a certain number of walruses. The Inuit gain a new source of income, and the “list hunters” gain the chance to complete their roster of creatures killed—all without exceeding the existing quota. In this respect, selling the right to kill a walrus is like selling the right to procreate, or to pollute. Once you have a quota, market logic dictates that allowing tradable permits improves the general welfare. It makes some people better off without making anyone worse off.

And yet there is something morally disagreeable about the market in walrus killing. Let’s assume, for the sake of argument, that it is reasonable to permit the Inuit to carry on with subsistence walrus hunting as they’ve done for centuries. Allowing them to sell the right to kill “their” walruses is nonetheless open to two moral objections. First, it can be argued that this bizarre market caters to a perverse desire

that should carry no weight in any calculus of social utility. Whatever one thinks of other forms of big-game hunting, the desire to kill a helpless mammal at close range, without any challenge or chase, simply to complete a list, is not worthy of being fulfilled. To the contrary, it should be discouraged. Second, for the Inuit to sell outsiders the right to kill their allotted walrus arguably corrupts the meaning and purpose of the exemption accorded their community in the first place. It is one thing is to honor the Inuit way of life and to respect its long-standing reliance on subsistence walrus hunting. It is quite another to convert that privilege into a cash concession in killing on the side.

Of course, the moral judgments underlying these objections are contestable. Some might defend the system of tradable walrus-hunting quotas on the grounds that the desire to shoot a walrus is not perverse but morally legitimate, worthy of consideration in determining the general welfare. It might also be argued that the Inuit themselves, not outside observers, should determine what counts as respecting their cultural traditions. My point is simply this: deciding whether or not to permit the Inuit to sell their right to shoot walrus requires debating and resolving these competing moral judgments.

Crowding out Nonmarket Norms

Markets in refugee quotas, procreation permits, and the right to shoot a walrus, however efficient in economic terms, are questionable policy to the extent that they erode the attitudes and norms that should govern the treatment of refugees, children, and endangered species. The problem I am emphasizing here is not that such markets are unfair to those who can't afford the goods being sold (although this may well be true), but that selling such things can be corrupting.

Standard economic reasoning assumes that commodifying a good—putting it up for sale—does not alter its character; market exchanges increase economic efficiency without changing the goods themselves. But this assumption is open to doubt. As markets reach into spheres of life traditionally governed by nonmarket norms, the notion that markets never touch or taint the goods they exchange becomes increasingly implausible. A growing body of research confirms what common sense suggests: financial incentives and other market mechanisms can backfire by crowding out nonmarket norms.

The day care study offers one example. Introducing a monetary payment for late arrivals increased rather than reduced the number of parents arriving late. It is no doubt true that, if the fine were high enough (say, \$1,000 an hour), the standard price effect would win out. But all that matters for my argument is that introducing a monetary incentive or disincentive can sometimes corrupt or crowd out nonmarket attitudes and norms. When and to what extent the “crowding out” effect may trump the price effect is an empirical question. But even the existence of a “crowding out” effect shows that markets are not neutral; introducing a market mechanism may change the character and meaning of a social practice. If this is true, deciding to

use a cash incentive or a tradable quota requires that we evaluate, in each case, the nonmarket values and norms such mechanisms may displace or transform.

Several other studies also demonstrate the crowding out effect:

Nuclear Waste Siting

When residents of a Swiss town were asked whether they would be willing to approve a nuclear waste site in their community if the Parliament decided to build it there, 51 percent said yes. Then the respondents were offered a sweetener: Suppose the Parliament proposed building the nuclear waste facility in your community *and* offered to compensate each resident with an annual monetary payment. (Frey, Oberholzer-Gee, Eichenberger 1996; Frey and Oberholzer-Gee 1997; see also Frey 1997, pp. 67–78). Adding the financial inducement did not increase the rate of acceptance. In fact, it cut it in half—from 51 percent to 25 percent. Similar reactions to monetary offers have been found in other places where local communities have resisted radioactive waste repositories (Frey, Oberholzer-Gee, and Eichenberger 1996, pp. 1300, 1307; Frey and Oberholzer-Gee 1997, p. 750; Kunreuther and Easterling 1996, pp. 606–608).

Why would more people accept nuclear waste for free than for pay? For many, the willingness to accept the waste site apparently reflected public spirit—a recognition that the country as a whole depended on nuclear energy, and that the waste had to be stored somewhere. If their community was found to be the safest site, they were willing to sacrifice for the sake of the common good. But they were not willing to sell out their safety and put their families at risk for money. In fact, 83 percent of those who rejected the monetary proposal explained their opposition by saying they could not be bribed (Frey, Oberholzer-Gee, and Eichenberger 1996, p. 1306). The offer of a private payoff had transformed a civic question into a pecuniary one. The introduction of market norms crowded out their sense of civic duty (Kunreuther and Easterling 1996, pp. 615–19; Frey, Oberholzer-Gee, and Eichenberger 1996, p. 1301; for an argument in favor of cash compensation, see O’Hare 1977).

Donation Day

Each year, on a designated day, Israeli high school students go door-to-door to solicit donations for worthy causes—cancer research, aid to disabled children, and so on. Gneezy and Rustichini (2000b) did an experiment to determine the effect of financial incentives on the students’ motivations. They divided the students into three groups. One group of students was given a brief motivational speech about the importance of the cause, and sent on its way. The second and third groups were given the same speech, but also offered a monetary reward based on the amount they collected—1 percent and 10 percent respectively. The rewards would not be deducted from the charitable donations, but would come from a separate source.

Not surprisingly, the students who were offered 10 percent collected more in donations than those who were offered 1 percent. But the unpaid students collected more than either of the paid groups, including those who received the high commission. Gneezy and Rustichini (2000b, 802–807) conclude that, if you’re going to use

financial incentives to motivate people, you should either “pay enough or don’t pay at all.” While it may be true that paying enough will get what you want, there is also a lesson here about how money crowds out norms.

Why did both paid groups lag behind those doing it for free? Most likely, it was because paying students to do a good deed changed the character of the activity. Going door-to-door collecting funds for charity was now less about performing a civic duty and more about earning a commission. The financial incentive transformed a public-spirited activity into a job for pay. As with the Swiss villagers, so with the Israeli students: the introduction of market norms displaced, or at least dampened, their moral and civic commitment.

Why worry about the tendency of markets to crowd out moral and civic ideals? For two reasons—one fiscal, the other ethical. From an economic point of view, social norms such as civic virtue and public spiritedness are great bargains. They motivate socially useful behavior that would otherwise cost a lot to buy. If you had to rely on financial incentives to get communities to accept nuclear waste, you would have to pay a lot more than if you could rely instead on the residents’ sense of civic obligation. If you had to hire school children to collect charitable donations, you would have to pay more than a 10 percent commission to get the same result that public spirit produces for free.

But to view moral and civic norms simply as cost-effective ways of motivating people ignores the intrinsic value of the norms. Relying solely on cash payments to induce residents to accept a nuclear waste facility is not only expensive; it is corrupting. The reason it is corrupting is that it bypasses persuasion and the kind of consent that arises from deliberating about the risks the facility poses and the larger community’s need for it. In a similar way, paying students to collect charitable contributions on donation day not only adds to the cost of fundraising; it dishonors their public spirit and disfigures their moral and civic education.

The Commercialization Effect

Many economists now recognize that markets change the character of the goods and social practices they govern. In recent years, one of the first to emphasize the corrosive effect of markets on nonmarket norms was Fred Hirsch, a British economist who served as a senior advisor to the International Monetary Fund. In a book published the same year that Gary Becker’s (1976) influential work *An Economic Approach to Human Behavior* appeared, Hirsch (1976) challenged the assumption that the value of a good is the same whether provided through the market or in some other way. Hirsch (pp. 87, 93, 92) argued that mainstream economics had overlooked what he called the “commercialization effect.” By this he meant “the effect on the characteristics of a product or activity of supplying it exclusively or predominantly on commercial terms rather than on some other basis—such as informal exchange, mutual obligation, altruism or love, or feelings of service or obligation.” The “common assumption, almost always hidden, is that the commercialization

process does not affect the product.” Hirsch observed that this mistaken assumption loomed large in the rising “economic imperialism” of the time, including attempts, by Becker and others, to extend economic analysis into neighboring realms of social and political life. The empirical cases we’ve just considered support Hirsch’s (1976) insight—that the introduction of market incentives and mechanisms can change people’s attitudes and crowd out nonmarket values.

A growing body of work in social psychology offers a possible explanation for this commercialization effect. These studies highlight the difference between intrinsic motivations (such as moral conviction or interest in the task at hand) and external ones (such as money or other tangible rewards). When people are engaged in an activity they consider intrinsically worthwhile, offering them money may weaken their motivation by depreciating or “crowding out” their intrinsic interest or commitment. (For an overview and analysis of 128 studies on the effects of extrinsic rewards on intrinsic motivations, see Deci, Koestner, and Ryan 1999).

Standard economic theory assumes that all motivations, whatever their character or source, are additive. But this misses the corrosive effect of money. The “crowding out” phenomenon has far-reaching implications for economics. It calls into question the use of market mechanisms and market reasoning in many aspects of social life, including the use of financial incentives to motivate performance in education, health care, the workplace, voluntary associations, civic life, and other settings in which intrinsic motivations or moral commitments matter (Janssen and Mendys-Kamphorst 2004).

Blood for Sale

Perhaps the best-known illustration of markets crowding out nonmarket norms is a classic study of blood donation by the British sociologist Richard Titmuss. In his book *The Gift Relationship*, Titmuss (1971) compared the system of blood collection used in the United Kingdom, where all blood for transfusion was given by unpaid, voluntary donors, and the system in the United States, where some blood was donated and some bought by commercial blood banks from people, typically the poor, who were willing to sell their blood as a way of making money. Titmuss presented a wealth of data showing that, in economic and practical terms alone, the UK blood collection system worked better than the American one. Despite the supposed efficiency of markets, he argued, the American system led to chronic shortages, wasted blood, higher costs, and a greater risk of blood contaminated by hepatitis (pp. 231–32).

But Titmuss (1971) also leveled an ethical argument against the buying and selling of blood. He argued that turning blood into a market commodity eroded people’s sense of obligation to donate blood, diminished the spirit of altruism, and undermined the “gift relationship” as an active feature of social life. “Commercialization and profit in blood has been driving out the voluntary donor,” he wrote. Once people begin to view blood as a commodity that is routinely bought and sold, Titmuss (pp. 223–24, 177) suggested, they are less likely to feel a moral responsibility to donate it.

Titmuss's book prompted much debate. Among his critics was Kenneth Arrow (1972). In taking issue with Titmuss, Arrow invoked two assumptions about human nature and moral life that economists often assert but rarely defend (for an insightful contemporary reply to Arrow, see Singer 1973). The first is the assumption I have examined above, that commercializing an activity doesn't change it. According to this assumption, if a previously untraded good is made tradable, those who wish to buy and sell it can do so, thereby increasing their utility, while those who regard the good as priceless are free to desist from trafficking in it. This line of reasoning leans heavily on the notion that creating a market in blood does not erode the value or meaning of donating blood out of altruism. Titmuss attaches independent moral value to the generosity that motivates the gift. But Arrow (1972, p. 351) doubts that such generosity could be diminished or impaired by the introduction of a market: "Why should it be that the creation of a market for blood would decrease the altruism embodied in giving blood?"

The answer is that commercializing blood changes the meaning of donating it. In a world where blood is routinely bought and sold, giving it away for free may come to seem a kind of folly. Moreover, those who would donate a pint of blood at their local Red Cross might wonder if doing so is an act of generosity or an unfair labor practice that deprives a needy person of gainful employment selling his blood. If you want to support a blood drive, would it be better to donate blood yourself, or to donate \$50 that can be used to buy an extra pint of blood from a homeless person who needs the income?

The second assumption that figures in Arrow's (1972) critique is that ethical behavior is a commodity that needs to be economized. The idea is this: We should not rely too heavily on altruism, generosity, solidarity, or civic duty, because these moral sentiments are scarce resources that are depleted with use. Markets, which rely on self-interest, spare us from using up the limited supply of virtue. So, for example, if we rely on the generosity of the public for the supply of blood, there will be less generosity left over for other social or charitable purposes. "Like many economists," Arrow (1972, pp. 354–55) writes, "I do not want to rely too heavily on substituting ethics for self-interest. I think it best on the whole that the requirement of ethical behavior be confined to those circumstances where the price system breaks down . . . We do not wish to use up recklessly the scarce resources of altruistic motivation."

It is easy to see how this economic conception of virtue, if true, provides yet further grounds for extending markets into every sphere of life. If the supply of altruism, generosity, and civic virtue is fixed, as if by nature, like the supply of fossil fuels, then we should try to conserve it. The more we use, the less we have. On this assumption, relying more on markets and less on morals is a way of preserving a scarce resource.

Economizing Love

The classic statement of this idea was offered by Sir Dennis H. Robertson (1954), a Cambridge University economist and former student of John Maynard Keynes, in an address at the bicentennial of Columbia University. The title of Robertson's

lecture was a question: “What does the economist economize?” He sought to show that, despite catering to what he called (p. 148) “the aggressive and acquisitive instincts” of human beings, economists nonetheless serve a moral mission.

Robertson (1954) claimed that by promoting policies that rely, whenever possible, on self-interest rather than altruism or moral considerations, the economist saves society from squandering its scarce supply of virtue. “If we economists do [our] business well,” Robertson (p. 154) concluded, “we can, I believe, contribute mightily to the economizing . . . of that scarce resource Love,” the “most precious thing in the world.”

To those not steeped in economics, this way of thinking about the generous virtues is strange, even far-fetched. It ignores the possibility that our capacity for love and benevolence is not depleted with use but enlarged with practice. Think of a loving couple. If, over a lifetime, they asked little of one another, in hopes of hoarding their love, how well would they fare? Wouldn't their love deepen rather than diminish the more they called upon it? Would they do better to treat one another in more calculating fashion, to conserve their love for the times they really needed it?

Similar questions can be asked about social solidarity and civic virtue. Should we try to conserve civic virtue by telling citizens to go shopping until their country really needs them? Or do civic virtue and public spirit atrophy with disuse? Many moralists have taken the second view. Aristotle (*Nicomachean Ethics*, Book II, chap. 1, pp. 1103a–1103b) taught that virtue is something we cultivate with practice: “We become just by doing just acts, temperate by doing temperate acts, brave by doing brave acts.”

Rousseau (1762 [1973] Book III, chap. 15, pp. 239–40) held a similar view. The more a country asks of its citizens, the greater their devotion to it. “In a well-ordered city every man flies to the assemblies.” Under a bad government, no one participates in public life “because no one is interested in what happens there” and “domestic cares are all-absorbing.” Civic virtue is built up, not spent down, by strenuous citizenship. Use it or lose it, Rousseau says, in effect. “As soon as public service ceases to be the chief business of the citizens, and they would rather serve with their money than with their person, the state is not far from its fall.”

The notion that love and generosity are scarce resources that are depleted with use continues to exert a powerful hold on the moral imagination of economists, even if they don't argue for it explicitly. It is not an official textbook principle, like the law of supply and demand. No one has proven it empirically. It is more like an adage, a piece of folk wisdom, to which many economists nonetheless subscribe.

Almost half a century after Robertson's lecture, Lawrence Summers, then the president of Harvard University, was invited to offer the Morning Prayers address in Harvard's Memorial Church. He chose as his theme what “economics can contribute to thinking about moral questions.” Economics, Summers (2003) stated, “is too rarely appreciated for its moral as well as practical significance.” Summers observed that economists place “great emphasis on respect for individuals—and the needs, tastes, choices, and judgments they make for themselves.” He illustrated the moral implications of economic thinking by challenging students who had advocated a boycott of goods

produced by sweatshop labor: “We all deplore the conditions in which so many on this planet work and the paltry compensation they receive. And yet there is surely some moral force to the concern that as long as the workers are voluntarily employed, they have chosen to work because they are working to their best alternative. Is narrowing an individual’s set of choices an act of respect, of charity, even of concern?”

Summers (2003) concluded with a reply to those who criticize markets for relying on selfishness and greed: “We all have only so much altruism in us. Economists like me think of altruism as a valuable and rare good that needs conserving. Far better to conserve it by designing a system in which people’s wants will be satisfied by individuals being selfish, and saving that altruism for our families, our friends, and the many social problems in this world that markets cannot solve.”

Here was Robertson’s (1954) adage reasserted. This economic view of virtue fuels the faith in markets and propels their reach into places they don’t belong. But the metaphor is questionable. Are altruism, generosity, solidarity, and civic spirit like commodities that are depleted with use? Or are they more like muscles that develop and grow stronger with exercise?

Market Reasoning as Moral Reasoning

To answer this question is to take sides in a long-standing debate in moral and political philosophy. We have now seen two ways in which economic reasoning rests on contestable normative assumptions. One is the assumption that subjecting a good to market exchange does not alter its meaning; the other is the claim that virtue is a commodity that is depleted with use.

The extension of market thinking into almost every aspect of social life complicates the distinction between market reasoning and moral reasoning, between explaining the world and improving it. Where markets erode nonmarket norms, we need to ask whether this represents a loss worth caring about. Do the efficiency gains of tradable refugee quotas outweigh the degrading effect they may inflict on refugees? Are the economic benefits of commercialized walrus hunts worth the coarsened attitudes toward endangered species they may engender and promote? Should we worry if cash compensation for civic sacrifice turns patriotic sentiments to pecuniary ones?

Questions such as these carry us beyond predicting whether a market mechanism will “work” in a narrow sense. They require that we make a moral assessment: What is the moral importance of the attitudes and norms that money may crowd out? Would their loss change the character of the activity in ways we would regret? If so, should we avoid introducing financial incentives into the activity, even though they might offer certain benefits?

To decide when to use cash incentives, or tradable permits, or other market mechanisms, economists must go beyond identifying the norms that inform social practices; they must also evaluate those norms. The more economic thinking extends its reach into social and civic life, the more market reasoning becomes inseparable from moral reasoning. If economics is to help us decide where markets serve the

public good and where they don't belong, it should relinquish the claim to be a value-neutral science and reconnect with its origins in moral and political philosophy.

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