The Ethical Limits of the Market

Choice, Commerce, and Conflict
Ryan Doody

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Questions?

The Fundamental Theorems of Welfare Economics

The Fundamental Theorems

The First Fundamental Theorem of Welfare Economics:
The allocation resulting from any perfectly competitive equilibrium is Pareto-efficient.

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What should we make of this result?

The Fundamental Theorems

The First Fundamental Theorem of Welfare Economics:
The allocation resulting from any perfectly competitive equilibrium is Pareto-efficient.

Not every Pareto-efficient allocation is a **good** allocation.

Example: Some Pareto-efficient allocations are extremely inegalitarian

The Fundamental Theorems

The First Fundamental Theorem of Welfare Economics:

The allocation resulting from any perfectly **competitive equilibrium** is Pareto-efficient.

Assumptions:

(1) Full Information
(2) No Transaction or Enforcement Costs
(3) No Externalities
(4) Traders are rational
(5) Products are undifferentiated

The Second Fundamental Theorem of Welfare Economics

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In a perfectly competitive market, any Pareto-efficient allocation whatsoever may be achieved with a suitable distribution of initial endowments.

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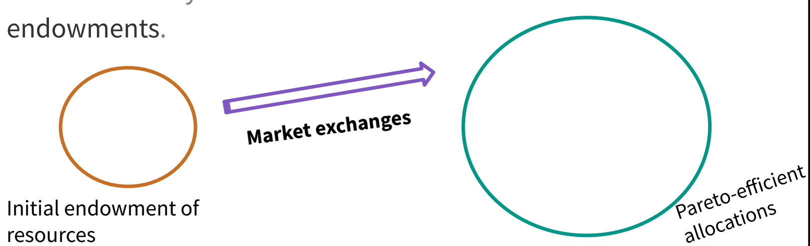

The Fundamental Theorems

"The two Fundamental Theorems of Welfare Economics, then, seem to say this: *although* not every *distribution resulting from free exchange will be morally satisfactory,* some *distribution achievable with free exchange will be.*" Gibbard, pg. 26

The Fundamental Theorems

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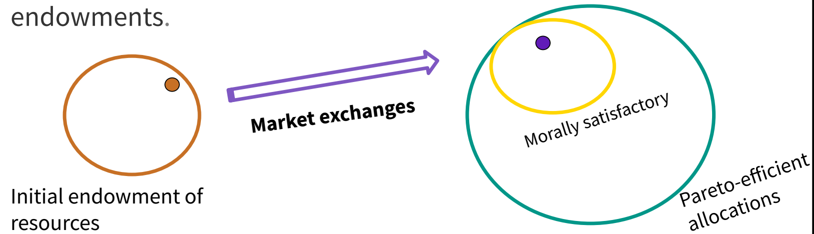
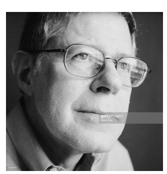


The Fundamental Theorems

"… [R]eaping the benefits of the Second Fundamental Theorem would require a **perfect omniscience** on the part of whomever distributed the 'initial endowments.'"

Gibbard, pg. 27



Gibbard's Conclusion

"…all that can be reasonably supported … is a mitigated system of free exchange, i.e., a price system with taxation to mitigate income inequalities."

Gibbard, pg. 28

The Fundamental Theorems

The First Fundamental Theorem of Welfare Economics:
The allocation resulting from any perfectly competitive equilibrium is Pareto-efficient.

The Second Fundamental Theorem of Welfare Economics:
In a perfectly competitive market, any Pareto-efficient allocation whatsoever may be achieved with a suitable distribution of initial endowments.

The Ethical Limits of the Market

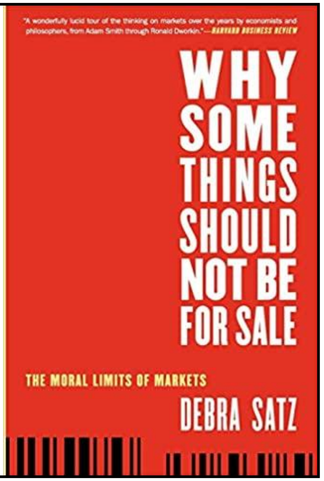
The Efficiency Argument

Free exchange (under certain conditions) has an important property: it leads to **Pareto improvements**.

Setting up a **market of free exchanges** has something going for it.

But there are some goods and services about which people are **uncomfortable** producing and distributing with markets.

Debra Satz



The Ethical Limits of the Market

Should we have a market in everything?

What is wrong with markets in everything? What is it about the nature of particular exchanges that concerns us, to the point that markets in some goods appear to be clearly undesirable? How should our social policies respond to such markets? Where and for what reasons is it appropriate to regulate a market, and when should we seek to block it?

The Ethical Limits of the Market

Should we have a market in everything?

What Should Not Be For Sale?

Examples:

The Efficiency Argument

Efficiency Argument

P1 In a free market, participants voluntarily exchange goods and services.

P2 If X is voluntarily exchanged for Y, then the participants of the exchange are made better-off and no one is made worse-off.

P3 A distribution of goods and services that makes some better-off and makes no one worse-off is always a better distribution.

C A free market results in a better distribution of goods and services.

Why Should Some Things Not Be For Sale?

The Efficiency Argument

Thousands of people die each year waiting for kidneys.

A market for kidneys would increase the supply, which would benefit those who need them.

A market for kidneys would benefit suppliers and demanders.

Isn't it a win-win?

The Efficiency Argument

EFFICIENCY ARGUMENT

P1 In a free market, participants voluntarily exchange goods and services.

The Exchange Claim:

P2 If X is voluntarily exchanged for Y, then the participants of the exchange are made better-off and no one is made worse-off.

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ARGUMENT FOR THE EXCHANGE CLAIM

P1 X would be voluntarily exchanged for Y only if the person who has X (Person A) prefers having Y to having X and the person who has Y (Person B) prefers having X to having Y ($Y \succ_A X$ and $X \succ_B Y$).

P2 If $Y \succ_A X$ and $X \succ_B Y$ then both A's and B's preferences are better satisfied by engaging in the transaction than by not.

P3 Satisfying a preference makes one better-off.

P4 No one else is affected by the exchange.

C If X is voluntarily exchanged for Y, then the participants of the exchange are made better-off and no one is made worse-off.

Why Should Some Things Not Be For Sale?

Two Approaches:

1. Intrinsic features.
   The intrinsic value of the good/service is *corrupted* by the existence of a market for it.

2. Extrinsic features.
   The existence of markets in some goods will have negative consequences.

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Two Approaches:

1. **Intrinsic features**.
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The Ethical Limits of the Market

In reality, this view of market neutrality is overstated. Some goods are changed or destroyed by being put up for sale. The most obvious examples of this phenomenon are love or friendship. A person who thought that they could buy my friendship would simply not know what it means to be a friend. A proposal to buy love, prizes, honors, friends, or divine grace is conceptually incoherent: it is the nature of these things that they cannot be bought.

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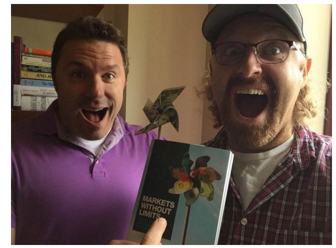
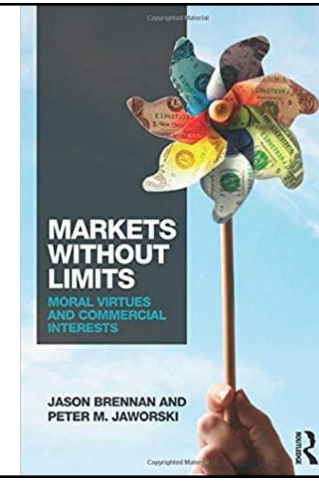
The Ethical Limits of the Market

This worry about markets is sometimes posed in terms of the metaphor of infection – that market norms and relations will spill over and contaminate nonmarket realms such as friendship and love. Thus, it has been alleged that markets erode our appreciation of the true value of other people, since they lead us to think of goods and people as exchangeable items. This wide interpretation of the market's negative effects on human flourishing has only weak social scientific support. There is little evidence that people are greedier in market societies than they were in peasant economies, that they devalue love and friendship, or that they are now less likely to engage in moral behavior than in the past (Lane, 1991).

Markets Without Limits





Markets Without Limits

Despite this admission, our title *Markets without Limits* is not misleading. There is an important sense in which we do advocate markets with unlimited scope. Our view of the scope of the market can be summarized as follows:

> Markets without Limits:
>
> If you may do it for free, then you may do it for money.

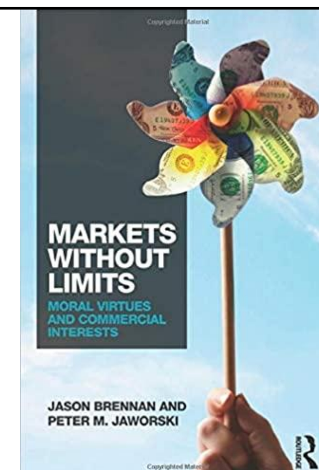
To put it in a more long-winded way, if you may have, use, possess, and dispose of something (that does not belong to someone else) for free, then—except in special circumstances—it is permissible for you to buy and sell it. Another way of

Markets Without Limits

Can you think of something that:

(1) it would be wrong to buy/sell

(2) but it is not wrong to have?



Markets Without Limits

A *Limits Due to the Principle of Wrongful Possession*: There are some things that people inherently should not have—indeed, that should not even exist—and, as a consequence, people should not buy or sell.

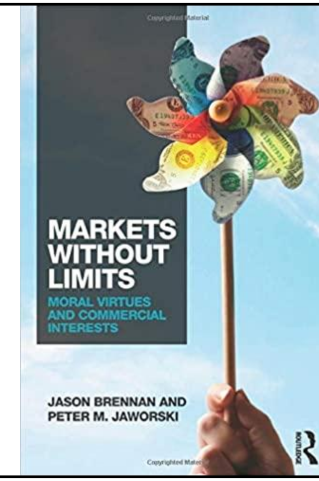
B *Incidental Limits to the Market:* There are cases where particular people should not sell particular things—things that normally would be permissible to sell—because of special circumstances, such as that they promised not to sell those items, or the items will be dangerous in these special circumstances, or because they have pre-existing duties that require them to do something else other than engage in buying or selling.

C *Inherent Limits to the Market:* There are some things that people are normally allowed to own or possess in some way, but which should not be for sale.

Markets Without Limits

What about cases in which the market would *corrupt* the good in question?

B&J:
We should change the norms, not the market.



Questions?