Session IV

Boundaries of Markets

Michael Sandel and Al Roth
Discussant: Stefanie Stantcheva

Al Roth first defines a "repugnant transaction" as an interaction that has no negative externalities and yet is one in which individuals do not want others participating. Roth claims that repugnancies have changed dramatically both over time and across space. Same sex marriage, money lending, and prostitution are examples of transactions that at some time or place were/are thought to be repugnant. Society sometimes bans markets for such transactions but that doesn't necessarily lead the market to disappear.

In some cases, transactions are deemed acceptable if no money exchanges hands. Kidneys and sex are two such examples. There are three types of objections to monetary exchange: objectification, coercion, and slippery slope arguments. Of course, some markets, such as matching markets for college admission or kidney exchange, do not use prices at all to clear the market. Roth's view is that markets are a human artifact, and, therefore, we need to carefully design the rules for a given market to ensure that commodification and coercion are unlikely outcomes. Finally, as economists, welfare tradeoffs matter when evaluating policy, and we must rely on evidence to make informed decisions about market design.

Michael Sandel first characterizes the difference between his and Roth's view on repugnance. Sandel describes Roth's perspective as hostile toward repugnance but as attempting to make concessions. Rather than treating repugnance as a de facto barrier to efficient exchange, Sandel believes that one ought to examine the reasons why repugnance exists: Does the repugnance reflect an indefensible prejudice, or is it a valid moral objection? Sandel then cautions that it would be a mistake for economists to shrink from this necessary engagement with moral philosophy. There are two kinds of valid moral objections to market transactions that do not have negative externalities. The first is when inequality in the background conditions of society undermine meaningful consent (e.g. unequal bargaining conditions). The second moral objection concerns the tendency of certain market transactions to erode other social values (e.g. corruption of the norms attached to a given social practice).

Sandel then explains that economists are often tempted to bracket the moral consideration and use a "work-around" that does not invite the same repugnance and increases welfare. Yet, remaining agnostic and not challenging the moral grounds for repugnance itself is not acceptable. This moral engagement is necessary in order to decide whether the work-around is acceptable. Sandel uses examples, including dwarf-tossing and auto rickshaw driving, to demonstrate how different work-arounds would not resolve the underlying objection to the transaction.

Discussion

Stefanie Stantcheva explains the economist's approach to handle repugnancy. For a given moral (X) determined by the philosopher, the economist must optimally choose F(x) market, which might be no market at all. This becomes a harder problem when x is endogenous to policies set for F(X), but we could still get a fixed-point solution, assuming we know the x we want to achieve. Stantcheva also emphasizes the feasibility constraint in this problem: we may want to wait for people selflessly to do the right thing, but people urgently need our help.

She then questions whether it is meaningful to distinguish between money and family favors as the currency for a transaction (e.g. for kidneys). The two currencies seem to be equally morally arbitrary. Finally, Stantcheva asks if the problem of background inequality and tainted consent is separate from the problem of market design. Perhaps feedback effects connect the two problems.

Q and A

Al Roth: Kidney exchange should be replaced with a market in which the government buys and then allocates them. We could also provide subsidies for low income people who cannot afford to purchase a kidney.

Hannah Shaffer: Why provide subsidies in this case and not for other goods that are important for low income people (and perhaps ought to be distributed according to need rather than ability to pay)?

Glen Weyl: One danger of "work-arounds" that involve removing money from the exchange is that we may be less likely to investigate market consequences (e.g. vote exchange). The other problem is that we may fail to inquire about the deeper reason for the initial objection.

Al Roth: We need to gather evidence, rather than relying on introspection to understand the roots of the deeper objection.

Marc Fleurbaey: Are economists comfortable with the idea of coercion as explaining what is happening when inequality drives the scope to sell certain things? You can be coerced without money.

Al Roth: Coercion is very complicated.

Michael Sandel: Are externalities a sufficient reason to outlaw vote-selling? I think not. If I convince someone to change their vote, that has a (potential negative) externality. But no one is advocating outlawing persuasion.