

The Proper Limits of the Market: Communitarians vs. Economists

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ABSTRACT

Many communitarians deplore the expansion of the market beyond its traditional confines, turning our market economy into a market society. We should go beyond the narrow view of pure economic rationality, as market expansion may cause repugnance and crowd out morality and intrinsic motivation. This paper extends the traditional economic analysis to incorporate such wider effects. This does not provide a general case for or against the market expansion. However, in combination with the first welfare theorem in economics and the principle of treating a dollar as a dollar in specific issues, it provides a framework to estimate the relevant social costs and benefits in a more adequate way, providing a better guide for welfare maximization in public policy. Applying to specific issues, the paper finds that legalizing kidney sale is likely to be welfare improving in most cases, while possible inadequate blood supply in retaining voluntary and non-monetary donation could be solved by education on the point that frequent blood donation is good for the donors. As a society progresses in income, education, liberalism, etc., the scope of using the market may be expanded with general acceptance. Corresponding, public policy may moves towards larger scope for the market.

Keywords: Market; policy; efficiency; rationality; legalization.

The rational use, regulation, supplementation (by government measures) and legal prohibition of the market (or the price mechanism or monetary exchanges) are very important in public policy. Even a most pro-market person would not pay his mother-in-law for a nice dinner. Also, few if any would disapprove of the role of governments in environmental protection and food safety regulation. These are largely non-controversial cases for government intervention. The former involves important external effects of pollution, difficult if not impossible to be internalized through appropriate property rights assignment; the latter involves imperfect information as food consumption may have long-term health effects difficult to ascertain. This paper is concerned with more controversial cases for limiting or even legal prohibition of the function of markets. In particular, we discuss the communitarian attack on increasing marketization or the expansion of the market economy into the market society (e.g. Anderson 1993, Sandel 2012, 2013). The communitarians regard the expansion of the market mechanism beyond its traditional confines of goods and services and into additional areas such as purchasing queuing-up services, sexual services (prostitution), body-parts (kidneys, surrogate motherhood), etc. as deplorable, even if no irrationality, external effects and misinformation are involved, since moral values are decreased. Without pretending to have either the space or expertise to adequately address many complicated issues involved, this paper raises several points relevant for the rational formulation of public policy on these issues. In particular, we argue that,

- For some cases, explicitly adopting a market solution may benefit all parties involved without significant negative effects (Section 1);
- The wider effects on morality, crowding out of intrinsic motivation and altruism, feeling of repugnance, etc. may be treated as external effects such as pollution and analysed accordingly (Section 2).

- A central concern (exploitation of the poor) of the communitarians may be better taken care of through the general tax/transfer system, rather than by prohibiting market transaction unless significant ignorance and/or irrationality is involved (Section 3);
- Though additional difficult empirical studies of different opposing effects would be helpful, before they are available (unlikely to be in a large scale anytime soon), we may still make some sensible judgments regarding the likely magnitudes of these effects for certain cases. For example, it may be sensible to keep blood donation untainted by monetary payment in many countries but desirable to make kidney sales legal in most cases (Section 4).
- A general case for limited gradual market expansion may be made (Section 5).

1. Lateness in Picking Up Children: A Market Solution

Some years ago, a daycare center in Israel introduced (after the suggestion of some researchers) a small fine (US\$2.50) on parents who were late by more than 10 minutes in picking up children. However, instead of discouraging lateness, more parents turned up late. The school then scraped the fine. Though cases of lateness decreased somewhat, they did not fall back to the original or pre-fine position. This well-reported incidence is interpreted by the communitarians as a strong case demonstrating the limitation of the market. Not only did a fine fail to work, its introduction crowded out intrinsic motivation, moral behavior, and values. (On crowding out, see e.g. Frey & Felix 1997, Beretti, et al. 2013, Faravelli & Stanca 2014.) As Gneezy & Rustichini (2000) and Rothman & Rothman (2006) put it, ‘Once a commodity, always a commodity’.

Being eclectic, we concede to the existence of some crowding out. However, is it clear-cut that no fines or charges (a market way of doing things) should be imposed for such cases like being late for picking up children? The incidence may also be given a different interpretation. The fact that more parents turned up late with the fine shows that they had high demand for being able

to be late on occasions. Paying a fine relieved them of the bad conscience of being late. (The conscience effect was discussed in relation to an external cost by Ng, 1979/1983) This explains the higher incidence of lateness. Perhaps a fine of \$250 was too low; perhaps, at today's prices, a fine of \$8 per ten minutes of being late may be more appropriate in reflecting the costs of the daycare center. Even if more parents are still late, this may actually be a better situation. The center or school gets fully compensated for the extra costs in looking after the children longer. The parents have the additional option of paying for being late. When it does not cost them much to be punctual, they can choose to pick up on time, avoiding paying the fine/price. When it is much more costly to be punctual, they may rationally choose to pay the price. These costs could include both monetary and non-monetary opportunity costs forgone by being punctual. They may just be the need to be hasty, the feeling of being pressured, having to drive faster, giving up important business/appointments. These include the costs (including on others) of hasty driving and could be very substantial. Especially for those who view punctuality as important, the costs for being punctual could be very high both on the person directly involved and on others. Thus, from an overall social point of view, it seems very sensible to allow the payment of a price equaling the cost imposed on the school for being late. Calling this a charge of additional childcare may in fact relieve the bad conscience further and lead to more lateness and charge-paying. But this is efficient, as a bad conscience is largely a deadweight loss. The bad feeling of being late does not benefit the school, but the monetary payment does.

We may view the extra childcare after hours as just a service available for purchase. The supply of this additional service relieves parents of either the costs of having to be punctual or the guilt feeling of being late, at a charge equaling the extra costs sustained by the school. Why not make such a service available? The communitarians may object that if one may just pay some money for being late, this will destroy people's sense of the virtue of punctuality and hence

decrease punctuality all round, possibly resulting in great costs for the whole society. Would this happen?

Consider the following two alternatives. The current situation A is our status quo where a parent has to be punctual in both picking up the child and in some other activities, say an important meeting. The alternative is situation B which is derived from A by allowing lateness in picking up children with the payment of a charge in accordance to the costs imposed on the school, and similar in all other aspects. It is likely that most people will find situation B better. When one can be punctual without incurring high costs, one may pick up the child in time without having to pay the charge. When one is pressed for time or engaged in something important, one does not have to risk incurring accidents by rushing back fast or forgoing important activities. The question is: Will the increased incidents of being late in picking up children erode the punctuality in attending important meetings, creating greater costs there?

There are at least three different effects involved. The first is the efficiency gain as people buy the additional service, as discussed above. The second may be called the contagion effect of the lateness habit in picking up children possibly increasing lateness elsewhere and even decreasing the adherence to social and moral principles in general. This contagion effect may be largely, if not completely, avoided by not calling the charge 'fine for being late', but rather as 'additional childcare fee'. This is especially so after some initial periods when people routinely take the fee as paying for some additional service.

A third effect may exist as observing punctuality (and possibly other principles) requires time, effort, and even mental and other resources. Imagine that if you have to be punctual in sending children to schools, getting to work, picking up children, attending meetings, etc., there are substantial requirements in having to plan carefully, to remind yourself of the time, to set alarm clocks, etc. If being punctual in picking up children becomes less important as the service of

additional childcare is available, you will probably be relieved of these pressures at least to some extent. You are likely to be able to observe punctuality in other more important business like essential meetings better. This is so because the scarce ‘resources’ needed to meet punctuality may now be used over smaller scope. You do not have to go mad having to be punctual in so many occasions each week.

The first effect is the well-known efficiency gain of rational exchanges as both sides to the transaction typically gain some consumer or producer surpluses. As we have abstracted away the traditional external effects like pollution and serious informational inadequacy, most economists believe that the market then functions efficiently and see no reason to limit the function of the market. This market efficiency of the invisible hand is formalized in the first theorem in welfare economics: Under certain conditions, a general equilibrium of a market economy under perfect competition results in a most efficient allocation both in resource, inputs or factors of production, and in final goods (taken to include services). Efficiency here is defined in the sense of Pareto optimality where no one can be made better off without making any other worse off. Perfect competition requires that all sellers and buyers have no influence on prices and take market prices as given. Apart from this, the main additional conditions for the theorem to hold are perfect relevant information, rational choice, and the absence of real external effects. Since issues like pollution and imperfect competition are not the concern of the communitarians here, the first theorem seems to suggest that this leaves information inadequacy, irrationality, and inequality in income distribution (which is beyond Pareto efficiency) to be possible sources of the differences between the communitarians and economists. However, these are not really the main sources. Most economists would accept government regulation such as food safety based on informational inadequacy and they will also accept the possible need for redistribution. While most economists

would prefer more efficient means of redistribution and, being more aware of the costs involved, are likely wary of excessive redistribution, these are not the main sources of the differences either.

The communitarians would probably regard the main sources for the differences with economists as beyond the scope of the first welfare theorem, being in the realm of morality. While many if not most communitarians regard the narrow analysis of economics as ignoring morality, a reconciliation or significant reduction of the differences may be possible if an extended analysis is used that incorporate both economic factors and those beyond. Social welfare may be taken as a function of individual welfares or utilities (differences between them are ignored here, on which see Ng 1999). Thus for non-welfarist philosophers like the Kantians, some moral principles are beyond the scope of such an (even though extended) analysis. (Welfarism is utilitarianism generalized to a more general social welfare function beyond the unweighted summation of individual utilities.) However, for one thing, it may be argued that, provided we appropriately allow for effects on others and in the future, there is really no need to go beyond individual welfares. For another thing, even for those accepting welfarism, communitarians and economists still have huge differences related to the appropriate market limits. Thus, an analysis within welfarism but going beyond the traditional economic factors may be useful, as discussed in the next section.

2. EXTENDING THE TRADITIONAL ECONOMIC ANALYSIS TO INCORPORATE THE EFFECTS THROUGH MORALITY

Goods that produce external costs like pollution in their production and/or consumption need not be made illegal. It is usually more efficient just to tax them in accordance to the damages caused (assuming non-prohibitive administrative costs). This usually only means reduced quantities of such goods and/or the use of less polluting methods in producing them. However, where the

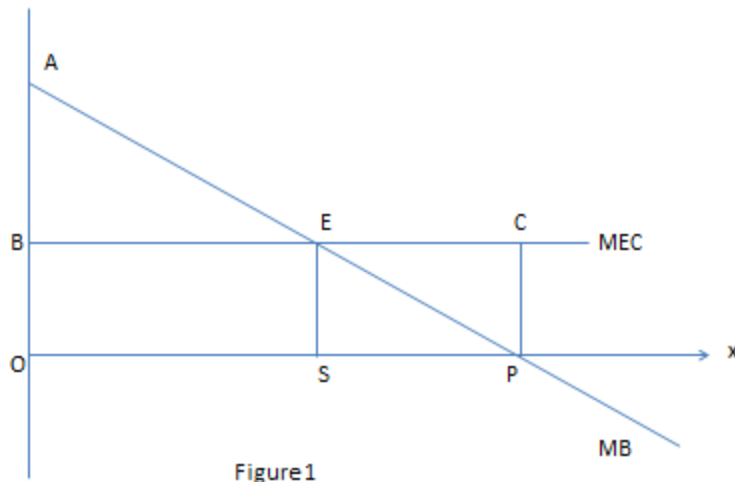
benefits of consumption are low and the damages high and it is difficult to identify the culprits, it may be efficient to legally ban such goods outright. A notable example is the banning of chewing-gum from 1992 in Singapore for jamming lifts in high-rise flats and train doors. Just as these damages of chewing gum may be regarded as external costs, the possible negative side effects of certain market transactions as believed by the communitarians may also be regarded as external costs, even though generalized ones. Similarly, the wider benefits of markets (e.g. Berggren & Nilsson 2013) may be regarded as generalized external benefits.ⁱ

Consider a typical external cost of pollution including the emission of greenhouse gases. Individual consumers/drivers/producers find it convenient being able to emit greenhouse gases or dispose of waste like used plastic bags. Typically, the individual amount of such pollution causes only negligible harm to any one individual including the individual polluter. However, for greenhouse gases like CO₂, the effect is on all the 7 billion individuals on earth and/or their children and grandchildren. A negligible amount multiplied by 7 billion may become a significant one. Seven billion of such significant amounts may become a huge problem. Though there are different scopes of external costs ranging from excessive party noise affecting mainly neighbors to global warming, let us ignore such differences and concentrate on the individual versus the society. We then analyse the problem by having the individual actor benefiting from the individual amount of the relevant variable but the aggregate amount of the variable (the sum of all the individual amounts) also possibly affecting others either positively (for external benefits) or negatively (for external costs).

As illustrated in Figure 1, a rational individual actor maximizes her net benefit by undertaking the activity x (such as consuming the good or emitting the gas) until the point P where the net (of the private cost) marginal benefit (MB) curve cuts the horizontal axis, or where the net MB is zero. If this x does not affect others, the private optimal point P is also the social optimal

point. If it generates a marginal external cost represented by the curve MEC, the social optimal point occurs at S where the MB curve intersects the MEC curve at E. (The amounts of MB or MEC are measured vertically at the respective points.) Taking the case where the marginal external cost does not vary significantly with the individual value of x , MEC is drawn as horizontal. However, the case of an upward-sloping one is possible but does not affect the essence of the illustration. In comparison to the social optimal point S, the private optimal point P involves an excessive amount of x . For the amount from S to P, the net private benefit generated is measured by the area ESP, being the area under the MB curve over the relevant range; however, the external costs imposed are measured by the area ESPC. The traditional economic (Pigovian) solution is to impose a tax on x equaling ES per unit of x , shifting the MB curve downward (not shown) to pass through S, motivating the actor to reduce x from P to S, reaching the social optimum.

If the administrative costs of imposing the Pigovian tax are small, it should be the preferred solution. If it is not feasible or very costly like the chewing gum example, is it desirable to ban the activity outright? (Actually, the consumption of chewing gum is not illegal in Singapore, but the production and importation are illegal.) Compared to the free market solution at P, an effective ban (ignoring the costs of carrying out the ban) shifts the point to the origin. If triangle ABE is larger/smaller than triangle EPC, the ban is inefficient/efficient. Since the relative size of the two triangles may go either way, there is no general case against or in favour of banning; an assessment of the relevant costs and benefits is necessary.



The simple analysis of an external cost, its Pigovian taxation, and the possible desirability of a ban if taxation is either not feasible or too costly as discussed above may be extended to the communitarian concern regarding the need to limit the extension of the market mechanism. There are different effects in this concern that may be regarded as forms of external costs. One is the so-called repugnance effect (e.g. Roth 2007, Elías 2015), the simple knowledge that people may buy certain things like body parts and sex may make some persons feel repugnant. They prefer that no such things are bought and sold at all. In terms of the analysis here, this is regarded as a negative effect of the aggregate amount of such transaction. In terms of Figure 1, if the MEC curve is high enough relative to the MB curve and Pigovian taxation is not feasible and/or too costly, banning the activity may be efficient. It may be objected that the degree of repugnance may not be a function of the aggregate amount of transaction, but just the presence or not of it. This may be taken care of by allowing the marginal external cost of the first unit to be very large with the marginal cost of additional units virtually zero. However, it is more likely that if someone feels

repugnant about prostitution, it is likely that her degree of repugnance will be higher if prostitution becomes more prevalent than if there are only very occasional cases of it.

The communitarians may think that the market erosion of morality is not confined to things like the feeling of repugnance as discussed above. However, it may be argued that, at least within welfarism, morality or any other things should be important only for its ultimate implications on the welfare of some individuals. Thus, morality may be analyzed by examining its effects on individual welfares. Then, the question of morality erosion may be allowed by taking into account of the possible negative effects of certain variables like repugnance on individual welfares and hence social welfare. In this way, moral erosion or the like may be included as some extended external effects and handled like pollution as done in Figure 1 above. Of course, we may recognize that the various effects associated with morality may be more difficult to estimate. But this affects the practical difficulties in identifying and quantifying the effects, not the principle of treating them as external costs or benefits.

One may question the benefits of so extending the concept of external effects. One important advantage is that this allows us to apply the first welfare theorem to the question of this problem of the appropriate limits of market as well. Applying the first welfare theorem does not mean that we should let the invisible hand of the market rule supreme and never limit it. The optimality of the free market holds only in the absence of monopoly power, external effects, and relevant ignorance and irrationality. In the presence of these factors, the market needs not be perfectly efficient, not to mention the question of equality discussed below. Despite this, the theorem is very useful. It allows us to identify areas (such as external effects and imperfect information) where problems may arise. In combination with this theorem, our extension of the concept of external effects allows us to analyse the problem of the proper limits of the market more adequately.

3. WHY THE EGALITARIAN CONCERN ALONE IS NOT ENOUGH TO REJECT THE MARKET?

Most economists have no difficulties in accepting that

- The first welfare theorem only ensure efficiency or Pareto optimality and does not ensure equality; a very high degree of inequality may be a valid concern even in a very efficient economy;
- In the presence of strong monopoly (especially administrative monopoly) power, significant external effects, and/or relevant ignorance and irrationality, the free market may not be perfectly efficient.

Though most economists concede to possible government actions on the equality side (especially poverty reduction), many of them also recognize that, in the absence of specific efficiency considerations (such as external effects and ignorance), it is best to redistribute in terms of total purchasing power than on specific goods, leaving people free on how to spend their money. In practice of course there are such concerns as parental negligence, gambling addiction and the like, making some subsidies or even provision in kind preferred in some cases at least to ensure some minimum consumption. Accepting but setting aside such considerations, we may emphasize the inadequate attention, by many communitarians but also some economists, to the possibility and efficiency of achieving equality through general redistribution than specific regulations on specific goods.

It is true that taxing the rich and subsidizing the poor may generate disincentive effects. These disincentive effects may be regarded as the costs of increasing equality. If the gain in more equality is larger than the loss of higher disincentives, it may be worthwhile overall. However, this is not the main point here. Due to the disincentive costs of achieving more equality through the

general tax/transfer system, many people, including some economists, think that it is desirable to achieve equality, at least partly, through more specific egalitarian regulations. An example is off-street parking in the city centres of most big cities. Typically the meter fees are very low, creating excess demand, giving rise to a largely first-come-first-served outcome. This meets the egalitarian objective. However, the excess demand creates many costs of searching for an empty spot, leading not only to inconvenience but also to more congestion and pollution. Most economists favour raising the parking fees to eliminate the excess demand. However, most communitarians believe that this will disadvantage those with low incomes. This belief misses out the point that people of all income groups will be made better off if we use the market principle more and raise the parking fees towards the efficient levels but simultaneously tax the rich more and give more subsidies to those on low incomes.

Even some economists may believe that the combined higher parking fees with more income tax/transfers need not be more efficient if the disincentive effects of the tax/transfer is taken into account. This common belief especially among economists (the first author included before he analyzed the problem) ignores the fact that, for any given degree in equality in real income achieved, whether we achieve it by following the efficiency principle (using tax/transfer) or by using specific egalitarian measures like the first-come-first-served in allocating parking spaces, the degree of incentives will be the same. The difference is just the extra inefficiency costs of the latter policy. Thus, it can be shown that, for any alternative using specific inefficient measures for egalitarian or any other purpose, there exist another alternative without using such measures and adjusting the tax/transfer system to make no income group worse-off overall, with the government collecting more net revenue (Ng 1984). Thus, dismantling specific inefficient measures and relying on the general tax/transfer for equality is Pareto-optimal. Thus, the departure

from the reliance on the market has to be based on some important external effects, ignorance, or irrationality; the egalitarian concern alone is not enough.

The point that the egalitarian concern alone is not sufficient to justify the restriction of markets does not mean that no such restrictions can be justified; only that they have to be justified on additional grounds. We have already conceded possible grounds like grave ignorance and external costs like pollution. We have also discussed the extension of the concept of external costs (and benefits) to cover effects like repugnance and those through morality. After accounting for these extended factors, we note that no general conclusion in favour or against the market can be obtained; whether the banning or restricting the use of the market in specific cases is desirable depends on the relative importance of the various costs and benefits concerned. Nevertheless, our extended framework still provides some help in assessing these costs and benefits for specific cases. As typically both costs and benefits are involved, the case, either pro or con, depends in general on the quantitative estimates which may be difficult to obtain in many cases. However, there are cases where we may be reasonably confident that, on balance, the scale is overwhelmingly likely to tilt one way or other, as discussed below.

4. BLOOD DONATION VS. KIDNEY SALE

In this section, it is argued that the case for legalizing kidney sale is much stronger than legalizing monetary payment for blood.

1. Blood Donation

In many countries, blood is supplied mainly by voluntary donation with only symbolic recognition and minor in-kind rewards instead of by monetary payment. Though some shortage still occurs from time to time, this is usually solved by donation campaigns. At least where this method works, even if imperfectly, keeping the system has some advantages.

- First, using monetary payment for blood may crowd out voluntary donation and attract unsafe donors, as analyzed from Titmuss (1971), to Costa-Font, et al. (2013); but see Slonim et al. (2014) for the many complicated factors involved.
- Secondly, and relatedly, the financial payment of donors may decrease the warm-glow effect of voluntary donation.
- Thirdly, financial payment may result in very unequal incidence of donation among the population, with much higher incidence for the lower income groups.

In itself, this last point of unequal distribution may not be much of a problem. However, some donation, whether paid or unpaid, is actually good for the donors, while excessive donation may be undesirable. This is so because, as hunters-gatherers, we faced frequent blood loss in our daily life. Thus, we are programmed to replenish our frequent blood loss. However, modern living makes blood loss almost non-existent, especially for males. This unhealthy situation is improved by undertaking frequent but not excessive blood donation (e.g. Meyers et al. 2002, Salonen et al. 1998). Because of this, an adequate education of this simple point will likely make voluntary donation more than adequate to ensure adequate blood supply in most countries.

This is particularly relevant for a culture like the Chinese, though not just confined to China. The traditional belief in China is that any part of the body, including even hair and skin, not to mention blood, is from the parents and should not be discarded. Another belief is that blood is the essence of life and losing blood will weaken the body significantly (Tison et al. 2007, Zaller et al. 2005, Lownik et al. 2012). This half-truth ignores the point that our body is programmed to replenish blood loss. If we have a lesson at the senior primary or junior secondary school level on the biological basis of healthy blood donation, voluntary donation will increase at least ten times in China without payment. If we could have adequate and safer blood supply with just some simple education, there is no need to shift to a system of using financial payment to induce blood donation.

The many advantages of voluntary donation, including the possible indirect promotion of altruism, may thus be kept.

2. *Kidney Sale*

The monetary selling and purchase of kidneys are illegal in most countries. A notable exception is Iran where regulated legal markets exist with annual sales between one to two thousands per year. This method has avoided many problems associated with the inadequate black-market kidney trade and all other systems used in other countries have failed to solve the worsening kidney transplant queues (Ghods & Savaj 2006). It is true that some ex-post regrets exist (Cohen 2014). However, this is true for most if not all other legal or illegal transactions and decisions. The existence of substantial regrets may warrant more pre-sale counseling, but no system can ensure the complete absence of regrets. Obviously, the costs of some regrets may be overwhelmed by the large surpluses for both the selling and purchasing sides. As a comparison, consider helping the sick and the injured. If we refuse to pay our doctors and nurses on the ground of avoiding crowding out intrinsic motivation to help, our health care will be seriously jeopardized.

Elías et al. (2015) show that cases against organ sale are much affected by the lack of relevant information. ‘The estimated approval rate for organ payments increased from a baseline of 51.8 percent to 71.3 percent when information was provided—a 19.5 percentage point increase ($p < 0.01$), or about 38 percent of the baseline’ [p.363].

While there are similarities for different forms of organ sales, a big difference between blood and kidney sales is this. Voluntary donation, especially with adequate education of its benefits, is likely to provide adequate supply in the case of blood, but not in the case of kidneys. Also, while blood donation is actually good for the donors as mentioned above, the same cannot be said for giving away one of your only two kidneys. Our bodies can replenish blood but cannot regrow kidneys.

As discussed above, we accept the possible case for regulation/restriction of markets based on generalized external costs, including the feeling of repugnance which seems to be the main form of external costs for the case of organ sale. Someone may genuinely feel repugnant that a rich person may purchase a kidney and prefers that kidney sales be illegal (Roth 2007, Elías 2015). However, for those waiting for years with many dying or seeing their loved ones dying while waiting, their sorrows and opportunities denied must be incomparably more important than the feeling of repugnance by the unrelated others. Moreover, this repugnance feeling is partly based on misconception on equality/poverty as explained above, and partly based on questionable morality. What is the ethics of feeling repugnant against people desperate enough to sell kidneys and people desperate enough to buy kidneys to save lives! Sympathy should be the right feeling for both sides!

If some people or the society as a whole feels sympathetic enough for the poor who are desperate enough to sell kidneys, they should help them sufficiently to relieve them of the need to sell kidneys, unless the costs are prohibitive. Few, if any, economists are against such help. However, if this help is not forthcoming and if some individuals are desperate enough to be willing, after adequate counseling, to sell their kidneys, how could prohibiting them from doing so help them? Out of many attempts to provide a justification for prohibition, we find the one offered by Rippon (2014) to be the most persuasive, but still not quite enough. Rippon's point is that, if a person can legally sell her kidney, she may be under more social pressure or moral obligation to repay her financial debts. However, such pressure pale into insignificance in comparison to the importance of saving lives. Moreover, by making organ sale illegal to protect the poor from pressure, we are also robbing them of some of their last resorts. Are we really empowering them? Not to mention the enormous costs of a black market. The alternative of allowing voluntary kidney sales (but never even think of forcing kidney sales for paying debts), and similarly many other forms of market expansion with some safeguards including adequate counseling, but

simultaneously imposing heavier taxes on the rich and more transfers to the lower income groups may make all groups better off significantly.

5. THE GENERAL CASE FOR QUALIFIED MARKET EXPANSION

Most communitarians approve of the use of monetary exchange in the traditional economic sphere of goods and services; they just object to the spread of market into other spheres, making a market economy turning into a market society. This is partly due to unfamiliarity. At the time of Adam Smith (18th century; the undisputed father of economics), people viewed selling one's service of singing in the public as a "discredit" and Smith cited this to explain the higher pays needed (Smith, 1776/1982, p.209). We now not only regard this as acceptable but as honorable.

Similarly, when life insurance was first introduced in the 19th century in the U.S., many people regarded it as an 'unacceptable gamble against God' (Taylor 2014). People admonished, 'You want to set a *price* on your life, and then place a *bet* on your date of death?' Now, virtually everyone regards taking life insurance as not only perfectly acceptable but a very prudent measure. As noted by Kessler & Roth (2014, p. 426), 'repugnant transactions have a long and varied history that changes in time and place (e.g., charging interest on loans, indentured servitude, selling horsemeat for human consumption, and same-sex marriage all have been repugnant transactions in some times and places and not in others)'. A representative sample survey of Americans conducted by Leider and Roth (2010) also suggests that disapproval of kidney sales correlates with other socially conservative attitudes. Perhaps we should learn to be more rational, liberal and be less dogmatic?

When a society becomes more advanced, with higher per capita incomes, higher degrees of specialization and division of labor, better legal systems, better transfer of incomes from the rich to the poor, better education and better understanding of the function of the market, more liberal

attitudes, etc., more and more activities may be subject to market exchange with gradual popular acceptance. In general, this is applaudable, not deplorable, though such an expansion should not be without limits and many safeguards like adequate information may be needed.

The gradual replacement of conscription by paying for volunteer soldiers is an example. While conscription had been popular for many countries (mostly poor countries; out of the 51 countries practicing conscription, 32 of them have per-capita income less than US\$1,000 a month), now most countries have dispensed with it. Only 27% of the 187 countries with data practice conscription, and 74% of the 100 richest countries have no conscription.

In 1970, U.S. President Nixon appointed Milton Friedman (Nobel laureate in economics, 1976) to a commission on moving to an all-volunteer force. Initially, the commission was evenly split between supporters and opponents. During a Congressional testimony General William Westmoreland, the then Army chief-of-staff, stated that he did not want to command an army of mercenaries. Friedman countered: “General, would you rather command an army of slaves?” Westmoreland drew himself up and said, “I don’t like to hear our patriotic draftees referred to as slaves.” Friedman replied, “I don’t like to hear our patriotic volunteers referred to as mercenaries.” Friedman went on, “But if they are mercenaries, then I, sir, am a mercenary professor, and you, sir, are a mercenary general; we are served by mercenary physicians, we use a mercenary lawyer, and we get our meat from a mercenary butcher.” Thus, Friedman secured “a unanimous vote for the volunteer army, and for freedom” (Buchholz 2007, p.252).

The U.S. moved from conscription to an all-volunteer force in 1973. Its defense budget did not increase very much because of this move. More importantly, its military capabilities did not decrease but rather strengthened. In this era of high tech, specialized professional volunteers are much better soldiers. The performance of the U.S. military in Afghanistan and the two Gulf wars testified. Not to forget the huge amount of hardship saved by not having yourself or your boy

conscripted against your will. Similarly, the expansion of the market, with proper safeguards, in many other spheres will likely contribute to social welfare.

6. CONCLUDING REMARKS

On the important public policy on the proper limits of the market, we adopt an eclectic view in accepting the view of the communitarians that we must not look narrowly at economic efficiency alone but must also consider such factors as possible crowding out of intrinsic motivation and morality, inflicting repugnance feelings, and similar wider effects. On the other hand, we also find that at least some of the communitarian objections to the expansion of the market are based on inadequate understanding of the functioning of the market. In particular, the objection based on the exploitation of the poor cannot be sustained in the absence of ignorance and irrationality (in the presence of which there would be no differences in principle between the communitarians and economists). This is so since the objective of equality is better achieved through the general tax/transfer policies instead of through specific issues. Moreover, while crowding out and feelings of repugnance do exist, we find that in many cases their significance is unlikely to be large enough to offset the efficiency effects of rationally extending the use of the market mechanism, especially in such life and death issues like kidney sale. We also argue that, as a society progress in levels of income, education, and liberalism, the market could be used in wider scope with gradual acceptance and hence less negative side effects. In addition, the decrease in the scope for legal prohibition allows the use of our limited law enforcement resources in more important areas and reduce the scope for criminal activities and corruption. Social welfare will likely increase.

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ⁱ What we call generalized external effects correspond roughly to the psychological external effects of Mueller (2009, pp. 241-3). See also Van der Iest, et al. 2011 on the social dilemmas in the presence of third-party external effects.