Philosophy of Economics

Economists can no longer avoid the agenda of problems in the philosophy of economics, if they ever could. Equally, political and moral philosophers ignore economics at their own intellectual peril. Julian Reiss takes us on an insider’s tour of the most important issues in this domain, teaching economists and philosophers what they need to know about how each of their disciplines have an impact on the other. For completeness, currency and clarity, Philosophy of Economics: A Contemporary Introduction cannot be beat.

Alex Rosenberg, Duke University

*Philosophy of Economics: A Contemporary Introduction* is the first systematic textbook in the philosophy of economics. It introduces the epistemological, metaphysical and ethical problems that arise in economics, and presents detailed discussions of the solutions that have been offered.

Throughout, philosophical issues are illustrated by and analysed in the context of concrete cases drawn from contemporary economics, the history of economic ideas, and actual economic events. This demonstrates the relevance of philosophy of economics both for the science of economics and for the economy.

This text will provide an excellent introduction to the philosophy of economics for students and interested general readers alike.

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Overview

Economists often justify their advocacy of free markets by the invisible-hand hypothesis. Recall from Chapter 12 that the hypothesis holds that if people pursue their self-interest, then free markets will lead to a socially desirable outcome. It implies that organizing goods exchanges by free markets is (not necessarily the only but) one effective strategy to reach a socially desirable outcome.

But what are “free markets”? Pre-analytically, one might understand the term as referring to markets involving no or a minimum of government intervention. Whatever the virtues of that understanding, it is not what is required for the invisible-hand hypothesis. The first fundamental theorem of welfare economics (the analytical part of the hypothesis) assumes, among other things, that producers and consumers behave competitively and are perfectly informed, and that markets are complete. Producers and consumers behave competitively when they are price takers; they are perfectly informed when they possess all information relevant to their transactions; and markets are complete when everything people value has a price at which it can be exchanged without transaction costs. In many existing markets producers or consumers have considerable market power, information is not perfect and markets for many goods are non-existent. A better term for what is required for the invisible-hand hypothesis would be an “ideal market system.” An
ideal market system is, quite obviously, not the same as "free markets," pre-analytically understood.

This chapter looks at some of the ethical implications of mixing up free markets and the ideal market system. It will ask two main questions. First, are the moral implications of the invisible-hand hypothesis still valid when markets operate "freely"—that is, with no intervention by the government or other regulatory agency—but the assumptions of the ideal market system are false? Second, are certain interventions that make actual markets more like an ideal market system morally justified?

The two questions are closely related. If a market imperfection that leads to a morally undesirable outcome occurs, then interventions that eliminate the market imperfection seem justified (at least as long as the regulated market does not produce a morally inferior outcome). But as we will see, it is guaranteed neither that the moral implications of market failure are easily evaluated nor that interventions with a view to making actual markets more ideal are always desirable. Markets, then, are moral minefields.

**Market Failure**

Markets fail for numerous reasons. This is hard to deny. The interesting issues are how to respond to what kinds of market failure, and on what moral grounds. In this section I will go through the most common kinds of market failure—market power, informational asymmetries and externalities—and very briefly discuss some of the responses that have been given. This will be a boring section to readers with an economics background, but it is important to know the kinds of market failure that may obtain in order to see what is at stake in the discussion of the cases concerning moral challenges to the market that will follow. So please bear with me (or skip ahead).

**Monopoly and Market Power**

Western philosophy is often said to begin with Thales of Miletus, who thought that everything was made of water. Aristotle said so, and so did Bertrand Russell (Aristotle, *Metaphysics A*: 983b18; Russell 1967). The beginning of Western philosophy has a date, too: 585 BC, the year in which a solar eclipse occurred that Thales had predicted. Thales was, however, known for more than his mythology-free explanations of natural phenomena. According to one anecdote, Thales became tired of people poking fun at him for his poverty, which was supposedly due to the practical uselessness of philosophy. To demonstrate that philosophy wasn't necessarily an unprofitable enterprise, one winter he bought, at small value, all the olive presses in Miletus after predicting a particularly good harvest on the basis of his knowledge
of astronomy. When harvest came presses were in enormous demand, and Thales could charge any price he wanted. Aristotle concluded: “He is supposed to have given a striking proof of his wisdom, but, as I was saying, his device for getting wealth is of universal application, and is nothing but the creation of a monopoly. It is an art often practiced by cities when they are in want of money; they make a monopoly of provisions” (Politics, book I, part XI). At the beginning of Western philosophy, then, stands an exercise of market power.

The invisible-hand hypothesis assumes that both producers and consumers behave competitively. There are a variety of reasons why they might not do so. A so-called “natural monopoly” arises when a producer faces high fixed costs and increasing returns to scale in the relevant range. If that is the case the average cost of production declines as the quantity produced increases, and it is always cheaper for one large instead of many small companies to supply the quantity demanded. An example that is often given is utilities. The production of electricity and the supply of water require enormous initial investments in infrastructure but the production of an additional unit of the good is practically negligible. In addition to natural monopolies there are government-granted monopolies where the lack of competition does not stem from production technologies but government enforcement.

Economies of scale and government grants are two kinds of barriers to entry that enable companies already in the market to exert market power. There are numerous others. A situation analogous to that of the natural monopoly can arise when the value of a good to a user increases with the number of other users; that is, when there are network effects. Think of the position Microsoft occupies in the market for PC operating systems. When there are network effects, the first company in the market (or the company whose product is adopted as standard) can have an enormous advantage quite independently of the quality of the good. Other barriers to entry include the control of natural resources (for instance, OPEC’s control over oil in the 1970s) and the technological superiority of a large firm that is better able to acquire, integrate and use the best possible technology in producing its goods.

Though everyone who has received some economics tuition knows how to calculate the deadweight loss created by monopoly price-setting, it is not guaranteed that monopolies or other forms of market power are welfare-decreasing or morally undesirable in other ways. The standard model compares consumer and producer surpluses under monopoly pricing versus competitive pricing in the same good. But one important way to create temporary monopolies is by innovation. An innovating firm creates a new product and is able to charge higher prices until imitators have come up with substitutes that are good enough. The monopoly profit an innovator makes in the period he can charge a higher price is an important incentive to innovate in the first place. Without such monopolies there might be less innovation. Now, while it is not the case that consumers benefit from all innovation
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(Reiss 2008a: ch. 3), it does not require an enormous stretch of the imagination to see that consumers do, by and large, profit from highly innovative industries. This, in turn, means that whether the existence of market power is morally desirable or undesirable cannot be answered in abstraction from the details of the concrete markets where the market power is exercised.

Informational Asymmetries

Another reason why producers and consumers do not always behave competitively is that they are not perfectly informed about aspects of the traded good, and, in particular, that relevant information is asymmetrically distributed between two traders. The seminal paper to introduce considerations about information distribution into mainstream economics was George Akerlof’s “Market for ‘Lemons” (Akerlof 1970). This paper showed how asymmetric information can lead to a complete market breakdown.

Akerlof’s reasoning was essentially this. When traders are asymmetrically informed about the quality of a good such as a second-hand car, an individual’s labor or a person’s health, and sellers know more than buyers, those who know that their good is of low quality (i.e., those who own a “lemon” or whose labor or health is of bad quality) will be incentivized to sell their good, while those in possession of a high-quality good will have an incentive to keep theirs. This is because the market will offer at best an average price across all qualities, as buyers cannot observe the quality. But rational buyers will predict this behavior on the sellers’ part and offer a price below the average (because they know that the chances of getting a high-quality good are very low). This only strengthens the incentives to keep high-quality goods out of the market until only the lowest-quality goods remain. His lesson is thus: Markets in which the quality of goods matters but is not observable by buyers are thin, and prices and qualities low.

One mechanism to overcome this type of market failure is the signaling of the good’s quality by the seller. For instance, firms may invest in brand names consumers can use to determine quality. The consumer knows that particular brands have supplied high-quality goods in the past and that the producer has an incentive to maintain the quality in order not to destroy the value of the brand name. Given the initial investment in the brand name is very costly and the cost of producing an additional unit of the good relatively low, information asymmetries provide another source of market power from barriers to entry.

A special kind of information asymmetry leads to principal–agent problems. These can arise in situations in which one individual, called the principal, hires another individual, called the agent, in order to perform a specific task. The principal cannot observe the effort the agent puts into the fulfilling of the task, and the result is in part due to chance. Examples are employer–employee contracts, contracts between insurers and insured persons, shareholder–manager or doctor–patient relations.
Take the latter as an example. Patients normally do not know, or not as well as their doctors, about the relative efficiency and effectiveness of treatment options. Moreover, there is always a large element of chance involved in any treatment, so an adverse treatment result cannot easily be blamed on poor doctor performance. A purely self-interested doctor will exploit this situation and recommend treatments that are good for him and not necessarily in the patient’s best interest (especially when the patient is insured and therefore bears the cost only indirectly). Rational patients will, in turn, predict this behavior and seek a suboptimally low level of doctors’ services (or, in a system where insurance is mandatory, costs will be inefficiently high).

Two further concepts may be of use here: adverse selection and moral hazard. Akerlof’s lemons model, when applied to the insurance market, is a model of adverse selection. The “quality” at stake here is not the quality of a used car but rather an insured person’s health (which may be expressed in probabilities of contracting all kinds of diseases). Insurers will not as a matter of principle be able to observe the health status of those seeking insurance.

When patients know their health status better (because they know whether they are smokers and drinkers and whether they engage in dangerous hobbies such as parachuting and eating foie gras), the situation is analogous to Akerlof’s lemons market. In a free market, only the lowest-quality risks will be insured, which most certainly is not a good thing.

Another aspect of the contract between insurance provider and buyer is the fact that the buyer can influence the probability of occurrence of the insured event. Will I lock my bike if it is fully insured for theft? Will I accept a generic instead of a branded drug if I’m fully insured for treatments? Will I turn off the gas if my flat is fully insured for fire? Will I stop smoking if I am fully insured for cancer treatments? No? Then I’m subject to moral hazard. Moral hazard refers to the incentives insurance and other similar contracts provide for the buyer not to take every possible precaution in avoiding the payment of insurance claims. Moral hazard, too, causes inefficiently low levels of insurance.

Public Goods and Externalities

Many goods in the economy are such that when one consumer has it or consumes it, the ability of others to also enjoy it are diminished or nil. I cannot both eat and share a cherry. To the extent that I have a cherry, you can’t have it. But not all goods are that way. I’m currently listening to the Dave Matthews Band’s Busted Stuff, and whether you do so too does not affect me in the least. Goods like cherries economists call “rival in consumption” and goods like listening to music, “non-rival.”

There is a second dimension. Some goods are such that their producers can make sure that those who benefit from the production of the good actually pay for it. Short of illegal activities, producers of cherries or CDs can make
their customers pay. But this is not the case for the producer of clean air, national defense or, at least in the old days, radio and television. Once the air is clean, everyone will benefit from it independently of whether they’ve paid for it. The same is true for national defense and was true for public broadcasting before the advent of encryption technologies. Economists call cherries and CDs goods that are “excludable” and clean air, national defense and broadcasting “non-excludable.”

Public goods are goods that are non-rival and non-excludable. Clean air, national defense and radio broadcasts are examples of goods that have both characteristics. It is important to note that it is a good’s physical characteristics and technological possibilities that make it public or private, not, or not so much, the institutional setting in which it is traded. Before the encryption technologies were available, radio and television broadcasting was a public good. With the new technology users can be excluded. These public goods were thereby transformed into club (non-rival, excludable) goods. This is independent of whether it was (prior to encryption) legal for the public to watch television or listen to the radio without paying a fee. Music (and other media, such as films, books, magazines, etc.) experienced a transformation in the other direction. Before digital computers made high-quality sharing extremely cheap, these goods were so-called “club goods” (non-rival and excludable) because a consumer had to buy a record in order to enjoy the music. The digital revolution turned these into public goods, as it is very hard for producers to control who listens (or reads, watches …). Once more, whether or not the producer is protected by a copyright does not affect these characterizations.

Public goods are underproduced in free markets because individuals have incentives to free ride. The decision to invest in a public good can be modeled as an n-person Prisoner’s Dilemma, and in equilibrium contributions are zero for all individuals, which means that the public good does not get produced (see Chapter 10). People’s actual behavior doesn’t quite conform to the game-theoretic prediction, but it is clear that to the extent that people free ride, public goods are provided at inefficiently low levels.

Various solutions have been proposed, including assurance contracts in which participants make a binding pledge to contribute to building a public good, contingent on a quorum of a predetermined size being reached, government provision and government subsidies, all of which require a great deal of coordination among the contracting partners.

An externality is a cost or benefit of a transaction on individuals who are not a party to the transaction. A producer sells his goods to customers at marginal costs. But his production technology involves pollution. He, the consumers and others will suffer from the pollution but this “cost” is not reflected in the price the producer charges. Externalities can be positive or negative. If I play the piano during lunch hour, and my neighbors overhear it, this is a positive externality. If I were to play Lady Gaga on the radio, this would be a negative externality. Examples for positive externalities include
education (which benefits the individual but also society), beekeeping (through pollination), vaccination, painting one’s house in an attractive color. Examples for negative externalities include pollution and climate change, the systemic risk some large banks incur, the use of antibiotics if it contributes to antibiotic resistance, drug abuse.

Public goods and positive externalities are in fact the opposite sides of the same coin. If a private radio station were to be set up in a neighborhood, paid for by the neighbors, others could profit from it free of charge. The transaction between radio station and neighbors thus has positive externalities. Conversely, pollution can be regarded as a negative public good or “public bad.” If it is produced, it affects people if they want it to or not. And by affecting one person, another person’s ability to be affected is not diminished. Negative externalities are therefore overproduced, positive externalities underproduced.

The solutions are also analogous. Public solutions include government taxes (in this case called “Pigouvian taxes,” after the British economist Arthur Cecil Pigou) and subsidies aimed to bring production up or down to efficient levels. Private solutions include neighborhood associations where neighbors regulate precisely what kinds of externality-laden actions (playing the piano, painting one’s house, mowing one’s lawn) are permissible and under what conditions.

**Transaction Costs and the Coase Theorem**

At first sight, one would think that the allocation of property rights should play an important role in markets with externalities. If, say, the inhabitants of a region have the right to clean air or water or soil, companies intending to use dirty production technologies will either (inefficiently) have to refrain from using these technologies or agree with their “victims” on a compensation scheme that enables efficient trades in externalities. Therefore, under well-defined property rights, it is possible that private parties find efficient solutions to externalities problems. The economist Ronald Coase has shown that if there are well-defined property rights and trade in an externality is possible and there are no transaction costs, bargaining will lead to an efficient outcome regardless of the initial allocation of property rights. Discussing the theorem named after Coase provides an opportunity to demonstrate how the various market imperfections introduced so far—such as public goods, externalities and information asymmetries and property rights—are interrelated.

**Explaining the Theorem**

The first thing Coase claims is that externalities are a joint product of two parties (Coase 1960). Neither pollution nor beautification would constitute an externality unless there was, next to the producer, another party
on the receiving end. From an efficiency point of view, it is not guaranteed that interventions (such as Pigouvian taxes) affecting only the producer are always best. If my neighbors are disturbed by my piano-playing after all, I could stop altogether or not play when they’re in or soundproof my flat, but they could also soundproof theirs or move out. From an efficiency point of view, it does not matter who changes behavior but what the cheapest solution is, and that might be on the side of the “victim” of the externality.

Suppose my piano-playing is so bad that my neighbors, after having to listen to me for three months, find it so nerve-racking that they could go on living in their apartment only if they undergo intense counseling, at a monthly cost of €500. They were planning to live in their apartment for another 10 years, so the total cost would come to €60,000. (These costs are meant to be all-encompassing; that is, my neighbors are assumed to be indifferent between living in their flat without noise and continuing to endure the noise with €60,000 in hand for medical and other expenses.) Moving to a new place would cost only €40,000. Soundproofing either flat would cost €80,000, and let us suppose that my stopping playing the piano or moving out would cost me €100,000. The Coase theorem now says that the allocation of property rights is ignorable, provided there are no transaction costs. To see this, first assume that I have the right to make any noise I want (because, say, I own the apartment building, or because I’ve lived there for longer, or because the culture we live in values piano-playing more highly than peace and quiet). In this case, my neighbors would make a simple calculation, see that their moving out is the lowest-cost solution to them and move out. But (nearly) the same would happen if my neighbors had a right to peace and quiet. Assuming as we did that they’d be indifferent between staying in the flat, now quiet, and moving out plus cash payment of €40,000, I can give my neighbors that money plus a little extra for their troubles, and they’d happily accept and move out. Apart from an extra €40,000 in my neighbor’s pockets (and corresponding loss in mine), the outcome is the same.

Now suppose that the “polluter” is not facing one “victim” but many. The “polluter” might be a company using a dirty industry and the “victims” the entire population of the region affected by by-products of the production process. Given the affected population is large, it is likely that the most efficient solution requires the firm to install emission controls. But if the firm has the right to pollute, the individuals living in the affected area face a collective-action problem analogous to contributing to a public good. Everyone has an incentive to free ride, and it is unlikely that the public good—clean air in this case—will be produced. The converse is true when people in the region have the right to live pollution-free. The firm could offer compensation, but since each individual has a veto right, everyone has an incentive to use his or her bargaining power to extract more money and negotiations will break down.

Coase regards these adverse incentive structures as creating transaction costs. In the absence of transaction costs, efficient solutions can be found,
and the allocation of property rights does not matter. With transaction costs, the free market is unlikely to supply efficient solutions, and the allocation of property rights matters a great deal. In the last example, the firm using a dirty production process will produce an inefficiently high amount of pollution unless the affected individuals are able to solve the collective-action problem if it has the right to pollute; if people have the right to clean air, an inefficiently low amount of pollution will be produced.

The discussion of the Coase theorem nicely illustrates how different kinds of market imperfections interrelate. More importantly, it makes plain that it is not normally possible to ignore moral considerations when one thinks about how best to organize or regulate production processes. In the next subsection I will look at some of the relevant considerations.

The Moral Limits of Coase’s Theorem

Coase’s essay is titled “The Problem of Social Cost.” Let us focus on the idealized case in which there are no transaction costs first. The “social costs” Coase considers are measured exclusively in terms of efficiency. As we saw in the previous chapter, an allocation is Pareto-efficient if and only if there is no alternative allocation that makes at least one individual better off without making at least one individual worse off. “Better off” and “worse off” are understood in terms of (actual) preference satisfaction. An individual is thus regarded to be better off in social state $S'$ than in the status quo $S$ if and only if that individual prefers $S'$ to $S$ (and vice versa for “worse off”).

Coase’s reasoning thus depends on measuring social costs and benefits in terms of their consequences:

- on the welfare
- of individuals
- as measured by (actual) preference satisfaction
- irrespective of distributional considerations.

All these assumptions are problematic. That more matters in the moral assessments of economic transactions than just the consequences of the transaction on the welfare of the affected individuals can easily be seen if we consider exchanges that are, albeit welfare-enhancing, extremely unfair. Suppose for instance that the dirty producer from the last subsection is a multinational setting up its plant in an area characterized by abject poverty. Even if the inhabitants living in the area have the right to clean air, chances are that they will agree to a compensation scheme that, while making them better off, is exploitative. The multinational has vastly more bargaining power. If the deal falls through, it will simply move to another region. The area’s inhabitants do not have this option. Their lives might well improve with new business in the area, but nevertheless the exchange can be considered exploitative (cf. Hausman and McPherson 2006: 20).
reason against exchanges of this kind but it does cast doubt on the idea that evaluating economic transactions should be done in terms of consequences on welfare alone.

Of course, the point about the fairness of exchanges goes both ways. In the piano-playing example, a mischievous neighbor who has the right to enjoy his flat in peace and quiet might exploit my situation if I really need to practice the piano and, because of the architecture of our apartments (say), soundproofing mine costs four times as much as soundproofing hers. If there are no other alternatives, she can get me to pay nearly four times the cost of soundproofing her apartment, which would still result in a Pareto-improving exchange.

The outcome of exchanges, then, will crucially depend on the relative bargaining power of the parties to the exchange and that will depend on their outside options. By and large, people or institutions with more wealth and political power have more outside options. But it seems unfair that their preferences should matter much more in negotiations concerning compensation for externalities. Adam Smith, in *The Wealth of Nations*, describes an analogous situation in a different context as follows:

> It is not, however, difficult to foresee which of the two parties must, upon all ordinary occasions, have the advantage in the dispute, and force the other into a compliance with their terms. The masters, being fewer in number, can combine much more easily; and the law, besides, authorises, or at least does not prohibit their combinations, while it prohibits those of the workmen. We have no acts of parliament against combining to lower the price of work; but many against combining to raise it. In all such disputes the masters can hold out much longer. A landlord, a farmer, a master manufacturer, a merchant, though they did not employ a single workman, could generally live a year or two upon the stocks which they have already acquired. Many workmen could not subsist a week, few could subsist a month, and scarce any a year without employment. In the long run the workman may be as necessary to his master as his master is to him; but the necessity is not so immediate.

*(Smith 1904 [1776]: book I, ch. 8)*

Second, it is not uncontroversial that only the consequences for individual human beings should matter. Perhaps we should be concerned also with the environment and animal welfare. Perhaps pollution is an ill that is to be avoided at a greater cost than economic efficiency.

Third, we saw in the previous chapter that the preference-satisfaction theory of well-being is mistaken. In the context of Coase’s theorem, the problems of the theory come to the forefront. People will often engage in exchanges even though they are bad for them. Incomplete information is one important reason, and asymmetrically distributed information might be an additional reason for considering certain kinds of exchanges as morally problematic.
Who could quantify precisely the consequences of noise or other kinds of pollution for his or her well-being? Even if one does, it is important that this information is common knowledge. Otherwise the parties have incentives to overstate costs or harms. Asymmetrically distributed information can therefore lead to asymmetric bargaining power in much the same way as outside options. Just consider a situation in which a “polluter” knows both the cost of reducing emissions as well as the likely harm pollution incurs whereas the “victim” has only a very imprecise estimation of the harm (see Hahnel and Sheeran 2009 for a detailed discussion of the informational requirements behind the Coase theorem).

The last issue is that Coase’s bargaining solutions ignore distributional issues. If compensations for externalities exacerbate existing inequalities, as is likely to be the case when the negotiating parties have different bargaining power, exchanges may be considered to be morally undesirable even if they are welfare-enhancing. This is closely related to the first point about fairness but not the same. Often we may consider an exchange to be unfair because it arises from harsh inequalities (as in the example above) or because it creates them. But we can imagine cases where an exchange is unfair not because it creates distributional inequalities but because one of the parties has been tricked or misled by the other party. And we can imagine cases where an exchange is fair in many ways except that it creates inequality.

We will examine distributional issues in greater detail in the next chapter. For now, let us move on to a fascinating case where it is likely that current government regulation moves actual markets further away from the ideal system of the invisible-hand hypothesis rather than closer to it.

**Intellectual Property Rights**

Intellectual property rights are, as their name suggests, kinds of property rights. Property rights are often considered to be the key to economic activity and prosperity, especially by economists with libertarian leanings (e.g., Hayek 1960; M. Friedman 1962; D. Friedman 1989 [1973]). In philosophical discussions, property rights are usually understood as relating to land and other natural resources, and their essence as the exclusion of others from the use of the resource (e.g., Wolff 2006: ch. 5). In the idealypical case, the holder of a property right has a claim to a plot of land, say, and the main content of the claim is his ability to stop others from trespassing by building a fence around it. But things aren’t quite so simple, as the following passage from Friedman’s *Capitalism and Freedom* suggests:

A still more basic economic area in which the answer is both difficult and important is the definition of property rights. The notion of property, as it has developed over centuries and as it is embodied in our legal codes, has become so much a part of us that we tend to take it for granted, and fail to recognize the extent to which just what constitutes
property and what rights the ownership of property confers are complex social creations rather than self-evident propositions. Does my having title to land, for example, and my freedom to use my property as I wish, permit me to deny to someone else the right to fly over my land in his airplane? Or does his right to use his airplane take precedence? Or does this depend on how high he flies? Or how much noise he makes? Does voluntary exchange require that he pay me for the privilege of flying over my land? Or that I must pay him to refrain from flying over it? The mere mention of royalties, copyrights, patents; shares of stock in corporations; riparian rights, and the like, may perhaps emphasize the role of generally accepted social rules in the very definition of property. It may suggest also that, in many cases, the existence of a well specified and generally accepted definition of property is far more important than just what the definition is.

(M. Friedman 1962: 26–7)

Property, then, is usually thought of as pertaining to physical things. Not all economic goods are physical things, however. We encountered earlier in the chapter a selection of non-physical goods: music, radio and TV broadcasting, education and many kinds of services. Some of these goods have the property of non-rivalry. Can and should we have property rights in non-rivalrous goods? Defenders of intellectual property rights think so.

Intellectual property rights come in two main forms: patents and copyright. Patents provide the right to exclude others from making, using, selling and importing an invention for the term of the patent in exchange for making the invention public. A copyright gives the holder the exclusive “right to copy,” which also includes the right to be credited for the work, to determine who may adapt the work to other forms, who may perform the work, who may financially benefit from it and so on. In their modern form, both patents and copyright date back to at least the Renaissance. Inventors were granted monopolies in Venice and Florence in the fifteenth century. Copyright was introduced after the invention of the printing press, which took place in the Holy Roman Empire in around 1440.

The “property” nature of patents and copyright is evident. Like ordinary property, intellectual property gives the holder a right to exclude others from using his or her property. Like the first American settlers claiming a plot of land and building a fence around it, the inventor of a new process or contraption or song or story claims the process, contraption, song or story to be his or hers and stops others from using it without purchasing the right to do so. Unlike ordinary property, intellectual property does not pertain to a physical thing, however, but to an idea.

Ideas are not only non-rivalrous but also non-excludable. That is, they are public goods. If I invent a contraption that helps me transfer ground coffee from its vacuum pack to the coffee tin without much spillage and you hear about it, your rebuilding my gadget does not in any way diminish
the usefulness of my gadget for me. Moreover, I cannot protect my idea by physical means (such as building a fence around it). In a free market, once an idea is out, it’s out.

As we saw above, in a free market public goods are undersupplied. Who on earth would bother racking his brains to come up with a contraption for pouring coffee into a tin if he could just sit there and wait until his neighbor invented it? Standard wisdom is therefore that just as people have to be discouraged from polluting because of its negative externalities, they have to be encouraged to create ideas because of the positive externalities they come along with.

But there is a downside to providing state-sponsored incentives to generate ideas: intellectual property gives the creator of an idea monopoly rights over the use of the idea for a period of time, and market power is not always a good thing. To see when it is bad, we first have to understand an important difference between ordinary property rights and intellectual property rights. Ordinary property rights, too, give the holder the exclusive right over her property. But in the case of physical things, the right is over a token: this apple, that plot of land and so on. In the case of intellectual property, the claim is over a type: the design of a contraption (rather than its physical instantiation in a machine, say), the words of a novel (rather than its physical instantiation in a book), the composition of a music piece (rather than its physical instantiation in a CD or computer code). If I own a plot of land and am entitled to its fruit, I can stop you from eating my apples but I cannot prevent you from copying me by claiming your own land, growing your own apples and even selling them as my competitor. If I own the copyright to this book (as I do) I can well prevent you from making your own copies and especially from selling them. Ordinary property rights therefore tend to encourage competitive behavior (presumably, if I didn’t own my apples, you’d just take them rather than growing your own), while intellectual property rights tend to prevent competition because they create monopolies over types of things.

So there seems to be a trade-off: on the one hand, we need incentives to encourage the creation of ideas; but on the other, we do not want to encourage anti-competitive behavior on the part of monopolists in ideas. This trade-off is well appreciated in the economic literature:

The basic problem is that the creation of a new idea or design … is costly … It would be efficient, ex post, to make the existing discoveries freely available to all producers, but this practice fails to provide the ex ante incentives for further inventions. A tradeoff arises … between restrictions on the use of existing ideas and the rewards to inventive activity.

(Barro and Sala-i-Martin 1999: 290; quoted from Boldrin and Levine 2008: 158)

Theoretically, we seem to be at an impasse, then. How else might we justify the existence and protection of intellectual property rights? The literature
provides three answers: an argument from natural rights, an argument from personality and a utilitarian argument (De George 2009).

The argument from natural rights is an application of Locke’s defense of (ordinary) property rights, which will be discussed in the next chapter. In essence, Locke argues that people can acquire property rights over land and other natural resources, subject to certain provisos, because they own themselves, thus have the right to preserve themselves, and they own the fruits of their labor. Further, by mixing their labor with a (previously unowned) physical thing they acquire ownership over that thing. We will see in the next chapter how successful these arguments are in defense of ordinary property rights. Here we should ask whether the analogous arguments work for intellectual property rights.

Land and its fruit on the one hand and ideas on the other are quite different kettles of fish. Unlike food, clothing and shelter, ideas, especially of the kind that fall under intellectual property protection, are not needed for survival. To be able to appropriate something if it is necessary to ensure one’s survival seems fair enough. But an invention will help me in my struggle for survival whether or not someone copies it from me. If I have leisure enough to write a novel, why should I be empowered to stop others from reading it?

Further, land and natural resources can be regarded as “commons,” owned by everyone prior to acquisition. Ideas, by contrast, do not exist prior to their invention. By mixing one’s physical labor with a physical resource, one enhances the value of the resource. So perhaps one should benefit from increasing its value. If others were to take the fruit of one’s labor, one would lose that benefit. In the case of creating ideas, however, one can benefit whether or not another also benefits. Stopping others from also benefiting seems much less justifiable in case of a non-rivalrous good.

The argument from personality builds on the Hegelian idea that property is the outward symbol of one’s personality. Thus, one owns one’s attainments and talents as something internal to one, but expresses them in something embodied, external. But just as one cannot give up one’s freedom, one cannot give up one’s right to externally express one’s personality in, say, a book or record. So one maintains ownership of the idea.

No matter how successful this argument is where it applies (apparently this Hegel-inspired view is very prominent among legal scholars in continental Europe; see De George 2009: 417–18), it underwrites at best a very limited form of copyright such as the right to have one’s name listed as author when the work is published and no one else’s, the right to protection from defamation or maltreatment of the work and so on. The Hegelian argument does not seem to provide a reason to prevent others from copying one’s idea.

The final argument in favor of intellectual property is a utilitarian one, and the most important of the three. The utilitarian has to address the question: What would the world be like if there was no intellectual property? Defenders of intellectual property might say, “Just look to the Soviet Union and other communist regimes and compare their standard of living with
ours!" But of course, there are many differences between these and capitalist countries, and so the difference in standard of living cannot be attributed to differences in intellectual property regimes. Historically, it seems that in the nineteenth century the US patent system was regarded as successful in stimulating innovation and technological progress and therefore adopted by many other nations: “U.S. institutions performed well in stimulating inventive activity. Not only did they enhance the material incentives to inventors of even humble devices with grants of monopoly privileges for limited duration, but they also encouraged the development of a market for technology and the diffusion of technological knowledge” (Khan and Sokoloff 2001: 234–5). But once more, it is clear that there are other differences between the USA and other nations than rate of innovation and patent system.

There is in fact quite substantial evidence that intellectual property stifles rather than encourages innovation. Some theoretical considerations point in that direction. On the one hand, by patenting certain processes or contrivances, the development of others is hindered. New ideas always build on old ideas. By preventing the creator of a new idea using an old one, new products can often not be developed. To give just one example, James Watt’s first steam engines were less efficient than they could have been because he was prohibited from using a method to efficiently transform reciprocating motion into rotary motion he had developed by a patent held by the inventor James Pickard (Boldrin and Levine 2008: 2). Such “innovation chains” are common to all areas of technological research and development. Especially in biomedical research, scientists are often hindered in their efforts to develop new medical therapies because competing researcher teams or pharmaceutical companies hold important patents on compounds, genes, microorganisms and the like.

On the other hand, patents create monopolies and thereby encourage rent-seeking behavior. James Watt is again a case in point. During the term of the patent of Watt’s steam engine, few steam engines were built. Watt really started to manufacture steam engines only after his patents expired. Before then, he devoted his efforts primarily to extracting hefty monopolistic royalties through licensing as well as legal action targeted at fending off competitors and protecting his monopoly (Boldrin and Levine 2008: 2).

Moreover, it does not seem to be true that there would not be innovation without patents, copyright and the monopolies created by them. In Watt’s case, the development of new steam engines and wide adoption happened only after his patent expired. There are many examples for creative activity that makes do without IP protection: open source software, the distribution of news on the internet, the creation of music and literature before copyright was invented (i.e., during most of its existence), financial innovation prior to 1998 (for these and more examples, see Boldrin and Levine 2008: chs 2, 3).

In case of the market for ideas (inventions, books, music, etc.) the regulation of one type of market failure (the undersupply of a public good) creates another type of market failure, namely the monopoly power of the creator of
the good. We seem to be stuck between a rock and a hard place. Personally I find the evidence and arguments provided by Michele Boldrin, David Levine and others to the effect that intellectual property rights are harmful persuasive. But whatever the result of the utilitarian calculation of their harms and benefits, it is clear that there is a large and growing segment of the economy for which a straightforward application of the invisible-hand hypothesis is simply impossible.

**Commodification: What Money Can’t Buy**

Another way of trying to make actual markets resemble more closely the ideal market system is by introducing markets where formerly there were none; that is, by making the market system more complete. Allegedly, there is a tendency for market economies to extend the reach of the market to more and more spheres of life. Indeed, today you can pay for dating services, to skip ahead of the queue, to sit in an acceptable seat on a plane, to have your book displayed prominently in a bookshop (such as in the window), to send your kid to a school in which she stands a lower risk of being victim to a fellow pupil running amok; you can be paid for donating your blood, kidney, egg or sperm or offering “reproductive services,” for your good grades or losing weight, for your right to immigrate to the USA, for your right to pollute.

The invisible-hand hypothesis assumes that there are markets in everything. But is that a good thing? Should we, perhaps, forgo efficiency for the sake of some other good? Some philosophers have argued that there are things that *should* not be for sale. At least three arguments can be identified in the literature. A premiss of the first argument, the argument from fairness, we have already encountered above: not all exchanges that are voluntary are also fair. If the market exchange of a certain kind of good necessarily, or usually, involves unfairness for one of the parties involved (especially when it’s always the same party, or if the disadvantaged parties are always members of the same segment of society), then there might be a good reason to proscribe market exchange in that good. The second argument, the argument from degradation, has to do with the kind of valuation specific forms of exchange allow. It says that market exchange may corrupt the exchanged good if markets are not the appropriate place to trade that good. The third argument is a utilitarian one. It says that substituting markets for other forms of exchange may sometimes be welfare-diminishing. Let’s consider the three arguments in turn.

**The Argument from Fairness**

To understand this argument, suppose that in some faraway town there is only one employer, Monohire. Monohire employs everyone in the faraway town who seeks work, but only for in-kind payment in the form of a bed and
two meals a day. The firm allows exchanging one of the meals for a small cash payment. As it happens, Monohire controls the sole railway from the faraway town. People are free to leave whenever they want, but they have to purchase tickets from Monohire which cost the equivalent of a year’s worth of second daily meals.

Those who work for Monohire are assumed to do so voluntarily. The exchanges are most likely to be welfare-increasing—without Monohire, its workers would starve. But the exchanges are certainly exploitative on the part of Monohire. Monohire is not only a monopsonist concerning labor, it is also a monopolist concerning exit options. This allows the firm to pay very low wages and charge very high prices for the company railway. These circumstances, in turn, make alternative options for the inhabitants of the faraway town very unattractive. But exchanges are fair only to the extent that not entering the exchange is a feasible, realistic option.

What this example highlights is that considerations other than “effects on the well-being of the parties involved” matter for the moral evaluation of market transactions. Many actual exchanges may be voluntary but unfair in this sense. A single mum selling her secretarial services to a multinational at a wage far below the market rate may be one case in point, and a teenage prostitute selling sexual labor to fashion designers in support of his drug addiction another. If outside options are rare, voluntary exchanges may well be unfair.

It is important to see that what matters is not only whether the market participant has an actual range of outside options but also what he or she knows. Exploitative exchanges can occur even though the inferior party actually has attractive outside options but does not know about it, and the dominant party capitalizes on this fact.

Now add to this the empirical claim that certain markets almost always involve unfair exchanges understood in this way. Then we would have a good argument for not allowing the sale of goods or services in that market. Some argue that prostitution is such a market: prostitution is rarely if ever “fair” because those who sell their bodies for money are forced to do so “by poverty, drug addiction, or other unfortunate life circumstances” (Sandel 1998: 95).

Two comments on the argument from fairness. First, whether a market, be it for sexual services or any other, is fair depends in part on empirical facts that cannot be settled by a priori argument alone: What outside options do participants have? Are these outside options attractive enough to constitute genuine alternatives? Would participants continue to engage in exchange of this kind if they were fully informed?

Second, it is not at all clear that prohibiting markets in these areas is the best strategy to solve the ethical problems associated with them. Obvious alternatives include improving people’s informedness and enhancing their outside options. If coercion is the problem, coercion can be tackled by means other than prohibiting markets in certain goods. It can be tackled by stopping the “forced” of “forced exchange” rather than the “exchange.”
The Argument from Degradation

The second argument is more powerful if it is successful. Perhaps the problem is not that prostitutes tend to be forced into selling their bodies but rather that the activity is intrinsically degrading. If the activity is intrinsically degrading, then the improvement of participants’ living conditions cannot help. Then market exchange is bad \textit{per se}. In essence, the argument says that exchanging certain goods on a market cannot provide the kind of valuation adequate to this good, and engaging in market exchanges of the good undermines its proper valuation. A forceful proponent of this argument is Elizabeth Anderson (e.g., E. Anderson 1993), so here I shall examine a number of examples she discusses. Anderson thinks that market relations can be characterized by the following norms:

1. they are impersonal;
2. everyone is free to pursue his personal advantage;
3. the goods traded are exclusive and rivals in consumption (i.e., they are private goods);
4. valuations are purely subjective or want-related (rather than deriving from need or objective quality);
5. in case of dissatisfaction one replies by “exiting” rather than “voicing” one’s complaint.

To give a stereotypical example of what she means, consider someone buying a new laptop computer. The purchasing act or relation is characterized as follows:

1. \textit{Impersonality}. These days, most of us will go to the Apple store and buy the preferred model quite independently of who is selling it to us; we don’t have personal relations with the vendor that make us buy the computer or this rather than that model.
2. \textit{Personal advantage}. One buys the computer out of self-interest, not for the fulfilling of so-called “higher goals” such as world peace and justice; and there’s nothing wrong with that.
3. \textit{Private goods}. A computer is a private good: if I work on it, no one else can; Apple controls who the company is selling computers to. (There are obvious network externalities involved in the use of computers but we’ll ignore these here.)
4. \textit{Subjective valuation}. My having the computer might make me better off in some objective sense but what counts is that I wanted the computer; that’s what makes the purchase one that is good for me.
5. \textit{Complaints are made by exiting}. If the Mac turns out to be too easy to use after all, if one enjoys working around the bugs Microsoft builds into its applications and their slow, aesthetically unpleasing and convoluted user interfaces, one simply reverts back to a Windows-operated machine: one does not complain to Steve Jobs, God bless him.
Economic goods are simply goods whose exchange is properly governed by these norms. Anderson now simply but very insightfully argues that there are goods that, when traded in a setting characterized by (1)–(5), do not fully realize their value. That is, there are goods whose value cannot be fully realized through market exchange: there are goods that are not economic goods. She considers two kinds of goods in particular: gift goods and shared goods.

Gift goods are characterized by features that contrast with the first two norms of market exchange: intimacy and commitment. Typically, economic goods are produced for “the market,” not in response to an individual’s needs or personality traits. Even when goods are “customized,” as many are today, this happens for the sake of increasing sales, not primarily in order to respond to someone’s needs and characteristics. Gifts, by contrast, are supposed to do just that. Even though we all know that gifts often tell us at least as much about the gift-giver as they tell about the receiver, it is clear that a goal pursued by gift-giving is to respond to the receiver’s needs and characteristics. Impersonal gifts aren’t very nice gifts.

Moreover, gift-giving is an expression of a more long-term relationship. Typically, one does not give gifts to strangers, but if one does one is met with suspicion. I, for one, never accept offers of drinks from strange women in bars—what if they have less than perfectly honorable intentions? Both gift and market exchanges are reciprocal, but reciprocity is of a one-shot, immediate nature in market exchanges and of a repeated and long-term nature in gift exchanges. Misunderstanding the long-term nature of the reciprocity involved in gift exchanges is met with incomprehension and feeling offended. In another episode of the series *Frasier*, Daphne, the healthcare worker, gives Martin, Frasier’s father, a cardigan for no apparent reason—she thought he might like it and uses the gift as a means to express her caring for him. Martin understands the reciprocal nature of gift-giving but thinks reciprocity is immediate. So he’s hardly tried on the cardigan when he goes off to the shop to get Daphne a basket full of her favorite toiletries. Daphne hesitates and the following dialogue ensues:

**Martin:** Daphne, will you please just take the damn basket?
**Daphne:** Well, what are you getting so cross about?
**Martin:** Well, what? You can give me a gift but I’m not allowed to give you one back?
**Daphne:** Oh, so that’s the only reason you gave me this?
**Martin:** Yeah, that’s the way it works.
**Daphne:** Well, where I come from you don’t just give someone a gift because you have to. Here, take your silly basket.

Gifts lose their character if they are not exchanged in a way compatible with the norms of intimacy and commitment. On the basis of these considerations, Anderson criticizes a range of social practices that involve market exchanges for goods that should properly be exchanged by gift relations:
prostitution, exploitative manipulation of gift relations in commercial transactions, marriage contracts and loans between friends.

Anderson also addresses what she calls “shared goods.” Apart from market and gift relations, people have also fraternal relations. These obtain when individuals agree to refrain from making claims to certain goods that come at the expense of those less well off than themselves and when they regard that achievement as part of their own good. Political goods are an example. These are characterized by norms of exchange that contrast with market norms (3)–(5): they involve important (usually, positive) externalities, they are distributed in accordance with principles and needs rather than wants, and freedom is exercised through voicing one’s complaint rather than exiting.

It is harder to find unequivocal examples in this area but national defense might constitute one. National defense is clearly a public good: once produced, it is impossible to exclude any citizen from benefiting, whether she wants it or not; and any one citizen’s “enjoying” of the good does not stop any other from doing the same. It would be quite peculiar to argue that the decision to introduce, maintain or give up national defense, and to determine its goals and operative assignments, is a matter of citizens’ personal tastes; rather, it should be a matter of well-reasoned principle. And if, as a citizen, we do not accord with the adopted principle, we should voice our disagreement through the political process or public protest. “Exit” is not usually an option, and when it is, it constitutes an inadequate response.

As before, Anderson criticizes certain social practices on the basis of the preceding considerations. Certain goods such as the provision of public roads and spaces, the provision of welfare benefits and of primary education are more like national defense than like computers. If all roads and public spaces were privately owned, we’d lose spaces for expressing our political views in demonstrations and campaigns; certain forms of welfare provision should be made in kind rather than in cash because we, as a community, value them highly; thus, a benefits recipient should not be given the opportunity to opt out of health insurance and get the equivalent in cash because health is too important a good; school vouchers are generally a bad idea because they encourage the formation of specialized schools and lead to parents “choosing” the school they deem appropriate for their children rather than exercising their democratic right and duty to contribute to values and curricula taught at schools.

Now, we certainly did not need Elizabeth Anderson to remind us that prostitution is different from matrimonial sex (and a one-nighter different from sex as an expression of “intimacy and commitment,” for that matter). But she points to an important phenomenon which should make us worry about tendencies we currently find in many Western societies. The phenomenon is that there is more than one way to enjoy a good, and our ability to enjoy a good in a given form depends in part on the way in which it is exchanged. A gift that does not respond to its recipients’ needs and personality traits, and that expects immediate reciprocation ceases to be a gift. A
society in which the school system is balkanized and parents express their political views only through choice has a harder time building a democratic tradition than one in which every pupil attends public school and parents decide about values and curricula in common.

The tendency we find in many Western societies is that more and more spheres of our lives are subject to market principles. I began by giving a number of examples, so let me end this discussion of the argument from corruption with a final example. University education used to be free or come at a symbolic “registration fee” in many countries. More and more governments now make public universities charge tuition fees which are often considerable. There is an economic argument behind this practice: university graduates have, on average, higher salaries, and it is only fair that they should pay for the cost of the investment in their human capital. Education has some externalities, to be sure, but that only means that the public should subsidize education, not that it bears the full cost.

Tuition fees affect students’ expectations about university education. They’re paying for it, so they expect to be treated like customers. For the same reason they treat their educators as service providers. They also expect to get good grades: “I paid a lot of money for my grades, so they had better be really good!” But students are no customers and university teachers no service providers. Grades should not reflect the amount of money paid for the tuition but the quality of the student’s performance. The content of curricula should not respond to student preferences but be determined on the basis of principles such as academic excellence and students’ needs.

Tuition fees corrupt students. Everything said so far should be fairly uncontroversial. The real question is what to do about it. Where do we put a stop to the tendency for more and more spheres of our lives to be characterized by market relations? Shall we prohibit the sale of some goods altogether? These are hard questions, and there is no space here for me to try to provide an answer. Let me just say this much: the argument from corruption does not, by itself, provide a good reason to prohibit trade in some good. It is true that exchanging gifts using the norms of the market corrupts the nature of the gift good. We can’t enjoy something as a gift if it is impersonal and comes with a call for immediate reciprocation. But that doesn’t mean that there is anything wrong with a good exchanged in that way. Think of the British practice of buying drinks in rounds rather than individually. Here the reciprocation is pretty immediate: you buy your round when it’s your turn. And the buyer of the round hardly responds to the needs and traits of the other drinkers—at least not to a degree characteristic of gift exchange. According to Anderson’s schema, “rounds” are an economic good in British pub culture. And yet I fail to see what is wrong with it, or what could be gained by organizing it such that it more closely resembles typical gift goods.

My core point is that exchanging goods via market principles is not harmful as long as there are avenues for other kinds of exchanges (cf. Wolff 2004).
We’d live in an impoverished world without gifts and common goods. But of course it is also true that we’d live in a literally much impoverished world if there were no economic goods. And other than extreme conservatism I don’t see a reason to believe that all goods should come with an a priori knowable, unique “proper” or “adequate” form of exchange. Luckily for the critics, there is an arrow left in their quiver.

**The Utilitarian Argument**

The utilitarian argument says that replacing other forms of exchange by market exchange can be welfare-decreasing. It is closely related to the second argument and can therefore be discussed quite briefly. The story is this. Take a good for which there is a shortage of supply: organ and blood donations, punctuality, quiet on the part of students during classes. Think like an economist and introduce monetary incentives in order to stimulate supply. Observe that the opposite happens: supply actually goes down. Ask yourself, what has happened? Answer: the existence of monetary incentives crowds out certain forms of intrinsic motivation. Since market exchange may corrupt a good (see above), people are less inclined to supply it. Then, when monetary incentives are not strong enough to fully replace or surpass the original motivation, supply will go down.

This argument is based on a famous study by Richard Titmuss (1970). Titmuss compared the US and UK systems for procuring blood and argued that the UK system of donated blood was superior not only in quality but also in efficiency to the US system, which allowed blood to be bought. He argued that unlike the UK’s altruistic donors, the US sellers have a reason to conceal illnesses, and so the quality of marketed blood should be inferior. He further claimed that the introduction of markets “represses the expression of altruism [and] erodes the sense of community” (Titmuss 1970: 314). Actions formerly based on “higher motives” now have a price tag. “Higher motives” often provide a better incentive than money, and therefore the willingness to donate decreases.

The beauty and strength of the argument lies in its claim that it is the pure existence of a market exchange that crowds out intrinsic motivations; it does not depend on the market taking over other forms of exchange completely. But it is also an a priori argument whose significance relies on it actually being the case that the introduction of markets decreases welfare by crowding out intrinsic motivations.

There is some evidence that the mechanism Titmuss describes is sometimes in place. Debra Satz describes one famous experiment:

Faced with parents who habitually arrived late to pick up their children at the end of the day, six Haifa day care centers imposed a fine for such parental lateness. They hoped that the fines would give these parents a self-interested reason to arrive on time. The parents responded to the fine
by doubling the amount of time they were late. Even when the fine was revoked three months later the enhanced lateness continued. One plausible interpretation of this result is that the fine undermined the parents’ sense that they were morally obligated not to take advantage of the day care workers; instead they now saw their lateness as a commodity that could be purchased.

(Satz 2010: 193)

But, as Satz also observes, whether the introduction of markets actually does crowd out intrinsic motivation, thereby reduces the supply of important goods and thus decreases welfare or whether financial incentives provide the expected stimulus is an empirical one that has to be addressed on a case-by-case basis. Once it mattered, from grade 10 or so onwards, my parents gave me money for good grades. That was the only way to get me to try to improve my academic performance and it worked. I am eternally grateful to my parents for not having known about Titmuss et al.

In sum, the utilitarian argument is inconclusive. It simply depends on empirical facts that cannot be settled by philosophical argument. I do not get the feeling that the existence of prostitution has a negative effect on the exchange of sex according to the norms of gift exchange, that the existence of private or confessional schools crowds out parents’ motivations to contribute to the life of public schools or that paying some kids to perform better at school eliminates all nerds. But one should certainly introduce markets for “goods” such as kidneys if at all only after a careful study of the relevant empirical facts (which of course also include facts about the outside options of potential donors/sellers; see above) and consideration of the moral issues involved.

Study Questions

1. Think about the things you consume in the course of a normal day. How many of them are purely private goods? How many are public goods?
2. What solutions are there to the problem of externalities? Which one do you find most convincing?
3. Should there be property rights and how strong should they be? Justify your answer.
4. Are there goods the market exchange of which is always unfair?
5. How convincing do you find the utilitarian argument against market exchange? Defend your answer.
Suggested Readings

Four books that are absolute “must-reads” for the moral limits of markets are E. Anderson 1993, Sandel 2012, Satz 2010 and Walzer 1983. A detailed justification of intellectual property rights is Merges 2011; Boldrin and Levine 2008 is a scathing critique. On the commercialization of biomedical research, see Krimsky 2003 and Angell 2004. Proposals for reforming biomedical research, with a focus on intellectual property, are Baker 2005, Reiss and Kitcher 2009, Reiss 2010 and Stiglitz 2006. One of the few philosophical texts that looks at market imperfections is Graafland 2007. That book contains a variety of applications on parenting, pensions, globalization, development and other topics.