

## MARKETS AND MORALS

Considering efficiency, equality, and morality, this book argues for qualified market expansion, particularly in legalizing kidney sales and prostitution. Legalizing prostitution will benefit both men and women, as argued in a chapter jointly written with Yan Wang. Blood donation without monetary compensation can still result in adequate blood supply if schools educate children that blood donation can actually benefit a donors' health. As a society becomes more advanced, with higher incomes and a better educated populace, more activities can be subject to market exchange, with gradual popular acceptance. Without serious misinformation and irrationality, inequality/fairness as such cannot be a valid reason for limiting the scope of the market. The book supports the use of markets to increase efficiency while also increasing the effort to promote equality, making all income groups better off, as was previously argued by the author in the *American Economic Review*.

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# Markets and Morals

JUSTIFYING KIDNEY SALES AND LEGALIZING  
PROSTITUTION

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## Contents

<i>Preface</i>	<i>page</i> vii
<i>Acknowledgements</i>	xi
<b>1 Introduction</b>	<b>1</b>
<b>2 The Well-Known Case of Lateness Fees</b>	<b>6</b>
<b>3 Extending Economic Analysis</b>	<b>11</b>
<b>4 The Anti-Market Sentiment</b>	<b>14</b>
<b>5 The Inequality/Exploitation Case against Commodification Is Invalid</b>	<b>24</b>
<b>6 Repugnance? Similar to ‘Honour’ Killing</b>	<b>41</b>
<b>7 Crowding Out or Crowding In?</b>	<b>46</b>
<b>8 Market Expansion Is a Mark of Progress</b>	<b>53</b>
<b>9 The Case for Legalizing Kidney Sales</b>	<b>60</b>
<b>10 Making Presumed Consent the Default Option</b>	<b>68</b>
<b>11 Blood Donation</b>	<b>73</b>
<b>12 Prostitution</b>	<b>75</b>
<i>Ms Yan Wang and Prof. Yew-Kwang Ng</i>	
<b>13 Conscription</b>	<b>86</b>
<b>14 Profiteering</b>	<b>93</b>
<b>15 Water: A Typical Case of Under-Pricing</b>	<b>99</b>
<b>16 Fines, Imprisonment, or Whipping?</b>	<b>103</b>
<b>17 Some Specific Areas</b>	<b>109</b>
17.1 From Slavery to Surrogate Pregnancy	109
17.2 From Vote Trading to Corruption	111
17.3 From Friendship to Nobel Prizes	113
17.4 Paying Others for Line Standing/Sitting	115
17.5 Selling Permits for Hunting Rhinos	116

17.6	Educational Equality, University Admission, Hospital Priority, Jury Service	116
18	<b>Concluding Remarks</b>	119
<b>Appendices:</b>		
<i>Appendix A</i>	<i>Welfare versus Preference</i>	126
<i>Appendix B</i>	<i>Happiness as the Only Ultimate Value: A Moral Philosophical Perspective</i>	130
	B.1 What Is Happiness?	130
	B.2 Happiness as the Only Intrinsic Value	135
	B.3 Answering Some Objections	141
	B.4 Rejecting Kant's Categorical Imperatives	145
	B.5 A Critique of Rawls	148
	B.6 Further Opposing Arguments Considered	152
<i>Appendix C</i>	<i>Extending Economic Analysis to Analyze Policy Issues More Broadly</i>	156
<i>Appendix D</i>	<i>Immigration Typically Makes Existing Residents Better Off</i>	170
<i>Appendix E</i>	<i>A Democratic Decision on COEs: Striking a Balance between Elitism and Populism</i>	175
	<i>References</i>	178
	<i>Index</i>	200

## Preface

This book addresses a very important problem of general interest, the appropriate scope of using the market. After the collapse of the USSR and the transition of many countries from non-market to market economies, most people accept the use of the market in the traditional sphere of ‘normal’ goods and services. However, whether the use of market exchanges, especially those involving monetary payment, should be expanded to cover such areas as kidney sales and prostitution is much more controversial. This book tackles this fundamental problem, in both general and specific cases.

Since this book deals with the desirability of allowing or banning certain market exchanges, it needs to have some normative foundation. I am fully open on my stance in this matter. I am a 100% welfarist, believing that, ultimately speaking, only welfare or happiness is of intrinsic value and that public policies should be for the promotion of social welfare in the long run, although we should not rule out the consideration of animal welfare. The moral philosophical argument justifying this position is provided in Appendix B. However, even Kantians (those believing in some intrinsic deontic rules not justified by welfare considerations) may find the book useful, as something useful is still possible within the constraints of not violating those rules.

In my usage, welfare and happiness differ only in two trivial senses. First, we tend to use happiness to describe the current situation and welfare for the longer term. Given the time period that this book deals with, this difference disappears. Strictly speaking, we are using an a-temporal analysis, largely ignoring the complication of multi-periods, but referring to ‘the future’ where necessary. Second, welfare is more formal and happiness less so. Ignoring this formality, we use the two terms, and also ‘subjective well-being’, synonymously.

I use happiness in its subjective, affective, or feeling sense, and not the cognitive sense which, in my view, should be called life satisfaction. I prefer using happiness instead of life satisfaction since the latter is related to how one contributes to the happiness of others, and may thus constitute double counting. For any given period, say from the time you wake up until now, your net happiness is all (including the sensuous or bodily and the spiritual) your affective feelings (those feelings that matter to you, that make you feel either positively or negatively) over this period, counting the happy feelings positively and the unhappy feelings negatively, with intensities taken into account. Other non-affective or non-subjective definitions of happiness tend to confuse morality with fact, and/or is confused by the effects on the happiness in the future or on others. Please see Appendix B for details.

Given my welfarist position, many apparently unsolvable issues are all resolved at the level of costs and benefits in terms of welfare. For example, consider: 'the reasons that matter most to each side [of the pro and anti-market debate] come in with different weights: market advocates weigh autonomy and the negative liberty/anti-paternalism reasons as the heaviest, most important reasons, whereas nonmarket advocates weigh promoting an attitude of dignity and social civic community as heaviest, most important reasons' (Gillespie 2017, pp. 12–13). With different weights used, it seems impossible to reach any agreement. However, if we agree that the ultimate value is welfare, the correct weights for different elements should ultimately be based on their contributions to welfare in the long run, taking all relevant effects into account. One may still differ on the likely magnitudes, but the ultimate basic value could be the same.

From time immemorial and without record, through Mencius' compassion (惻隱之心) and 'being ashamed of evil deeds' (羞惡之心), Adam Smith's moral sentiments, to recent evolutionary theory of morality for cooperation (e.g., Frank 1987, Stanford 2018), morality as an important element of human nature has been much discussed. Our inborn moral sentiments help us to survive by having better interpersonal relationships, including cooperating better, for example, in market exchanges. They are further shaped by our experience, education, and other social influences. Our higher material achievements facilitated by markets also enhance our moral capability. Markets and morals are thus mutually reinforcing. However, they also have some negative or limiting effects on the each other. As ably put by Friedman and McNeill:

Markets need morals. . . . Though few realize it, markets have also made us more moral. They not only encourage cooperation, but since they've



increased wealth, they've enabled boons like police and public health systems. As we brought morals and markets into alignment a few hundred years ago, warfare dropped off and so did crime. Markets bred the world of peace we live in today. . . . But if the benefits run both ways, so do the hazards. . . . Morals sabotage markets. . . . Markets can also corrupt morals. (2013, p. 6)

Could we use markets more without too much corrupting effects on morals? Could we keep the high benefits of morality while expanding the scope of markets? Hopefully, this book will contribute a little towards answering such questions. The important points made in this book include:

- The basic framework of economic analysis may be extended to include such effects as the possible crowding out of intrinsic motivation and morality in using the market. This may help answer the questions posed in this book and other questions involving factors beyond narrow economic effects more adequately (Chapter 3 and Appendix C).
- Such an extended analysis, although providing some useful insights, does not give a general answer as to the desirability of extending the scope of markets; we have to look at each specific case closely.
- Most people (the present author included) have anti-market sentiments, partly, if not largely, based on mistaken views (Chapter 4).
- One mistake is to regard the wider scope for markets as being unfair to the poor, allowing the rich to acquire, say, their kidneys when they are desperate for money.
- In the absence of serious misinformation and irrationality, inequality/fairness as such cannot be a valid reason for limiting the scope of the market. We may use markets more to increase efficiency while also increasing the effort to promote equality, making all income groups better off (Chapter 5).
- As a society progresses in achieving higher degrees of division of labour, higher incomes, better education, more liberalism, and more understanding of economics, it will typically allow a wider scope for using markets (Chapter 8).
- In most cases, it is almost certain that kidney sales should be legalized, with adequate counselling. Instead of feeling repugnant against kidney trade, we should feel sympathy towards those desperate enough to buy and sell kidneys, and be glad that more lives are saved (Chapter 9).
- We may keep blood donation free of monetary compensation and yet have enough blood supply if we simply have a lesson in schools on the

point that blood donation is actually good also for the donors (Chapter 11).

- Partly because of our biological nature and partly because of the much higher costs of prohibition, the legalization of prostitution will most certainly promote welfare not only for men, but also for women (Chapter 12).
- A strong case is made for having presumed consent as the default option for using organs of the dead (Chapter 10).
- The case (made in Appendix B) for using welfare (happiness) as the ultimate objective, as it is the only thing of intrinsic value, is both the normative foundation for the position of this book and a contribution to moral philosophy in itself.

Other issues, including conscription, profiteering, slavery, fines versus imprisonment, inadequate pricing of some goods like car park space and water, among others, are also addressed briefly. While not pretending to have covered all relevant aspects of these complicated issues, at least some useful arguments, some quite novel, have been advanced. I understand that government has to take into account not just economic efficiency, but also the perception of fairness by the public, even if not based on valid grounds, making many of my proposals to improve both efficiency and equality possibly politically infeasible. However, as an academic and economist, I have the duty to explain the real issues involved, even if this proves to be very unpopular. For example, my case against some popular fallacies on immigration following the Population White Paper in Singapore in 2013 attracted 9–1 responses against me; a similar negative response was evoked for my case in favour of increasing water prices towards the full costs in 2017. Hopefully, over time, with better learning and education, the public opinion may gradually shift.

I hope to make the book readable by general readers. Thus, the main text is written to be largely understandable even without any training in economics. The more technical parts are put into appendices. Throughout the whole book, no equation is used, except a few in a small part of Appendix C. There are not even any graphs/diagrams used. Specific scholarly references and points are put in footnotes. However, references to publications (papers or books) may be made in the text by just citing the surnames of the relevant authors and the years of publication (e.g., Arrow 1972 which refers to the publication in 1972 written by Arrow). The full list of publications referred to appears at the end, listed alphabetically according to the surnames of the authors. Happy reading!

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