

## 1

## Introduction

If each individual or family could not rely on the market but had to produce all goods by themselves, their productivities would be very low. Most would probably perish. Even for those who could survive, they would not have much, if any, time for leisure, thinking, and invention. The use of market exchange has facilitated the division of labour, which in turn has helped to promote scientific and technological advances. These have resulted in huge increases in productivity and have increased the per-capita real income of the world by more than 10 times since 1800, to a population of more than 6 times, or an increase in total gross domestic product (GDP) of more than 60 times in real terms, not counting price increases. Although the increases have been uneven, even the poorest in Africa have more than tripled in real per-capita income (McCloskey 2006). ‘Over the long run, markets drive the prices of most goods we want to consume way down. This means that all of us are in a real sense spending less time in getting those goods, more of us are getting them, and we are getting more of them. It is basic economics to say that our standard of living is higher now because the costs of pretty much everything in terms of time and labor are much lower now. For instance, between 1835 and 1850, the price of light in Britain in terms of average labor hours was cut in half. Between 1850 and 1890, it was further cut by about 97%. Quite literally, we can now buy more lights with 10 seconds of labor than a cave-person could have bought with 60 hours of labor’ (Brennan & Jaworski 2016, p. 166). This is 21,600 times!<sup>1</sup>

More recently, the transition of China in the past four decades from a centrally planned economy into a largely market economy has resulted in double-digit annual real growth rates over most years, leading to an increase in real per-capita income to more than 22 times over 38 years (World Bank 2017).

<sup>1</sup> On the history of lighting, see Nordhaus (1996).

Hundreds of millions of individuals escaped poverty. Although China has also benefited much from foreign investment and learning from overseas, the replacement of central planning by the market has played a crucial role. Many economists regard this replacement as the most important factor accounting for its rapid growth (e.g., Lardy 2014, Li 2017, p. 9, Naughton 2017). On the other hand, it may be tempting to blame the recent low morality in China on the extensive use of markets. However, as I argue elsewhere (Ng 2013a), the real culprits are Mao's movements (including the Great Leap Forward and the Cultural Revolution) and the one-child policy.

The economic success of China largely explains why it tops the world in its belief in the market system: 'A similar international divergence is observed for beliefs in the merits of "the free enterprise system and free market economy"'. The average degree of agreement that this is "the best system on which to base the future of the world" was 61 percent in the 2005 World Public Opinion Survey. Countries near the top include China at 74 percent, the United States at 71 percent, and Germany at 65 percent. Those at the bottom include Argentina at 42 percent, Russia at 43 percent, and France at 36 percent' (Bénabou & Tirole 2016, pp. 154–155).

The market-facilitated increase in productivity has also led to an enormous expansion in the scope of market usage. Not only has the amounts of goods involved increased many folds, the variety has also multiplied. We traded mainly in goods before, but now most parts of our GDP consist of services. Moreover, many esoteric types of services have emerged, such as those for line sitting (standing in queues) and for surrogate pregnancy. The emergence of such esoteric services has raised objections from certain scholars including the communitarians and/or anti-commodification (or commercialization) theorists. While these two terms need not mean exactly the same thing, I will use them largely interchangeably in this book for convenience. Also, while communitarianism as championed by Amitai Etzioni and others is rich in content, I will focus here on the aspect of anti-commodification as emphasized by Sandel (2012a, 2013, 2018).

According to Etzioni (2008, p. 170), 'The communitarian position I have come to share with a considerable global network [[www.comunitarianet.org](http://www.comunitarianet.org)] of colleagues and public leaders assumes that there is a tension between the individual (and their rights) and the common good (and hence one's social responsibilities) and that a good society seeks a carefully crafted balance between the two, relying as much as possible on moral suasion and not on power.' With this description, I regard myself also a communitarian. Most economists recognize this tension at least through possible inequality issues and through external effects like pollution. More

effects like the morality and intrinsic motivation aspects that the communitarians may emphasize are also allowed in my extended framework of analysis discussed in Chapter 3 and Appendix C. However, agreement on this central aspect of communitarianism needs not imply the same view regarding the expansion of the market.

Most of the critiques of market expansion are not against the use of markets in the traditional economic spheres of the production and exchange of ‘normal’ goods (including services). They are against many types of market expansion into social spheres where the use of markets, prices, exchange, and money should not prevail for some alleged reasons; they object to the expansion of the market economy into a market society. ‘The difference is this: A market economy is a tool – a valuable and effective tool – for organizing productive activity. A market society is a way of life in which market values seep into every aspect of human endeavor. It’s a place where social relations are made over in the image of the market.’ (Sandel 2012a, pp. 10–11).

The concern of the communitarians on the excessive commodification or commercialization has some validity. Although the expansion of the market may generate some substantial benefits, the possible crowding out of intrinsic motivation and morality (as discussed in Chapter 7) may bring about negative effects. The excessive use of commercial advertisement may also combine with environmental disruption, relative competition, and excessive materialism/consumerism to result in welfare-reducing growth (Ng 2003).<sup>2</sup> However, an economist like me will be inclined to regard these negative effects as apart from the intrinsic effects of the market and its expansion. Rather, they are due to the external costs (costs imposed on others without compensation/payment) of such factors as pollution, competitive instead of informative advertisement, and invidious relative competition. These negative factors should be treated with the appropriate measures like taxes on pollution, income, and consumption, and not by limiting the expansion of the market.

The anti-commodification objection has been based on a variety of arguments. Brennan & Jaworski (2016) have provided a comprehensive, largely convincing, and, in most instances, compelling, critique of these various arguments.<sup>3</sup> Their main point is that the use of markets or monetary exchange itself is not the problem; what may be possessed or done may be bought and sold. Child pornography should not be bought and sold because child porn itself should not be created and possessed. It may be bad or not to have extra-

<sup>2</sup> Earlier concerns with some negative effects of economic growth and commercialization include Mishan (1967/1993), Hirsch (1976), and Scitovsky (1976/1992).

<sup>3</sup> For a critique of Brennan & Jaworski, see, e.g., Sparks (2017).

marital sex with a stranger, but whether monetary payment is involved or not is beside the point. When I was at the initial stage of reading their book, I found their position is somewhat extreme in being too pro-market. However, after reading this excellent book from the first word to the last, I am largely convinced by their arguments. However, being a welfarist, I still have to make some concessions to the anti-commodification theorists. For example, if many people deeply feel that the sale of human organs is highly repugnant, society may have to take this strong feeling into account, even if it is based on mistakes. However, in the long run, we will most probably be better off adopting policies not based on mistaken feelings. Through better knowledge and education, I hope that we may make improvements on this front, although the shift toward populist policy making as seen from the recent election results of Brexit and the Trump election do not give us much encouragement.<sup>4</sup>

Instead of tackling all aspects or arguments advanced by the anti-commodification theorists as done by Brennan and Jaworski, I shall concentrate on three more arguable and important points:

1. The use of markets or monetary payment allow the rich to exploit the poor.
2. Markets crowd out intrinsic motivation and morality.
3. Some markets are repugnant.

I will argue that, for most cases, including kidney sales and prostitution as focused on in this book, none of these arguments provide a convincing case in favour of the prohibition of voluntary exchange, especially in the absence of strong ignorance and/or irrationality. However, I will also argue in favour of keeping blood donation without monetary payment, based on a different reason. If some readers find that my conclusions are not justified as I have ignored some other possible objections to commodification other than the points discussed in this book (mainly, although not exclusively, the previously mentioned three points), they are advised to read Brennan & Jaworski (2016), which covers also many other points such as: markets are corrupt, give wrong signals, treat things as mere commodities, lead to low quality, and unjust allocation. They provide a very strong defence of markets against these and other objections; they also discuss some reasons giving rise to the incorrect anti-market attitudes and the ‘pseudo-morality of disgust’ against the use of

<sup>4</sup> As Sandel (2018, p. 359) concludes, ‘Disentangling the intolerant aspects of populist protest from its legitimate grievances is no easy matter. But it is important to try. Understanding these grievances and creating a politics that can respond to them is the most pressing political challenge of our time.’

markets in certain areas. As I believe that their arguments are largely persuasive and even compelling, I will not repeat them in this book.

Before discussing the various arguments mentioned earlier, we shall first discuss the widely reported case of the failure of charging lateness fees in reducing the late picking up of children in day care centres in the next chapter. In Chapter 3, we argue that that the traditional economic analysis may be extended to cover effects like repugnance and crowding out to provide a more comprehensive analysis of broader social changes like the expansion of markets. Although a general case either in favour or against the market expansion cannot be concluded, a more complete framework is provided to analyze the relevant issues more adequately. Readers more academically inclined and trained in economics may find reading Appendix C instead of Chapter 3 more rewarding.