"Sandel is probably the world's most relevant living philosopher." —*Newsweek*

WHAT MONEY CAN'T BUY

THE MORAL LIMITS OF MARKETS

MICHAEL J. SANDEL

AUTHOR OF THE INTERNATIONAL BESTSELLER *Justice*

Introduction: Markets and Morals

There are some things money can't buy, but these days, not many. Today, almost everything is up for sale. Here are a few examples:

- *A prison cell upgrade: $82 per night.* In Santa Ana, California, and some other cities, nonviolent offenders can pay for better accommodations—a clean, quiet jail cell, away from the cells for nonpaying prisoners.[1]
- *Access to the car pool lane while driving solo: $8 during rush hour.* Minneapolis and other cities are trying to ease traffic congestion by letting solo drivers pay to drive in car pool lanes, at rates that vary according to traffic.[2]
- *The services of an Indian surrogate mother to carry a pregnancy: $6,250.* Western couples seeking surrogates increasingly outsource the job to India, where the practice is legal and the price is less than one-third the going rate in the United States.[3]
- *The right to immigrate to the United States: $500,000.* Foreigners who invest $500,000 and create at least ten jobs in an area of high unemployment are eligible for a green card that entitles them to permanent residency.[4]

- *The right to shoot an endangered black rhino: $150,000.* South Africa has begun letting ranchers sell hunters the right to kill a limited number of rhinos, to give the ranchers an incentive to raise and protect the endangered species.[5]
- *The cell phone number of your doctor: $1,500 and up per year.* A growing number of "concierge" doctors offer cell phone access and same-day appointments for patients willing to pay annual fees ranging from $1,500 to $25,000.[6]
- *The right to emit a metric ton of carbon into the atmosphere: €13 (about $18).* The European Union runs a carbon emissions market that enables companies to buy and sell the right to pollute.[7]
- *Admission of your child to a prestigious university: ?* Although the price is not posted, officials from some top universities told *The Wall Street Journal* that they accept some less than stellar students whose parents are wealthy and likely to make substantial financial contributions.[8]

Not everyone can afford to buy these things. But today there are lots of new ways to make money. If you need to earn some extra cash, here are some novel possibilities:

- *Rent out space on your forehead (or elsewhere on your body) to display commercial advertising: $777.* Air New Zealand hired thirty people to shave their heads and wear temporary tattoos with the slogan "Need a change? Head down to New Zealand."[9]
- *Serve as a human guinea pig in a drug safety trial for a pharmaceutical company: $7,500.* The pay can be higher or lower, depending on the invasiveness of the procedure used to test the drug's effect, and the discomfort involved.[10]

- *Fight in Somalia or Afghanistan for a private military company: $250 per month to $1,000 per day.* The pay varies according to qualifications, experience, and nationality.[11]
- *Stand in line overnight on Capitol Hill to hold a place for a lobbyist who wants to attend a congressional hearing: $15–$20 per hour.* The lobbyists pay line-standing companies, who hire homeless people and others to queue up.[12]
- *If you are a second grader in an underachieving Dallas school, read a book: $2.* To encourage reading, the schools pay kids for each book they read.[13]
- *If you are obese, lose fourteen pounds in four months: $378.* Companies and health insurers offer financial incentives for weight loss and other kinds of healthy behavior.[14]
- *Buy the life insurance policy of an ailing or elderly person, pay the annual premiums while the person is alive, and then collect the death benefit when he or she dies: potentially, millions (depending on the policy).* This form of betting on the lives of strangers has become a $30 billion industry. The sooner the stranger dies, the more the investor makes.[15]

We live at a time when almost everything can be bought and sold. Over the past three decades, markets—and market values—have come to govern our lives as never before. We did not arrive at this condition through any deliberate choice. It is almost as if it came upon us.

As the cold war ended, markets and market thinking enjoyed unrivaled prestige, understandably so. No other mechanism for organizing the production and distribution of goods had proved as successful at generating affluence and prosperity. And yet, even as growing numbers of countries around the world embraced market

mechanisms in the operation of their economies, something else was happening. Market values were coming to play a greater and greater role in social life. Economics was becoming an imperial domain. Today, the logic of buying and selling no longer applies to material goods alone but increasingly governs the whole of life. It is time to ask whether we want to live this way.

THE ERA OF MARKET TRIUMPHALISM

The years leading up to the financial crisis of 2008 were a heady time of market faith and deregulation—an era of market triumphalism. The era began in the early 1980s, when Ronald Reagan and Margaret Thatcher proclaimed their conviction that markets, not government, held the key to prosperity and freedom. And it continued in the 1990s, with the market-friendly liberalism of Bill Clinton and Tony Blair, who moderated but consolidated the faith that markets are the primary means for achieving the public good.

Today, that faith is in doubt. The era of market triumphalism has come to an end. The financial crisis did more than cast doubt on the ability of markets to allocate risk efficiently. It also prompted a widespread sense that markets have become detached from morals and that we need somehow to reconnect them. But it's not obvious what this would mean, or how we should go about it.

Some say the moral failing at the heart of market triumphalism was greed, which led to irresponsible risk taking. The solution, according to this view, is to rein in greed, insist on greater integrity and responsibility among bankers and Wall Street executives, and enact sensible regulations to prevent a similar crisis from happening again.

This is, at best, a partial diagnosis. While it is certainly true that greed played a role in the financial crisis, something bigger is at stake. The most fateful change that unfolded during the past three decades was not an increase in greed. It was the expansion of markets, and of market values, into spheres of life where they don't belong.

To contend with this condition, we need to do more than inveigh against greed; we need to rethink the role that markets should play in our society. We need a public debate about what it means to keep markets in their place. To have this debate, we need to think through the moral limits of markets. We need to ask whether there are some things money should not buy.

The reach of markets, and market-oriented thinking, into aspects of life traditionally governed by nonmarket norms is one of the most significant developments of our time.

Consider the proliferation of for-profit schools, hospitals, and prisons, and the outsourcing of war to private military contractors. (In Iraq and Afghanistan, private contractors actually outnumbered U.S. military troops.[16])

Consider the eclipse of public police forces by private security firms—especially in the United States and Britain, where the number of private guards is more than twice the number of public police officers.[17]

Or consider the pharmaceutical companies' aggressive marketing of prescription drugs to consumers in rich countries. (If you've ever seen the television commercials on the evening news in the United States, you could be forgiven for thinking that the greatest health crisis in the world is not malaria or river blindness or sleeping sickness, but a rampant epidemic of erectile dysfunction.)

Consider too the reach of commercial advertising into public

schools; the sale of "naming rights" to parks and civic spaces; the marketing of "designer" eggs and sperm for assisted reproduction; the outsourcing of pregnancy to surrogate mothers in the developing world; the buying and selling, by companies and countries, of the right to pollute; a system of campaign finance that comes close to permitting the buying and selling of elections.

These uses of markets to allocate health, education, public safety, national security, criminal justice, environmental protection, recreation, procreation, and other social goods were for the most part unheard of thirty years ago. Today, we take them largely for granted.

EVERYTHING FOR SALE

Why worry that we are moving toward a society in which everything is up for sale?

For two reasons: one is about inequality; the other is about corruption. Consider inequality. In a society where everything is for sale, life is harder for those of modest means. The more money can buy, the more affluence (or the lack of it) matters.

If the only advantage of affluence were the ability to buy yachts, sports cars, and fancy vacations, inequalities of income and wealth would not matter very much. But as money comes to buy more and more—political influence, good medical care, a home in a safe neighborhood rather than a crime-ridden one, access to elite schools rather than failing ones—the distribution of income and wealth looms larger and larger. Where all good things are bought and sold, having money makes all the difference in the world.

This explains why the last few decades have been especially hard on poor and middle-class families. Not only has the gap between

rich and poor widened, the commodification of everything has sharpened the sting of inequality by making money matter more.

The second reason we should hesitate to put everything up for sale is more difficult to describe. It is not about inequality and fairness but about the corrosive tendency of markets. Putting a price on the good things in life can corrupt them. That's because markets don't only allocate goods; they also express and promote certain attitudes toward the goods being exchanged. Paying kids to read books might get them to read more, but also teach them to regard reading as a chore rather than a source of intrinsic satisfaction. Auctioning seats in the freshman class to the highest bidders might raise revenue but also erode the integrity of the college and the value of its diploma. Hiring foreign mercenaries to fight our wars might spare the lives of our citizens but corrupt the meaning of citizenship.

Economists often assume that markets are inert, that they do not affect the goods they exchange. But this is untrue. Markets leave their mark. Sometimes, market values crowd out nonmarket values worth caring about.

Of course, people disagree about what values are worth caring about, and why. So to decide what money should—and should not—be able to buy, we have to decide what values should govern the various domains of social and civic life. How to think this through is the subject of this book.

Here is a preview of the answer I hope to offer: when we decide that certain goods may be bought and sold, we decide, at least implicitly, that it is appropriate to treat them as commodities, as instruments of profit and use. But not all goods are properly valued in this way.[18] The most obvious example is human beings. Slavery was appalling because it treated human beings as commodities, to be bought and sold at auction. Such treatment fails to value human beings in

the appropriate way—as persons worthy of dignity and respect, rather than as instruments of gain and objects of use.

Something similar can be said of other cherished goods and practices. We don't allow children to be bought and sold on the market. Even if buyers did not mistreat the children they purchased, a market in children would express and promote the wrong way of valuing them. Children are not properly regarded as consumer goods but as beings worthy of love and care. Or consider the rights and obligations of citizenship. If you are called to jury duty, you may not hire a substitute to take your place. Nor do we allow citizens to sell their votes, even though others might be eager to buy them. Why not? Because we believe that civic duties should not be regarded as private property but should be viewed instead as public responsibilities. To outsource them is to demean them, to value them in the wrong way.

These examples illustrate a broader point: some of the good things in life are corrupted or degraded if turned into commodities. So to decide where the market belongs, and where it should be kept at a distance, we have to decide how to value the goods in question—health, education, family life, nature, art, civic duties, and so on. These are moral and political questions, not merely economic ones. To resolve them, we have to debate, case by case, the moral meaning of these goods and the proper way of valuing them.

This is a debate we didn't have during the era of market triumphalism. As a result, without quite realizing it, without ever deciding to do so, we drifted from *having* a market economy to *being* 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.

The great missing debate in contemporary politics is about the role and reach of markets. Do we want a market economy, or a market society? What role should markets play in public life and personal relations? How can we decide which goods should be bought and sold, and which should be governed by nonmarket values? Where should money's writ not run?

These are the questions this book seeks to address. Since they touch on contested visions of the good society and the good life, I can't promise definitive answers. But I hope at least to prompt public discussion of these questions, and to provide a philosophical framework for thinking them through.

RETHINKING THE ROLE OF MARKETS

Even if you agree that we need to grapple with big questions about the morality of markets, you might doubt that our public discourse is up to the task. It's a legitimate worry. Any attempt to rethink the role and reach of markets should begin by acknowledging two daunting obstacles.

One is the persisting power and prestige of market thinking, even in the aftermath of the worst market failure in eighty years. The other is the rancor and emptiness of our public discourse. These two conditions are not entirely unrelated.

The first obstacle is puzzling. At the time, the financial crisis of 2008 was widely seen as a moral verdict on the uncritical embrace of markets that had prevailed, across the political spectrum, for three decades. The near collapse of once-mighty Wall Street financial firms,

and the need for a massive bailout at taxpayers' expense, seemed sure to prompt a reconsideration of markets. Even Alan Greenspan, who as chairman of the U.S. Federal Reserve had served as high priest of the market triumphalist faith, admitted to "a state of shocked disbelief" that his confidence in the self-correcting power of free markets turned out to be mistaken.[19] The cover of *The Economist*, the buoyantly pro-market British magazine, showed an economics textbook melting into a puddle, under the headline WHAT WENT WRONG WITH ECONOMICS.[20]

The era of market triumphalism had come to a devastating end. Now, surely, would be a time of moral reckoning, a season of sober second thoughts about the market faith. But things haven't turned out that way.

The spectacular failure of financial markets did little to dampen the faith in markets generally. In fact, the financial crisis discredited government more than the banks. In 2011, surveys found that the American public blamed the federal government more than Wall Street financial institutions for the economic problems facing the country—by a margin of more than two to one.[21]

The financial crisis had pitched the United States and much of the global economy into the worst economic downturn since the Great Depression and left millions of people out of work. Yet it did not prompt a fundamental rethinking of markets. Instead, its most notable political consequence in the United States was the rise of the Tea Party movement, whose hostility to government and embrace of free markets would have made Ronald Reagan blush. In the fall of 2011, the Occupy Wall Street movement brought protests to cities throughout the United States and around the world. These protests targeted big banks and corporate power, and the rising inequality of income and wealth. Despite their different ideological orientations,

both the Tea Party and Occupy Wall Street activists gave voice to populist outrage against the bailout.[22]

Notwithstanding these voices of protest, serious debate about the role and reach of markets remains largely absent from our political life. Democrats and Republicans argue, as they long have done, about taxes, spending, and budget deficits, only now with greater partisanship and little ability to inspire or persuade. Disillusion with politics has deepened as citizens grow frustrated with a political system unable to act for the public good, or to address the questions that matter most.

This parlous state of public discourse is the second obstacle to a debate about the moral limits of markets. At a time when political argument consists mainly of shouting matches on cable television, partisan vitriol on talk radio, and ideological food fights on the floor of Congress, it's hard to imagine a reasoned public debate about such controversial moral questions as the right way to value procreation, children, education, health, the environment, citizenship, and other goods. But I believe such a debate is possible, and that it would invigorate our public life.

Some see in our rancorous politics a surfeit of moral conviction: too many people believe too deeply, too stridently, in their own convictions and want to impose them on everyone else. I think this misreads our predicament. The problem with our politics is not too much moral argument but too little. Our politics is overheated because it is mostly vacant, empty of moral and spiritual content. It fails to engage with big questions that people care about.

The moral vacancy of contemporary politics has a number of sources. One is the attempt to banish notions of the good life from public discourse. In hopes of avoiding sectarian strife, we often insist that citizens leave their moral and spiritual convictions behind

when they enter the public square. But despite its good intention, the reluctance to admit arguments about the good life into politics prepared the way for market triumphalism and for the continuing hold of market reasoning.

In its own way, market reasoning also empties public life of moral argument. Part of the appeal of markets is that they don't pass judgment on the preferences they satisfy. They don't ask whether some ways of valuing goods are higher, or worthier, than others. If someone is willing to pay for sex or a kidney, and a consenting adult is willing to sell, the only question the economist asks is, "How much?" Markets don't wag fingers. They don't discriminate between admirable preferences and base ones. Each party to a deal decides for himself or herself what value to place on the things being exchanged.

This nonjudgmental stance toward values lies at the heart of market reasoning and explains much of its appeal. But our reluctance to engage in moral and spiritual argument, together with our embrace of markets, has exacted a heavy price: it has drained public discourse of moral and civic energy, and contributed to the technocratic, managerial politics that afflicts many societies today.

A debate about the moral limits of markets would enable us to decide, as a society, where markets serve the public good and where they don't belong. It would also invigorate our politics, by welcoming competing notions of the good life into the public square. For how else could such arguments proceed? If you agree that buying and selling certain goods corrupts or degrades them, then you must believe that some ways of valuing these goods are more appropriate than others. It hardly makes sense to speak of corrupting an activity—parenthood, say, or citizenship—unless you think that some ways of being a parent, or a citizen, are better than others.

Moral judgments such as these lie behind the few limitations

on markets we still observe. We don't allow parents to sell their children or citizens to sell their votes. And one of the reasons we don't is, frankly, judgmental: we believe that selling these things values them in the wrong way and cultivates bad attitudes.

Thinking through the moral limits of markets makes these questions unavoidable. It requires that we reason together, in public, about how to value the social goods we prize. It would be folly to expect that a morally more robust public discourse, even at its best, would lead to agreement on every contested question. But it would make for a healthier public life. And it would make us more aware of the price we pay for living in a society where everything is up for sale.

When we think of the morality of markets, we think first of Wall Street banks and their reckless misdeeds, of hedge funds and bailouts and regulatory reform. But the moral and political challenge we face today is more pervasive and more mundane—to rethink the role and reach of markets in our social practices, human relationships, and everyday lives.

2

Incentives

CASH FOR STERILIZATION

Each year, hundreds of thousands of babies are born to drug-addicted mothers. Some of these babies are born addicted to drugs, and a great many of them will suffer child abuse or neglect. Barbara Harris, the founder of a North Carolina–based charity called Project Prevention, has a market-based solution: offer drug-addicted women $300 cash if they will undergo sterilization or long-term birth control. More than three thousand women have taken her up on the offer since she launched the program in 1997.[1]

Critics call the project "morally reprehensible," a "bribe for sterilization." They argue that offering drug addicts a financial inducement to give up their reproductive capacity amounts to coercion, especially since the program targets vulnerable women in poor neighborhoods. Rather than help the recipients overcome their addiction, critics complain, the money subsidizes it. As one promotional flyer for the program states, "Don't Let a Pregnancy Ruin Your Drug Habit."[2]

Harris concedes that, more often than not, her clients use the cash to buy more drugs. But she believes this is a small price to pay to prevent children from being born with drug addictions. Some of the women who accept the cash for sterilization have been pregnant a dozen times or more; many already have multiple children in foster care. "What makes a woman's right to procreate more important than the right of a child to have a normal life?" Harris asks. She speaks from experience. She and her husband adopted four children who were born to a crack-addicted woman in Los Angeles. "I'll do anything I have to do to prevent babies from suffering. I don't believe that anybody has the right to force their addiction on another human being."[3]

In 2010, Harris took her incentive scheme to Britain, where the idea of cash for sterilization met strong opposition in the press—an article in the *Telegraph* called it a "creepy proposal"—and from the British Medical Association. Undaunted, Harris has expanded to Kenya, where she pays HIV-positive women $40 to be fitted with intrauterine devices, a form of long-term contraception. In Kenya and South Africa, where Harris plans to go next, health officials and human rights proponents have voiced outrage and opposition.[4]

From the standpoint of market reasoning, it's not clear why the program should provoke outrage. Though some critics say it reminds them of Nazi eugenics, the cash-for-sterilization program is a voluntary arrangement between private parties. The state is not involved, and no one is sterilized against her will. Some argue that drug addicts, desperate for money, are not capable of making a truly voluntary choice when offered easy cash. But if their judgment is that severely impaired, Harris replies, how can they possibly be expected to make sensible decisions about bearing and raising children?[5]

Viewed as a market transaction, the deal produces gains for both parties and increases social utility. The addict gets $300 in exchange for giving up her ability to have children. For their $300, Harris and her organization receive the assurance that the addict will not produce any more drug-addicted babies in the future. According to standard market logic, the exchange is economically efficient. It allocates the good—in this case, control over the addict's reproductive capacity—to the person (Harris) who is willing to pay the most for it and who is therefore presumed to value it most highly.

So why all the fuss? For two reasons, which together shed light on the moral limits of marketing reasoning. Some criticize the cash-for-sterilization deal as coercive; others call it bribery. These are actually different objections. Each points to a different reason to resist the reach of markets into places where they don't belong.

The coercion objection worries that when a drug-addicted woman agrees to be sterilized for money, she is not acting freely. Although no one is holding a gun to her head, the financial inducement may be too tempting to resist. Given her addiction and, in most cases, her poverty, her choice to be sterilized for $300 may not really be free. She may be coerced, in effect, by the necessity of her situation. Of course, people disagree about what inducements, under what circumstances, amount to coercion. So in order to assess the moral status of any market transaction, we have to ask a prior question: Under what conditions do market relations reflect freedom of choice, and under what conditions do they exert a kind of coercion?

The bribery objection is different. It is not about the conditions under which a deal is made but about the nature of the good being bought and sold. Consider a standard case of bribery. If an unscrupulous character bribes a judge or government official to gain an illicit benefit or a favor, the nefarious transaction may be entirely

voluntary. Neither party may be coerced, and both may gain. What makes the bribe objectionable is not that it's coercive but that it's corrupt. The corruption consists in buying and selling something (a favorable verdict, say, or political influence) that should not be up for sale.

We often associate corruption with illicit payoffs to public officials. But as we saw in chapter 1, corruption also has a broader meaning: we corrupt a good, an activity, or a social practice whenever we treat it according to a lower norm than is appropriate to it. So, to take an extreme example, having babies in order to sell them for profit is a corruption of parenthood, because it treats children as things to be used rather than beings to be loved. Political corruption can be seen in the same light: when a judge accepts a bribe to render a corrupt verdict, he acts as if his judicial authority were an instrument of personal gain rather than a public trust. He degrades and demeans his office by treating it according to a lower norm than is appropriate to it.

This broader notion of corruption lies behind the charge that the cash-for-sterilization scheme is a form of bribery. Those who call it bribery are suggesting that, whether or not the deal is coercive, it is corrupt. And the reason it is corrupt is that both parties—the buyer (Harris) and the seller (the addict)—value the good being sold (the childbearing capacity of the seller) in the wrong way. Harris treats drug-addicted and HIV-positive women as damaged baby-making machines that can be switched off for a fee. Those who accept her offer acquiesce in this degrading view of themselves. This is the moral force of the bribery charge. Like corrupt judges and public officials, those who get sterilized for money sell something that should not be up for sale. They treat their reproductive capacity as a tool for

monetary gain rather than a gift or trust to be exercised according to norms of responsibility and care.

It might be argued, in reply, that the analogy is flawed. A judge who accepts a bribe in exchange for a corrupt verdict sells something that isn't his to sell; the verdict is not his property. But a woman who agrees to be sterilized for pay sells something that belongs to her—namely, her reproductive capacity. Money aside, the woman does no wrong if she chooses to be sterilized (or not to have children); but the judge does wrong to render an unjust verdict even in the absence of a bribe. If a woman has a right to give up her childbearing capacity for reasons of her own, some would argue, she must also have the right to do so for a price.

If we accept this argument, then the cash-for-sterilization deal is not bribery after all. So in order to determine whether a woman's reproductive capacity should be subject to a market transaction, we have to ask what kind of good it is: Should we regard our bodies as possessions that we own and can use and dispose of as we please, or do some uses of our bodies amount to self-degradation? This is a large and controversial question that also arises in debates about prostitution, surrogate motherhood, and the buying and selling of eggs and sperm. Before we can decide whether market relations are appropriate to such domains, we have to figure out what norms should govern our sexual and procreative lives.

THE ECONOMIC APPROACH TO LIFE

Most economists prefer not to deal with moral questions, at least not in their role as economists. They say their job is to explain people's

irrationality, values and their frequent unexplained shifts, custom and tradition, the compliance somehow induced by social norms." Becker has little patience for this messiness. A single-minded focus on income and price effects, he believes, offers social science a sturdier foundation.[10]

Can all human action be understood in the image of a market? Economists, political scientists, legal scholars, and others continue to debate this question. But what is striking is how potent this image has become—not only in academia but also in everyday life. To a remarkable degree, the last few decades have witnessed the remaking of social relations in the image of market relations. One measure of this transformation is the growing use of monetary incentives to solve social problems.

PAYING KIDS FOR GOOD GRADES

Paying people to be sterilized is one brazen example. Here is another: school districts across the United States now try to improve academic performance by paying children for getting good grades or high scores on standardized tests. The idea that cash incentives can cure what ails our schools looms large in the movement for educational reform.

I attended a very good but excessively competitive public high school in Pacific Palisades, California. I occasionally heard of kids being paid by their parents for every A on their report card. Most of us considered this slightly scandalous. But it never occurred to anyone that the school itself might pay for good grades. I do remember that the Los Angeles Dodgers had a promotion in those years that gave free tickets to high school students who made the honor roll.

We certainly had no objections to this scheme, and my friends and I attended quite a few games. But no one thought of it as an incentive; it was more of a boondoggle.

Things are different now. More and more, financial incentives are seen as a key to educational improvement, especially for students in poorly performing urban schools.

A recent *Time* magazine cover put the question bluntly: "Should Schools Bribe Kids?"[11] Some say it all depends on whether the bribes work.

Roland Fryer, Jr., an economics professor at Harvard, is trying to find out. Fryer, an African American who grew up in tough neighborhoods in Florida and Texas, believes that cash incentives may help motivate kids in inner-city schools. Backed by foundation funding, he has tested his idea in several of the largest school districts in the United States. Beginning in 2007, his project paid out $6.3 million to students in 261 urban schools with predominantly African American and Hispanic populations from low-income families. Different incentive schemes were used in each city.[12]

- In New York City, participating schools paid fourth graders $25 to score well on standardized tests. Seventh graders could earn $50 per test. The average seventh grader made a total of $231.55.[13]
- In Washington, D.C., schools paid middle school students cash rewards for attendance, good behavior, and turning in their homework. Conscientious kids could make up to $100 every two weeks. The average student collected about $40 in the biweekly payoff and a total of $532.85 for the school year.[14]
- In Chicago, they offered ninth graders cash for getting good grades in their courses: $50 for an A, $35 for a B, and $20 for

a C. The top student made a handsome haul of $1,875 for the school year.[15]

- In Dallas, they pay second graders $2 for each book they read. To collect the cash, students have to take a computerized quiz to prove they've read the book.[16]

The cash payments yielded mixed results. In New York City, paying kids for good test scores did nothing to improve their academic performance. The cash for good grades in Chicago led to better attendance but no improvement on standardized tests. In Washington, the payments helped some students (Hispanics, boys, and students with behavior problems) achieve higher reading scores. The cash worked best with the Dallas second graders; the kids who got paid $2 per book wound up with higher reading comprehension scores at the end of the year.[17]

Fryer's project is one of many recent attempts to pay kids to do better in school. Another such program offers cash for good scores on Advanced Placement exams. AP courses expose high school students to challenging college-level material in math, history, science, English, and other subjects. In 1996, Texas launched the Advanced Placement Incentive Program, which pays students from $100 to $500 (depending on the school) for earning a passing grade (a score of 3 or higher) on AP exams. Their teachers are also rewarded, with $100 to $500 for each student who passes the exam, plus additional salary bonuses. The incentive program, which now operates in sixty Texas high schools, seeks to improve the college readiness of minority and low-income students. A dozen states now offer financial incentives to students and teachers for success on AP tests.[18]

Some incentive programs target teachers rather than students. Although teachers' unions have been wary of pay-for-performance

proposals, the idea of paying teachers for the academic achievement of their students is popular among voters, politicians, and some educational reformers. Since 2005, school districts in Denver; New York City; Washington, D.C.; Guilford County, North Carolina; and Houston have implemented cash incentive schemes for teachers. In 2006, Congress established the Teacher Incentive Fund to provide pay-for-performance grants for teachers in low-achieving schools. The Obama administration increased funding for the program. Recently, a privately funded incentive project in Nashville offered middle school math teachers cash bonuses of up to $15,000 for improving the test scores of their students.[19]

The bonuses in Nashville, sizable though they were, had virtually no impact on students' math performance. But the Advanced Placement incentive programs in Texas and elsewhere have had a positive effect. More students, including students from low-income and minority backgrounds, have been encouraged to take AP courses. And many are passing the standardized exams that qualify them for college credit. This is very good news. But it does not bear out the standard economic view about financial incentives: the more you pay, the harder students will work, and the better the outcome. The story is more complicated.

The AP incentive programs that have succeeded offer more than cash to students and teachers; they transform the culture of schools and the attitudes of students toward academic achievement. Such programs provide special training for teachers, laboratory equipment, and organized tutoring sessions after school and on Saturdays. One tough urban school in Worcester, Massachusetts, made AP classes available to all students, rather than to a preselected elite, and recruited students with posters featuring rap stars, "making it cool for boys with low-slung jeans who idolize rappers like Lil

Wayne to take the hardest classes." The $100 incentive for passing the AP test at the end of the year was a motivator, it seems, more for its expressive effect than for the money itself. "There's something cool about the money," one successful student told *The New York Times*. "It's a great extra." The twice-weekly after-school tutoring sessions and eighteen hours of Saturday classes provided by the program also helped.[20]

When an economist looked closely at the Advanced Placement incentive program in low-income Texas schools, he found something interesting: the program succeeded in boosting academic achievement but not in a way that the standard "price effect" would predict (the more you pay, the better the grades). Although some schools paid $100 for a passing grade on the AP test, and others paid as much as $500, the results were no better in schools that offered the higher amounts. Students and teachers were "not simply behaving like revenue maximizers," wrote C. Kirabo Jackson, the author of the study.[21]

So what was going on? The money had an expressive effect—making academic achievement "cool." That's why the amount was not decisive. Although only AP courses in English, math, and science qualified for the cash incentives at most schools, the program also led to higher enrollment in other AP courses, such as history and social studies. The Advanced Placement incentive programs have succeeded not by bribing students to achieve but by changing attitudes toward achievement and the culture of schools.[22]

HEALTH BRIBES

Health care is another area where cash incentives are in vogue. Increasingly, doctors, insurance companies, and employers are paying

people to be healthy—to take their medications, to quit smoking, to lose weight. You might think that avoiding disease or life-threatening ailments would be motivation enough. But, surprisingly, that's often not the case. One-third to one-half of patients fail to take their medications as prescribed. When their conditions worsen, the overall result is billions of dollars a year in additional health costs. So doctors and insurers are offering cash incentives to motivate patients to take their meds.[23]

In Philadelphia, patients prescribed warfarin, an anti-blood clot medication, can win cash rewards ranging from $10 to $100 for taking the drug. (A computerized pillbox records whether they take the drug and tells them whether they won that day.) Participants in the incentive scheme make an average of $90 a month for adhering to their prescriptions. In Britain, some patients with bipolar disorder or schizophrenia are paid £15 (about $22) to show up for their monthly injection of antipsychotic drugs. Teenage girls are offered £45 (about $68) in shopping vouchers to receive vaccinations that protect against a sexually transmitted virus that can cause cervical cancer.[24]

Smoking imposes big costs on companies that provide health insurance to their workers. So in 2009, General Electric began paying some of its employees to quit smoking—$750 if they could quit for as long as a year. The results were so promising that GE has extended the offer to all its U.S. employees. The Safeway grocery store chain offers lower health-insurance premiums to workers who don't smoke and who keep their weight, blood pressure, and cholesterol under control. A growing number of companies use some combination of carrots and sticks to motivate employees to improve their health. Eighty percent of big U.S. companies now offer financial incentives for those who participate in wellness programs. And almost half

penalize workers for unhealthy habits, typically by charging them more for health insurance.[25]

Weight loss is the most alluring if intractable target of cash incentive experiments. The NBC reality show *The Biggest Loser* dramatizes the current craze of paying people to slim down. It offers $250,000 to the contestant who achieves the biggest proportional weight loss during the season.[26]

Doctors, researchers, and employers have tried offering more modest incentives. In one U.S. study, a reward of a few hundred dollars motivated obese participants to shed about fourteen pounds in four months. (Unfortunately, the weight losses proved temporary.) In Britain, where the National Health Service spends 5 percent of its budget treating obesity-related diseases, the NHS tried paying overweight people up to £425 (about $612) to lose weight and keep it off for two years. The scheme is called Pounds for Pounds.[27]

Two questions can be asked about paying people for healthy behavior: Does it work? and, Is it objectionable?

From an economic point of view, the case for paying people for good health is a simple matter of costs and benefits. The only real question is whether incentive schemes work. If money motivates people to take their meds, quit smoking, or join a gym, thus reducing the need for expensive care later, why object?

And yet many do object. The use of cash incentives to promote healthy behavior generates fierce moral controversy. One objection is about fairness, the other about bribery. The fairness objection is voiced, in different ways, on both sides of the political spectrum. Some conservatives argue that overweight people should slim down on their own; paying them to do so (especially with taxpayer funds) unfairly rewards slothful behavior. These critics see cash incentives as a "reward for indulgence rather than a form of treatment." Underlying

this objection is the idea that "we can all control our own weight," so it's unfair to pay those who have failed to do so on their own—especially if the payments come, as they sometimes do in Britain, from the National Health Service. "Paying someone to ditch bad habits is the ultimate in nanny state mentality, absolving them of any responsibility for their health."[28]

Some liberals voice the opposite worry: that financial rewards for good health (and penalties for bad health) can unfairly disadvantage people for medical conditions beyond their control. Allowing companies or health insurers to discriminate between the healthy and the unhealthy in setting insurance premiums is unfair to those who, through no fault of their own, are less healthy and so at greater risk. It is one thing to give everyone a discount for joining a gym, but something else to set insurance rates based on health outcomes that many people can't control.[29]

The bribery objection is more elusive. The press commonly calls health incentives bribes. But are they? In the cash for sterilization scheme, the bribery is clear. Women are paid to relinquish their reproductive capacity not for their own good but for the sake of an external end—preventing more drug-addicted babies. They are being paid to act, in many cases at least, against their interest.

But the same can't be said of cash incentives to help people stop smoking or lose weight. Whatever external ends may be served (such as reducing health costs for companies or a national health service), the money encourages behavior that promotes the health of the recipient. So how is it a bribe?[30] Or, to ask a slightly different question, why does the charge of bribery seem to fit, even though healthy behavior is in the interest of the person being bribed?

It fits, I think, because we suspect that the monetary motive

crowds out other, better motives. Here's how: Good health is not only about achieving the right cholesterol level and body mass index. It is also about developing the right attitude to our physical well-being and treating our bodies with care and respect. Paying people to take their meds does little to develop such attitudes and may even undermine them.

This is because bribes are manipulative. They bypass persuasion and substitute an external reason for an intrinsic one. "You don't care enough about your own well-being to quit smoking or lose weight? Then do it because I'll pay you $750."

Health bribes trick us into doing something we should be doing anyhow. They induce us to do the right thing for the wrong reason. Sometimes, it helps to be tricked. It isn't easy to quit smoking or lose weight on our own. But eventually, we should rise above manipulation. Otherwise, the bribe may become habit forming.

If health bribes work, worries about corrupting good attitudes toward health may seem hopelessly high-minded. If cash can cure us of obesity, why cavil about manipulation? One answer is that a proper concern for our physical well-being is a part of self-respect. Another answer is more practical: absent the attitudes that sustain good health, the pounds may return when the incentives end.

This seems to have happened in the paid weight-loss schemes that have been studied so far. Cash to quit smoking has shown a glimmer of hope. But even the most encouraging study found that more than 90 percent of smokers who were paid for kicking the habit were back to smoking six months after the incentives ended. In general, cash incentives seem to work better at getting people to show up for a specific event—a doctor's appointment or an injection—than at changing long-term habits and behaviors.[31]

Paying people to be healthy can backfire, by failing to cultivate the values that sustain good health. If this is true, the economist's question ("Do cash incentives work?") and the moralist's question ("Are they objectionable?") are more closely connected than first appears. Whether an incentive "works" depends on the goal. And the goal, properly conceived, may include values and attitudes that cash incentives undermine.

PERVERSE INCENTIVES

A friend of mine used to pay his young children $1 each time they wrote a thank-you note. (I could usually tell by reading the notes that they were written under duress.) This policy may or may not work in the long run. It might turn out that, by writing enough thank-you notes, the children will eventually learn the real point of them and continue to express gratitude for gifts, even when they are no longer paid to do so. It's also possible that they will absorb the wrong lesson, and regard thank-you notes as piecework, a burden to be performed for pay. In this case, the habit won't take, and they will stop writing such notes once they are no longer paid. Worse, the bribes may corrupt their moral education and make it harder for them to learn the virtue of gratitude. Even if it increases production in the short run, the bribe for thank-you notes will have failed, by inculcating the wrong way of valuing the good in question.

A similar question arises in the case of cash for good grades: Why not pay a child for getting good grades or for reading a book? The goal is to motivate the child to study or to read. The payment is an incentive to promote that end. Economics teaches that people respond to incentives. And while some children may be motivated to

read books for the love of learning, others may not. So why not use money as a further incentive?

It may turn out—as economic reasoning suggests—that two incentives work better than one. But it could also turn out that the monetary incentive undermines the intrinsic one, leading to less reading rather than more. Or to more reading in the short run but for the wrong reason.

In this scenario, the market is an instrument, but not an innocent one. What begins as a market mechanism becomes a market norm. The obvious worry is that the payment may habituate children to think of reading books as a way of making money, and so erode, or crowd out, or corrupt the love of reading for its own sake.

The use of cash incentives to get people to lose weight or read books or be sterilized reflects the logic of the economic approach to life, but also extends it. When Gary Becker wrote, in the mid-1970s, that everything we do can be explained by assuming that we calculate costs and benefits, he referred to "shadow prices"—the imaginary prices said to be implicit in the alternatives we face and the choices we make. So, for example, when a person decides to stay married rather than get a divorce, no prices are posted; rather, the person considers the implicit price of a breakup—the financial price and the emotional price—and decides the benefits aren't worth it.

But the incentive schemes that abound today go further. By putting an actual, explicit price on activities far removed from material pursuits, they take Becker's shadow prices out of the shadows and make them real. They enact his suggestion that all human relations are, ultimately, market relations.

Becker himself made a striking proposal along these lines, a market solution to the contentious debate over immigration policy: the United States should scrap its complex system of quotas, point systems,

family preferences, and queues and simply sell the right to immigrate. Given the demand, Becker suggests setting the price of admission at $50,000, or perhaps higher.[32]

Immigrants willing to pay a large entrance fee, Becker reasons, would automatically have desirable characteristics. They would likely be young, skilled, ambitious, hardworking, and unlikely to make use of welfare or unemployment benefits. When Becker first proposed selling the right to immigrate in 1987, many considered the notion far-fetched. But to those steeped in economic thinking, it was a sensible, even obvious way of bringing market reasoning to bear on an otherwise thorny question: How should we decide which immigrants to admit?

Julian L. Simon, another economist, proposed a similar plan at about the same time. He suggested setting a yearly quota of immigrants to be admitted, and auctioning admission to the highest bidders until the quota was filled. Selling the right to immigrate is fair, Simon argued, "because it discriminates according to the standard of a market-oriented society: ability and willingness to pay." To address the objection that his plan would allow only the wealthy to enter, Simon suggested allowing the winning bidders to borrow some of their entry fee from the government and pay it back later with their income tax. If they were unable to repay, he observed, they could always be deported.[33]

The idea of selling the right to immigrate was offensive to some. But in an age of rising market faith, the gist of the Becker-Simon proposal soon found its way into law. In 1990, Congress provided that foreigners who invested $500,000 in the United States could immigrate, with their families, for two years, after which they could receive a permanent green card if the investment created at least ten jobs. The cash-for-green-card plan was the ultimate queue-jumping

scheme, a fast track to citizenship. In 2011, two senators proposed a bill offering a similar cash incentive to boost the high-end housing market, which was still weak in the aftermath of the financial crisis. Any foreigner who bought a $500,000 house would receive a visa allowing the buyer, spouse, and minor children to live in the United States as long as they owned the property. A headline in *The Wall Street Journal* summed up the deal: BUY HOUSE, GET A VISA.[34]

Becker even proposed charging admission to refugees fleeing persecution. The free market, he claimed, would make it easy to decide which refugees to accept—those sufficiently motivated to pay the price: "For obvious reasons, political refugees and those persecuted in their own countries would be willing to pay a sizeable fee to gain admission to a free nation. So a fee system would automatically avoid time-consuming hearings about whether they are really in physical danger if they were forced to return home."[35]

Asking a refugee fleeing persecution to hand over $50,000 may strike you as callous, yet another instance of the economist's failure to distinguish between the willingness and the ability to pay. So consider another market proposal to solve the refugee problem, one that doesn't make the refugees pay out of pocket. Peter Schuck, a law professor, proposed the following:

Let an international body assign each country a yearly refugee quota, based on national wealth. Then let nations buy and sell these obligations among themselves. So, for example, if Japan is allocated twenty thousand refugees per year but doesn't want to take them, it could pay Russia, or Uganda, to take them in. According to standard market logic, everyone benefits. Russia or Uganda gains a new source of national income, Japan meets its refugee obligations by outsourcing them, and more refugees are rescued than would otherwise find asylum.[36]

There is something distasteful about a market in refugees, even if it leads to more refugees finding asylum. But what exactly is objectionable about it? It has something to do with the fact that a market in refugees changes our view of who refugees are and how they should be treated. It encourages the participants—the buyers, the sellers, and also those whose asylum is being haggled over—to think of refugees as burdens to be unloaded or as revenue sources, rather than as human beings in peril.

One might acknowledge the degrading effect of a market in refugees and still conclude that the scheme does more good than harm. But what the example illustrates is that markets are not mere mechanisms. They embody certain norms. They presuppose—and promote—certain ways of valuing the goods being exchanged.

Economists often assume that markets do not touch or taint the goods they regulate. But this is untrue. Markets leave their mark on social norms. Often, market incentives erode or crowd out nonmarket incentives.

A study of some child-care centers in Israel shows how this can happen. The centers faced a familiar problem: parents sometimes came late to pick up their children. A teacher had to stay with the children until the tardy parents arrived. To solve this problem, the centers imposed a fine for late pickups. What do you suppose happened? Late pickups actually increased.[37]

Now if you assume that people respond to incentives, this is a puzzling result. You would expect the fine to reduce, not increase, the incidence of late pickups. So what happened? Introducing the monetary payment changed the norms. Before, parents who came late felt guilty; they were imposing an inconvenience on the teachers. Now parents considered a late pickup as a service for which they

were willing to pay. They treated the fine as if it were a fee. Rather than imposing on the teacher, they were simply paying him or her to work longer.

FINES VERSUS FEES

What is the difference between a fine and a fee? It's worth pondering the distinction. Fines register moral disapproval, whereas fees are simply prices that imply no moral judgment. When we impose a fine for littering, we're saying that littering is wrong. Tossing a beer can into the Grand Canyon not only imposes cleanup costs. It reflects a bad attitude that we as a society want to discourage. Suppose the fine is $100, and a wealthy hiker decides it's worth the convenience of not having to carry his empties out of the park. He treats the fine as a fee and tosses his beer cans into the Grand Canyon. Even though he pays up, we consider that he's done something wrong. By treating the Grand Canyon as an expensive Dumpster, he has failed to appreciate it in an appropriate way.

Or consider parking spaces reserved for use by the physically disabled. Suppose a busy able-bodied contractor wants to park near his building site. For the convenience of parking his car in a place reserved for the disabled, he is willing to pay the rather large fine; he considers it a cost of doing business. Although he pays the fine, don't we consider that he's doing something wrong? He treats the fine as if it were simply an expensive parking lot fee. But this misses its moral significance. In treating the fine as a fee, he fails to respect the needs of the physically disabled and the desire of the community to accommodate them by setting aside certain parking spaces.

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China's One-Child Policy

Often, the moral stakes are higher. Consider this controversy over the sometimes blurry line between a fine and a fee: in China, the fine for violating the government's one-child policy is increasingly regarded by the affluent as a price for an extra child. The policy, put in place more than three decades ago to reduce China's population growth, limits most couples in urban areas to one child. (Rural families are allowed a second child if the first one is a girl.) The fine varies from region to region but reaches 200,000 yuan (about $31,000) in major cities—a staggering figure for the average worker but easily affordable for wealthy entrepreneurs, sports stars, and celebrities. One account from a Chinese news agency tells of a pregnant woman and her husband in Guangzhou who "strutted in" to their local birth control office, threw the money on the desk, and said, "Here is 200,000 yuan. We need to take care of our future baby. Please do not come to disturb us."[41]

Family-planning officials have sought to reassert the punitive aspect of the sanction by increasing fines for affluent offenders, denouncing celebrities who violate the policy and banning them from appearing on television, and preventing business executives with extra kids from receiving government contracts. "The fine is a piece of cake for the rich," explained Zhai Zhenwu, a professor of sociology at Renmin University. "The government had to hit them harder where it really hurt, at their fame, reputation, and standing in society."[42]

The authorities regard the fine as a penalty and want to preserve the stigma associated with it. They don't want it to devolve into a fee. This is not mainly because they're worried about affluent parents having too many children; the number of wealthy offenders is

relatively small. What's at stake is the norm underlying the policy. If the fine were merely a fee, the state would find itself in the awkward business of selling the right to have extra children to those able and willing to pay for it.

Tradable Procreation Permits

Oddly enough, some Western economists have called for a market-based approach to population control strikingly similar to the fee-based system the Chinese officials are trying to avoid. These economists have urged countries that need to limit their population to issue tradable procreation permits. In 1964, the economist Kenneth Boulding proposed a system of marketable procreation licenses as a way of dealing with overpopulation. Each woman would be issued a certificate (or two, depending on the policy) entitling her to have a child. She would be free to use the certificate or sell it at the going rate. Boulding imagined a market in which people eager to have children would purchase certificates from (as he indelicately put it) "the poor, the nuns, the maiden aunts, and so on."[43]

The plan would be less coercive than a system of fixed quotas, as in a one-child policy. It would also be economically more efficient, since it would get the goods (in this case, children) to the consumers most willing to pay for them. Recently, two Belgian economists revived Boulding's proposal. They pointed out that, since the rich would likely buy procreation licenses from the poor, the scheme would have the further advantage of reducing inequality by giving the poor a new source of income.[44]

Some people oppose all restrictions on procreation, while others believe that reproductive rights can legitimately be restricted to avoid overpopulation. Set aside for the moment that disagreement of

principle and imagine a society that was determined to implement mandatory population control. Which policy would you find less objectionable: a fixed quota system that limits each couple to one child and fines those who exceed the limit, or a market-based system that issues each couple a tradable procreation voucher entitling the bearer to have one child?

From the standpoint of economic reasoning, the second policy is clearly preferable. The freedom to choose whether to use the voucher or sell it makes some people better off and no one worse off. Those who buy or sell vouchers gain (by making mutually advantageous trades) and those who don't enter the market are no worse off than they would be under the fixed quota system; they can still have one child.

And yet there is something troubling about a system in which people buy and sell the right to have kids. Part of what's troubling is the unfairness of such a system under conditions of inequality. We hesitate to make children a luxury good, affordable by the rich but not the poor. If having children is a central aspect of human flourishing, then it's unfair to condition access to this good on the ability to pay.

Beyond the fairness objection is the question of bribery. At the heart of the market transaction is a morally disquieting activity: parents who want an extra child must induce or entice other prospective parents to sell off their right to have a child. Morally, it's not much different from buying a couple's only child after it has been born.

Economists might argue that a market in children, or in the right to have them, has the virtue of efficiency: it allocates kids to those who value them most highly, as measured by the ability to pay. But trafficking in the right to procreate promotes a mercenary attitude toward children that corrupts parenthood. Central to the norm of

parental love is the idea that one's children are inalienable; it is unthinkable to put them up for sale. So to buy a child, or the right to have one, from another prospective parent is to cast a shadow over parenthood as such. Wouldn't the experience of loving your children be tainted if you acquired some of them by bribing other couples to remain childless? Might you be tempted, at least, to hide this fact from your children? If so, there is reason to conclude that, whatever its advantages, a market in procreation permits would corrupt parenthood in ways that a fixed quota, however odious, would not.

Tradable Pollution Permits

The distinction between a fine and a fee is also relevant to the debate over how to reduce greenhouse gases and carbon emissions. Should government set limits on emissions and fine companies that exceed them? Or should government create tradable pollution permits? The second approach says in effect that emitting pollution is not like littering but simply a cost of doing business. But is that right? Or should some moral stigma attach to companies that spew excessive pollution into the air? To decide this question, we need not only to calculate costs and benefits; we have to decide what attitudes toward the environment we want to promote.

At the Kyoto conference on global warming (1997), the United States insisted that any mandatory worldwide emissions standards would have to include a trading scheme, allowing countries to buy and sell the right to pollute. So, for example, the United States could fulfill its obligations under the Kyoto Protocol by either reducing its own greenhouse gas emissions or paying to reduce emissions somewhere else. Rather than tax gas-guzzling Hummers at home, it could

pay to restore an Amazonian rain forest or modernize an old coal-burning factory in a developing country.

At the time, I wrote an op-ed in *The New York Times* arguing against the trading scheme. I worried that letting countries buy the right to pollute would be like letting people pay to litter. We should try to strengthen, not weaken, the moral stigma attached to despoiling the environment. I also worried that, if rich countries could buy their way out of the duty to reduce their own emissions, we would undermine the sense of shared sacrifice necessary to future global cooperation on the environment.[45]

The *Times* was flooded with scathing letters—mostly from economists, some of them my Harvard colleagues. I failed to understand the virtue of markets, they suggested, or the efficiencies of trade, or the elementary principles of economic rationality.[46] Amid the torrent of criticism, I did receive a sympathetic email from my old college economics professor. He understood the point I was trying to make, he wrote. But he also asked a small favor: Would I mind not publicly revealing the identity of the person who had taught me economics?

I've since reconsidered my views about emissions trading to some extent—though not for the doctrinal reasons the economists put forward. Unlike tossing litter out the car window onto the highway, emitting carbon dioxide is not in itself objectionable. We all do it every time we exhale. There's nothing intrinsically wrong with putting CO_2 into the air. What is objectionable is doing so in excess, as part of an energy-profligate way of life. That way of life, and the attitudes that support it, are what we should discourage, even stigmatize.[47]

One way of reducing pollution is by government regulation: require

automakers to meet higher emissions standards; ban chemical companies and paper mills from dumping toxic waste into waterways; require factories to install scrubbers on their smokestacks. And if the companies fail to abide by the standards, fine them. That's what the United States did during the first generation of environmental laws, in the early 1970s.[48] The regulations, backed by fines, were a way of making companies pay for their pollution. They also carried a moral message: "Shame on us for spewing mercury and asbestos into lakes and streams and for befouling the air with choking smog. It's not only hazardous to our health; it's no way to treat the earth."

Some people opposed these regulations because they dislike anything that imposes higher costs on industry. But others, sympathetic to environmental protection, sought more efficient ways of achieving it. As the prestige of markets grew in the 1980s, and as economic ways of thinking deepened their hold, some environmental advocates began to favor market-based approaches to saving the planet. Don't impose emission standards on every factory, they reasoned; instead, put a price on pollution and let the market do the rest.[49]

The simplest way of putting a price on pollution is to tax it. A tax on emissions can be seen as a fee rather than a fine; but if it's big enough, it has the virtue of making the polluters pay for the damage they inflict. Precisely for this reason, it is politically difficult to enact. So policy makers have embraced a more market-friendly solution to pollution—emissions trading.

In 1990, President George H. W. Bush signed into law a plan to reduce acid rain, which is caused by sulfur dioxide emissions from coal-burning power plants. Rather than set fixed limits for each power plant, the law gave each utility company a license to pollute a certain amount, and then let the companies buy and sell the licenses

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among themselves. So a company could either reduce its own emissions or buy extra pollution permits from a company that had managed to pollute less than its allotted amount.[50]

Sulfur emissions declined, and the trading scheme was widely regarded as a success.[51] Then, later in the 1990s, attention turned to global warming. The Kyoto Protocol on climate change gave countries a choice: they could reduce their own greenhouse gas emissions or pay another country to reduce theirs. The rationale of this approach is that it reduces the cost of complying. If it's cheaper to replace kerosene lamps in Indian villages than to abate emissions in the United States, why not pay to replace the lamps?

Despite this inducement, the United States did not join the Kyoto agreement, and subsequent global climate talks have foundered. But my interest is less in the agreements themselves than in how they illustrate the moral costs of a global market in the right to pollute.

With the proposed market in procreation permits, the moral problem is that the system prompts some couples to bribe others to relinquish their chance to have a child. This erodes the norm of parental love, by encouraging parents to regard children as alienable, as commodities for sale. The moral problem with a global market in pollution permits is different. Here, the issue is not bribery but the outsourcing of an obligation. It arises more acutely in a global setting than in a domestic one.

Where global cooperation is at stake, allowing rich countries to avoid meaningful reductions in their own energy use by buying the right to pollute from others (or paying for programs that enable other countries to pollute less) does damage to two norms: it entrenches an instrumental attitude toward nature, and it undermines the spirit of shared sacrifice that may be necessary to create a global environmental ethic. If wealthy nations can buy their way out of an

obligation to reduce their own carbon emissions, then the image of the hiker in the Grand Canyon may be apt after all. Only now, rather than pay a fine for littering, the wealthy hiker can toss his beer can with impunity, provided he hires someone to clean up litter in the Himalayas.

True, the two cases are not identical. Litter is less fungible than greenhouse gases. The beer can in the Grand Canyon is not offset by a pristine landscape half a world away. Global warming, by contrast, is a cumulative harm. From the standpoint of the heavens, it doesn't matter which places on the planet send less carbon to the sky.

But it does matter morally and politically. Letting rich countries buy their way out of meaningful changes in their own wasteful habits reinforces a bad attitude—that nature is a dumping ground for those who can afford it. Economists often assume that solving global warming is simply a matter of designing the right incentive structure and getting countries to sign on. But this misses a crucial point: norms matter. Global action on climate change may require that we find our way to a new environmental ethic, a new set of attitudes toward the natural world we share. Whatever its efficiency, a global market in the right to pollute may make it harder to cultivate the habits of restraint and shared sacrifice that a responsible environmental ethic requires.

Carbon Offsets

The growing use of voluntary carbon offsets raises a similar question. Oil companies and airlines now invite customers to make a monetary payment to neutralize their personal contribution to global warming. British Petroleum's website enables customers to calculate the amount of CO_2 their driving habits produce and to offset their emissions by

3

How Markets Crowd Out Morals

Are there some things that money should not be able to buy? If so, how can we decide which goods and activities are properly bought and sold, and which are not? I suggest we approach these questions by asking a slightly different one: Are there some things that money cannot buy?

WHAT MONEY CAN AND CANNOT BUY

Most people would say yes, there are. Consider friendship. Suppose you want more friends than you have. Would you try to buy some? Not likely. A moment's reflection would lead you to realize that it wouldn't work. A hired friend is not the same as a real one. You could hire people to do some of the things that friends typically do—picking up your mail when you're out of town, looking after your children in a pinch, or, in the case of a therapist, listening to your woes and offering sympathetic advice. Until recently, you could even bolster your online popularity by hiring some good-looking "friends"

for your Facebook page—for 99¢ per friend per month. (The phony-friend website was shut down when it emerged that the photos being used, mostly of models, were unauthorized.)[1] Although all of these services can be bought, you can't actually buy a friend. Somehow, the money that buys the friendship dissolves it, or turns it into something else.

Or consider the Nobel Prize. Suppose you desperately want a Nobel Prize but fail to get one in the usual way. It might occur to you to buy one. But you would quickly realize that it wouldn't work. The Nobel Prize is not the kind of thing that money can buy. Nor is the Most Valuable Player award of the American League. You could buy the trophy if some previous winner is willing to sell it, and you could display it in your living room. But you could not buy the award itself.

This is not only because the Nobel committee and the American League don't offer these awards for sale. Even if they auctioned off, say, one Nobel Prize each year, the bought award would not be the same as the real thing. The market exchange would dissolve the good that gives the prize its value. This is because the Nobel Prize is an honorific good. To buy it is to undermine the good you are seeking. Once word got out that the prize had been bought, the award would no longer convey or express the honor and recognition that people receive when they are awarded a Nobel Prize.

The same is true of baseball's MVP awards. They too are honorific goods, whose value would be dissolved if bought rather than earned by a season of game-winning home runs or other heroics. There's a difference, of course, between a trophy, which symbolizes an award, and the award itself. It turns out that some winners of Hollywood's Academy Awards have sold their Oscar statuettes, or left them to heirs who have done so. Some of these Oscars have been auctioned by Sotheby's and other auction houses. In 1999, Michael

Jackson paid $1.54 million for the best-picture Oscar for *Gone with the Wind*. The academy that awards the Oscars opposes such sales and now requires Oscar recipients to sign an agreement promising not to sell them. It wants to avoid turning the iconic statuettes into commercial collectibles. Whether or not collectors are able to buy the trophies, it is obvious that buying the Academy Award for best actress is not the same as winning it.[2]

These fairly obvious examples offer a clue to the more challenging question that concerns us: Are there some things that money can buy but shouldn't? Consider a good that can be bought but whose buying and selling is morally controversial—a human kidney, for example. Some people defend markets in organs for transplantation; others find such markets morally objectionable. If it's wrong to buy a kidney, the problem is not, as with the Nobel Prize, that the money dissolves the good. The kidney will work (assuming a good match) regardless of the monetary payment. So to determine whether kidneys should or shouldn't be up for sale, we have to engage in a moral inquiry. We have to examine the arguments for and against organ sales and determine which are more persuasive.

Or consider baby selling. Some years ago, Judge Richard Posner, a leading figure in the "law and economics" movement, proposed the use of markets to allocate babies put up for adoption. He acknowledged that more desirable babies would command higher prices than less desirable ones. But he argued that the free market would do a better job of allocating babies than the current system of adoption, which allows adoption agencies to charge certain fees but not to auction babies or charge a market price.[3]

Many people disagree with Posner's proposal and maintain that children should not be bought and sold, no matter how efficient the market. In thinking through this controversy, it's worth noticing a

distinctive feature of it: like a markets in kidneys, a market in babies would not dissolve the good the buyers seek to acquire. A bought baby differs, in this respect, from a bought friend or Nobel Prize. If there were a market in babies for adoption, people who paid the going price would acquire what they wanted—a child. Whether such a market is morally objectionable is a further question.

So it seems, at first glance, that there is a sharp distinction between two kinds of goods: the things (like friends and Nobel Prizes) that money *can't* buy, and the things (like kidneys and children) that money *can* buy but arguably shouldn't. But I would like to suggest that this distinction is less clear than it first appears. If we look more closely, we can glimpse a connection between the obvious cases, in which the monetary exchange spoils the good being bought, and the controversial cases, in which the good survives the selling but is arguably degraded, or corrupted, or diminished as a result.

BOUGHT APOLOGIES AND WEDDING TOASTS

We can explore this connection by considering some cases intermediate between friendship and kidneys. If you can't buy friendship, what about tokens of friendship, or expressions of intimacy, affection, or contrition?

In 2001, *The New York Times* published a story about a company in China that offers an unusual service: if you need to apologize to someone—an estranged lover or business partner with whom you've had a falling out—and you can't quite bring yourself to do so in person, you can hire the Tianjin Apology company to apologize on your behalf. The motto of the company is, "We say sorry for you." According to the article, the professional apologizers are "middle-aged

men and women with college degrees who dress in somber suits. They are lawyers, social workers and teachers with 'excellent verbal ability' and significant life experience, who are given additional training in counseling."[4]

I don't know whether the company is successful, or even whether it still exists. But reading about it made me wonder: Does a bought apology work? If someone wronged or offended you, and then sent a hired apologizer to make amends, would you be satisfied? It might depend on the circumstances, or perhaps even the cost. Would you consider an expensive apology more meaningful than a cheap one? Or is the enactment of the apology by the person who owes it constitutive of contrition, such that it can't be outsourced? If no bought apology, however extravagant, could do the work of a personal one, then apologies, like friends, are the kind of thing that money cannot buy.

Consider another social practice closely connected to friendship—a wedding toast to the bride and groom. Traditionally, such toasts are warm, funny, heartfelt expressions of good wishes delivered by the best man, usually the groom's closest friend. But it's not easy to compose an elegant wedding speech, and many best men don't feel up to the task. So some have resorted to buying wedding toasts online.[5]

ThePerfectToast.com is one of the leading websites offering ghostwritten wedding speeches. It's been in business since 1997. You answer a questionnaire online—about how the bride and groom met, how you would describe them, whether you want a humorous speech or a sentimental one—and within three business days you receive a professionally written custom toast of three to five minutes. The price is $149, payable by credit card. For those who can't afford a bespoke wedding toast, other websites, such as InstantWeddingToasts.com, sell standard prewritten wedding speeches for $19.95, including a money-back guarantee.[6]

Suppose, on your wedding day, your best man delivers a heart-warming toast, a speech so moving it brings tears to your eyes. You later learn that he didn't write it himself but bought it online. Would you care? Would the toast mean less than it did at first, before you knew it was written by a paid professional? Most of us would probably say yes, the bought wedding toast has less value than an authentic one.

It might be argued that presidents and prime ministers routinely employ speechwriters, and no one faults them for it. But a wedding toast is not a State of the Union address. It is an expression of friendship. Although a bought toast might "work" in the sense of achieving its desired effect, that effect might depend on an element of deception. Here's a test: If, seized with anxiety at the prospect of giving a speech at your best friend's wedding, you purchased a moving, sentimental masterpiece online, would you reveal this fact, or try to cover it up? If a bought toast depends for its effect on concealing its provenance, that's a reason to suspect it's a corrupt version of the real thing.

Apologies and wedding toasts are goods that can, in a sense, be bought. But buying and selling them changes their character and diminishes their value.

THE CASE AGAINST GIFTS

Consider now another expression of friendship—gift giving. Unlike wedding speeches, gifts have an unavoidably material aspect. But with some gifts, the monetary aspect is relatively obscure; with others, it is explicit. Recent decades have brought a trend toward the monetization of gifts, yet another example of the increasing commodification of social life.

Economists don't like gifts. Or to be more precise, they have a hard time making sense of gift giving as a rational social practice. From the standpoint of market reasoning, it is almost always better to give cash rather than a gift. If you assume that people generally know their own preferences best, and that the point of giving a gift is to make your friend or loved one happy, then it's hard to beat a monetary payment. Even if you have exquisite taste, your friend may not like the tie or necklace you pick out. So if you really want to maximize the welfare your gift provides, don't buy a present; simply give the money you would have spent. Your friend or lover can either spend the cash on the item you would have bought, or (more likely) on something that brings even greater pleasure.

This is the logic of the economic case against gift giving. It is subject to a few qualifications. If you come across an item that your friend would like but is unfamiliar with—the latest high-tech gadget, for example—it's possible this gift would give your ill-informed friend more pleasure than something he or she would have bought with the cash equivalent. But this is a special case that is consistent with the economist's basic assumption that the purpose of gift giving is to maximize the welfare, or utility, of the recipient.

Joel Waldfogel, an economist at the University of Pennsylvania, has taken up the economic inefficiency of gift giving as a personal cause. By "inefficiency," he means the gap between the value to you (maybe very little) of the $120 argyle sweater your aunt gave you for your birthday, and the value of what you would have bought (an iPod, say) had she given you the cash. In 1993, Waldfogel drew attention to the epidemic of squandered utility associated with holiday gift giving in an article called "The Deadweight Loss of Christmas." He updated and elaborated the theme in a recent book, *Scroogenomics: Why You Shouldn't Buy Presents for the Holidays*: "The bottom

line is that when other people do our shopping, for clothes or music or whatever, it's pretty unlikely that they'll choose as well as we would have chosen for ourselves. We can expect their choices, no matter how well intentioned, to miss the mark. Relative to how much satisfaction their expenditures could have given us, their choices destroy value."[7]

Applying standard market reasoning, Waldfogel concludes that it would be better, in most cases, to give cash: "Economic theory—and common sense—lead us to expect that buying stuff for ourselves will create more satisfaction, per euro, dollar, or shekel spent, than does buying stuff for others . . . Buying gifts typically destroys value and can only, in the unlikely best special case, be as good as giving cash."[8]

Beyond playing out the economic logic against gift giving, Waldfogel has conducted surveys to measure how much value this inefficient practice destroys. He asks gift recipients to estimate the monetary value of the gifts they've received, and the amount they would have been willing to pay for them. His conclusion: "We value items we receive as gifts 20 percent less, per dollar spent, than items we buy for ourselves." This 20 percent figure enables Waldfogel to estimate the total "value destruction" brought about, nationwide, by holiday gift giving: "Given the $65 billion in U.S. holiday spending per year, that means we get $13 billion less in satisfaction than we would receive if we spent that money the usual way—carefully, on ourselves. Americans celebrate the holidays with an orgy of value destruction."[9]

If gift giving is a massively wasteful and inefficient activity, why do we persist in it? It isn't easy to answer this question within standard economic assumptions. In his economics textbook, Gregory Mankiw tries gamely to do so. He begins by observing that "gift giving is a strange custom" but concedes that it's generally a bad idea to

give your boyfriend or girlfriend cash instead of a birthday present. But why?

Mankiw's explanation is that gift giving is a mode of "signaling," an economist's term for using markets to overcome "information asymmetries." So, for example, a firm with a good product buys expensive advertising, not only to persuade customers directly but also to "signal" to them that it is confident enough in the quality of its product to undertake a costly advertising campaign. In a similar way, Mankiw suggests, gift giving serves a signaling function. A man contemplating a gift for his girlfriend "has private information that the girlfriend would like to know: Does he really love her? Choosing a good gift for her is a signal of his love." Since it takes time and effort to look for a gift, choosing an apt one is a way for him "to convey the private information of his love for her."[10]

This is a strangely wooden way to think about lovers and gifts. "Signaling" love is not the same as expressing it. To speak of signaling wrongly assumes that love is a piece of private information that one party reports to the other. If this were the case, then cash would work as well—the higher the payment, the stronger the signal, and the greater (presumably) the love. But love is not only, or mainly, a matter of private information. It is a way of being with and responding to another person. Giving, especially attentive giving, can be an expression of it. On the expressive account, a good gift not only aims to please, in the sense of satisfying the consumer preferences of the recipient. It also engages and connects with the recipient, in a way that reflects a certain intimacy. This is why thoughtfulness matters.

Not all gifts, of course, can be expressive in this way. If you are attending the wedding of a distant cousin, or the bar mitzvah of a business associate's child, it is probably better to buy something from the wedding registry or give cash. But to give money rather

than a well-chosen gift to a friend, lover, or spouse is to convey a certain thoughtless indifference. It's like buying your way out of attentiveness.

Economists know that gifts have an expressive dimension, even if the tenets of their discipline can't account for it. "The economist in me says the best gift is cash," writes Alex Tabarrok, an economist and blogger. "The rest of me rebels." He offers a good counterexample to the utilitarian notion that the ideal gift is an item we would have bought for ourselves: Suppose someone gives you $100, and you buy a set of tires for your car. This is what maximizes your utility. Still, you might not be terribly happy if your lover gave you car tires for your birthday. In most cases, Tabarrok points out, we'd rather the gift giver buy us something less mundane, something we wouldn't buy for ourselves. From our intimates at least, we'd rather receive a gift that speaks to "the wild self, the passionate self, the romantic self."[11]

I think he's onto something. The reason gift giving is not always an irrational departure from efficient utility maximizing is that gifts aren't only about utility. Some gifts are expressive of relationships that engage, challenge, and reinterpret our identities. This is because friendship is about more than being useful to one another. It is also about growing in character and self-knowledge in the company of others. As Aristotle taught, friendship at its best has a formative, educative purpose. To monetize all forms of giving among friends can corrupt friendship by suffusing it with utilitarian norms.

Even economists who view gift giving in utilitarian terms can't help noticing that cash gifts are the exception, not the rule, especially among peers, spouses, and significant others. For Waldfogel, this is a source of the inefficiency he decries. So what, in his view, motivates people to persist in a habit that produces a massive

destruction of value? It's simply the fact that cash is considered a "tacky gift" that carries a stigma. He does not ask whether people are right or wrong to regard cash gifts as tacky. Instead, he treats the stigma as a brute sociological fact of no normative significance apart from its unfortunate tendency to reduce utility.[12]

"The only reason that so much Christmas giving is in-kind rather than cash is the stigma of cash giving," Waldfogel writes. "If there were no stigma, then givers would give cash, and recipients would choose items that they really want, resulting in the most possible satisfaction given the amounts spent."[13] Stephen Dubner and Steven Levitt offer a similar view: the reluctance to give cash gifts is, for the most part, a "social taboo" that "crushes the economist's dream" of a "beautifully efficient exchange."[14]

The economic analysis of gift giving illustrates, in a small domain, two revealing features of market reasoning. First, it shows how market reasoning smuggles in certain moral judgments, despite its claim to be value neutral. Waldfogel doesn't assess the validity of the stigma against cash gifts; he never asks whether it might be justified. He simply assumes it is an irrational obstacle to utility, a "dysfunctional institution" that should ideally be overcome.[15] He doesn't consider the possibility that the stigma against monetary gifts may reflect norms worth preserving, such as norms of attentiveness bound up with friendship.

To insist that the purpose of all gifts is to maximize utility is to assume, without argument, that the utility-maximizing conception of friendship is morally the most appropriate one, and that the right way to treat friends is to satisfy their preferences—not to challenge or deepen or complicate them.

So the economic case against gift giving is not morally neutral. It presupposes a certain conception of friendship, one that many

consider impoverished. And yet, whatever its moral deficiency, the economic approach to gift giving is gradually taking hold. This brings us to the second revealing feature of the gift example. Contestable though its moral assumptions may be, the economic way of thinking about gifts is coming to be true. Over the past two decades, the monetary aspect of gift giving has come closer to the surface.

MONETIZING GIFTS

Consider the rise of gift cards. Rather than search for just the right gift, holiday shoppers are increasingly giving certificates or cards with a certain monetary value that can be redeemed for merchandise at retail stores. Gift cards represent a halfway house between choosing a specific gift and giving cash. They make life easier for shoppers and give recipients a greater range of options. A $50 gift card from Target, Walmart, or Saks Fifth Avenue avoids the "value-destroying loss" of a sweater two sizes too small, by letting the recipient choose something he or she really wants. And yet it's somehow different from giving money. True, the recipient knows exactly how much you spent; the monetary value is explicit. But despite this fact, a gift card from a particular store carries less of a stigma than simply giving cash. Perhaps the element of thoughtfulness conveyed by the choice of an appropriate store eases the stigma, at least to some degree.

The trend toward the monetizing of holiday gifts gathered momentum in the 1990s, when growing numbers of shoppers began giving gift certificates. In the late 1990s, the shift to plastic gift cards with magnetic strips accelerated the trend. From 1998 to 2010, annual sales of gift cards increased almost eightfold, to more than $90 billion. According to consumer surveys, gift cards are now the most

popular holiday gift request—ahead of clothing, video games, consumer electronics, jewelry, and other items.[16]

Traditionalists bemoan this trend. Judith Martin, the etiquette columnist known as Miss Manners, complains that gift cards have "taken the heart and soul out of the holiday. You're basically paying somebody—paying them to go away." Liz Pulliam Weston, a personal finance columnist, worries that "the art of gift-giving is quickly devolving into an entirely commercial exchange. How much longer," she asks, "until we simply start thrusting wads of dollar bills at each other?"[17]

From the standpoint of economic reasoning, the turn to gift cards is a step in the right direction. Going all the way to wads of dollar bills would be even better. The reason? Although gift cards reduce the "deadweight loss" of presents, they don't eliminate it entirely. Suppose your uncle gives you a $100 gift card redeemable at Home Depot. That would be better than a hundred-dollar tool kit you don't want. But if you are not keen on home improvement items, you'd rather have the cash. Money, after all, is like a gift card that is redeemable anywhere.

Not surprisingly, a market solution to this problem has already appeared. A number of online companies now buy gift cards for cash (at a price lower than their face value) and resell them. So, for example, a company called Plastic Jungle will buy your $100 Home Depot gift card for $80 and then resell it for $93. The discount rate varies according to the popularity of the store. For a $100 gift card from Walmart or Target, Plastic Jungle will pay $91. A $100 card from Barnes & Noble, sadly, yields only $77, slightly less than Burger King ($79).[18]

For economists concerned with the deadweight loss of gifts, this secondary market quantifies the utility loss you impose on recipients by giving gift cards rather than money: the higher the discount rate,

the greater the gap between the value of a gift card and the value of cash. Of course, none of this captures the thoughtfulness and attentiveness that traditional gift giving expresses. These virtues are attenuated in the shift from presents to gift cards and, finally, to cash.

One economist who studies gift cards suggests a way to reconcile the economic efficiency of cash with the old-fashioned virtue of thoughtfulness: "Gift-givers planning on giving a gift card might want to bear in mind the possible benefit of a cash gift with a note to the recipient suggesting that the money could be spent at [insert the name of store here]—to add the thought that counts."[19]

Giving money along with a cheery note advising the recipient where to spend it is the ultimate deconstructed gift. It's like packaging the utilitarian component and the expressive norm in two separate boxes, tied together with a bow.

My favorite example of the commodification of gift giving is a recently patented system for electronic regifting. An article in *The New York Times* describes it as follows: Suppose your aunt gives you a fruitcake for Christmas. The fruitcake company sends you an email informing you of the thoughtful gift and giving you the option of accepting delivery, exchanging it for something else, or sending the fruitcake to an unsuspecting person on your gift list. Since the transaction takes place online, you don't have to bother repacking the item and taking it to the post office. If you opt for regifting, the new recipient is offered the same options. So it's possible that the unwanted fruitcake could ricochet its way indefinitely through cyberspace.[20]

One possible snafu: depending on the retailer's disclosure policy, each recipient on the fruitcake's journey might be able to learn of its itinerary. This could be embarrassing. Learning that the fruitcake had been cast aside by several previous recipients and was now

being fobbed off on you would likely dampen your gratitude for the gift and dissolve its expressive value. It would be a bit like discovering that your best friend had purchased that heartwarming wedding toast online.

BOUGHT HONOR

Although money can't buy friendship, it can buy tokens and expressions of friendship—up to a point. As we've seen, converting apologies, wedding toasts, and gifts into commodities doesn't destroy them altogether. But it does diminish them. The reason it diminishes them is related to the reason that money can't buy friends: Friendship and the social practices that sustain it are constituted by certain norms, attitudes, and virtues. Commodifying these practices displaces these norms—sympathy, generosity, thoughtfulness, attentiveness—and replaces them with market values.

A hired friend is not the same as a real one; almost everyone can tell the difference. The only exception I can think of is Jim Carrey's character in the movie *The Truman Show.* The character lives his entire life in a seemingly halcyon town that, unbeknownst to him, is actually the set of a reality television show. It takes Carrey some time to figure out that his wife and his best friend are hired actors. But of course he didn't hire them; the television producer did.

The point of the friendship analogy is this: the reason we (normally) can't buy friends—the purchase would destroy the relationship—sheds light on how markets corrupt expressions of friendship. A bought apology or wedding toast, though recognizable as something akin to an authentic one, is nonetheless tainted and diminished. Money can buy these things, but only in somewhat degraded form.

Honorific goods are vulnerable to corruption in a similar way. A Nobel Prize can't be bought. But what about other forms of honor and recognition? Consider honorary degrees. Colleges and universities confer honorary degrees on distinguished scholars, scientists, artists, and public officials. But some recipients are philanthropists who have contributed large sums to the institution bestowing the honor. Are such degrees bought, in effect, or are they genuinely honorific?

It can be ambiguous. If the college's reasons were baldly stated, the transparency would dissolve the good. Suppose the citation at commencement read: "We confer honorary degrees upon distinguished scientists and artists for their achievements. But we award you this degree in thanks for the $10 million you gave us to build a new library." Such an award would scarcely count as an honorary degree. Of course, citations are never written that way. They speak of public service, philanthropic commitment, and dedication to the university's mission—an honorific vocabulary that blurs the distinction between an honorary degree and a bought one.

Similar questions can be asked about the buying and selling of admission to elite universities. Universities don't hold auctions for admission, at least not explicitly. Many selective colleges and universities could increase their revenues if they sold seats in the freshman class to the highest bidder. But even if they wanted to maximize revenue, universities would not auction off all the places. Doing so would reduce demand, not only by reducing academic quality but also by undermining the honorific aspect of admission. It would be hard to take pride in being admitted (or having your child admitted) to Stanford or Princeton if admission were routinely purchased and if this were widely known. At most, it would be the kind of pride associated with being able to buy a yacht.

Suppose, however, that most of the places were allocated according to merit, but a few were quietly made available for sale. And let's also suppose that many factors entered into admissions decisions—grades; SAT scores; extracurricular activities; racial, ethnic, and geographical diversity; athletic prowess; legacy status (being the child of an alumnus)—so that it was hard to tell, in any given case, which factors were decisive. Under conditions such as these, universities could sell some places to wealthy donors without undermining the honor that people associate with admission to a top school.

Critics of higher education claim that this scenario comes close to describing what actually goes on at many colleges and universities today. They describe "legacy preferences," the admissions edge given to children of alumni, as a form of affirmative action for the affluent. And they point to cases in which universities have relaxed their admissions standards for less than outstanding applicants whose parents, though not alumni, are wealthy and likely to make a substantial contribution to the school.[21] Defenders of these practices argue that private universities depend heavily on financial contributions from alumni and wealthy donors, and that such contributions enable universities to provide scholarships and financial aid to less affluent students.[22]

So, unlike the Nobel Prize, college admission is a good that can be bought and sold, provided the buying and selling take place discreetly. Whether colleges and universities should do so is a further question. The idea of selling admission is open to two objections. One is about fairness; the other is about corruption. The fairness objection says that admitting children of wealthy donors in exchange for a handsome donation to the college fund is unfair to applicants who lacked the good judgment to be born to affluent parents. This objection views a college education as a source of opportunity and

access, and worries that giving an edge to children of the wealthy perpetuates social and economic inequality.

The corruption objection is about institutional integrity. This objection points out that higher education not only equips students for remunerative jobs; it also embodies certain ideals—the pursuit of truth, the promotion of scholarly and scientific excellence, the advancement of humane teaching and learning, the cultivation of civic virtue. Although all universities need money to pursue their ends, allowing fund-raising needs to predominate runs the risk of distorting these ends and corrupting the norms that give universities their reason for being. That the corruption objection is about integrity—the fidelity of an institution to its constitutive ideals—is suggested by the familiar charge of "selling out."

TWO OBJECTIONS TO MARKETS

These two kinds of arguments reverberate through debates about what money should and should not buy. The fairness objection asks about the inequality that market choices may reflect; the corruption objection asks about the attitudes and norms that market relations may damage or dissolve.[23]

Consider kidneys. It's true that money can buy one without ruining its value. But should kidneys be bought and sold? Those who say no typically object on one of two grounds: They argue that such markets prey upon the poor, whose choice to sell their kidneys may not be truly voluntary (the fairness argument). Or they argue that such markets promote a degrading, objectifying view of the human person, as a collection of spare parts (the corruption argument).

Or consider children. It would be possible to create a market in babies up for adoption. But should we? Those who object offer two reasons: One is that putting children up for sale would price less affluent parents out of the market, or leave them with the cheapest, least desirable children (the fairness argument). The other is that putting a price tag on children would corrupt the norm of unconditional parental love; the inevitable price differences would reinforce the notion that the value of a child depends on his or her race, sex, intellectual promise, physical abilities or disabilities, and other traits (the corruption argument).

It's worth taking a moment to clarify these two arguments for the moral limits of markets. The fairness objection points to the injustice that can arise when people buy and sell things under conditions of inequality or dire economic necessity. According to this objection, market exchanges are not always as voluntary as market enthusiasts suggest. A peasant may agree to sell his kidney or cornea to feed his starving family, but his agreement may not really be voluntary. He may be unfairly coerced, in effect, by the necessities of his situation.

The corruption objection is different. It points to the degrading effect of market valuation and exchange on certain goods and practices. According to this objection, certain moral and civic goods are diminished or corrupted if bought and sold. The argument from corruption cannot be met by establishing fair bargaining conditions. It applies under conditions of equality and inequality alike.

The long-standing debate about prostitution illustrates the difference. Some people oppose prostitution on the grounds that it is rarely, if ever, truly voluntary. They argue that those who sell their bodies for sex are typically coerced, whether by poverty, drug addiction, or the threat of violence. This is a version of the fairness objection. But

others object to prostitution on the grounds that it is degrading to women, whether or not they are forced into it. According to this argument, prostitution is a form of corruption that demeans women and promotes bad attitudes toward sex. The degradation objection doesn't depend on tainted consent; it would condemn prostitution even in a society without poverty, even in cases of upscale prostitutes who liked the work and freely chose it.

Each objection draws on a different moral ideal. The fairness argument draws on the ideal of consent or, more precisely, the ideal of consent carried out under fair background conditions. One of the main arguments for using markets to allocate goods is that markets respect freedom of choice. They allow people to choose for themselves whether to sell this or that good at a given price.

But the fairness objection points out that some such choices are not truly voluntary. Market choices are not free choices if some people are desperately poor or lack the ability to bargain on fair terms. So in order to know whether a market choice is a free choice, we have to ask what inequalities in the background conditions of society undermine meaningful consent. At what point do inequalities of bargaining power coerce the disadvantaged and undermine the fairness of the deals they make?

The corruption argument points to a different set of moral ideals. It appeals not to consent but to the moral importance of the goods at stake, the ones said to be degraded by market valuation and exchange. So to decide whether college admission should be bought and sold, we have to debate the moral and civic goods that colleges should pursue, and ask whether selling admission would damage those goods. To decide whether to establish a market in babies up for adoption, we need to ask what norms should govern the parent-

child relationship, and ask whether buying and selling children would undermine those norms.

The fairness and corruption objections differ in their implications for markets: The fairness argument does not object to marketizing certain goods on the grounds that they are precious or sacred or priceless; it objects to buying and selling goods against a background of inequality severe enough to create unfair bargaining conditions. It offers no basis for objecting to the commodification of goods (whether sex or kidneys or college admission) in a society whose background conditions are fair.

The corruption argument, by contrast, focuses on the character of the goods themselves and the norms that should govern them. So it cannot be met simply by establishing fair bargaining conditions. Even in a society without unjust differences of power and wealth, there would still be things that money should not buy. This is because markets are not mere mechanisms; they embody certain values. And sometimes, market values crowd out nonmarket norms worth caring about.

CROWDING OUT NONMARKET NORMS

How exactly does this crowding out take place? How do market values corrupt, dissolve, or displace nonmarket norms? Standard economic reasoning assumes that commodifying a good—putting it up for sale—does not alter its character. Market exchanges increase economic efficiency without changing the goods themselves. That is why economists are generally sympathetic to using financial incentives to elicit desirable behavior; scalping tickets for highly prized

concerts, sporting events, even papal masses; employing tradable quotas to allocate pollution, refugees, and procreation; giving cash gifts rather than presents; using markets to ease the gap between supply and demand for all manner of goods, even kidneys. Market exchanges make both parties better off without making anyone else worse off—*if* you assume that market relations and the attitudes they foster don't diminish the value of the goods being exchanged.

But this assumption is open to doubt. We've already considered a raft of examples that call it into question. As markets reach into spheres of life traditionally governed by nonmarket norms, the notion that markets don't touch or taint the goods they exchange becomes increasingly implausible. A growing body of research confirms what common sense suggests: financial incentives and other market mechanisms can backfire by crowding out nonmarket norms. Sometimes, offering payment for a certain behavior gets you less of it, not more.

NUCLEAR WASTE SITES

For years, Switzerland had been trying to find a place to store radioactive nuclear waste. Although the country relies heavily on nuclear energy, few communities wanted nuclear waste to reside in their midst. One location designated as a potential nuclear waste site was the small mountain village of Wolfenschiessen (pop. 2,100), in central Switzerland. In 1993, shortly before a referendum on the issue, some economists surveyed the residents of the village, asking whether they would vote to accept a nuclear waste repository in their community, if the Swiss parliament decided to build it there. Although the facility was widely viewed as an undesirable addition to the neighborhood, a slim majority (51 percent) of residents said they would accept it. Apparently their sense of civic duty outweighed their concern about the risks. Then the economists added a sweetener: suppose parliament proposed building the nuclear waste facility in your community *and* offered to compensate each resident with an annual monetary payment. *Then* would you favor it?[24]

The result: support went down, not up. Adding the financial inducement cut the rate of acceptance in half, from 51 to 25 percent. The offer of money actually reduced people's willingness to host the nuclear waste site. What's more, upping the ante didn't help. When the economists increased the monetary offer, the result was unchanged. The residents stood firm even when offered yearly cash payments as high as $8,700 per person, well in excess of the median monthly income. Similar if less dramatic reactions to monetary offers have been found in other places where local communities have resisted radioactive waste repositories.[25]

So what was going on in the Swiss village? Why would more people accept nuclear waste for free than for pay?

Standard economic analysis suggests that offering people money to accept a burden would increase, not decrease their willingness to do so. But Bruno S. Frey and Felix Oberholzer-Gee, the economists who led the study, point out that the price effect is sometimes confounded by moral considerations, including a commitment to the common good. For many villagers, willingness to accept the nuclear waste site reflected public spirit—a recognition that the country as a whole depended on nuclear energy and that the nuclear waste had to be stored somewhere. If their community was found to be the safest storage site, they were willing to bear the burden. Against the background of this civic commitment, the offer of cash to residents of the village felt like a bribe, an effort to buy their vote. In fact, 83 percent

of those who rejected the monetary proposal explained their opposition by saying they could not be bribed.[26]

You might think that adding a financial incentive would simply reinforce whatever public-spirited sentiment already exists, thus increasing support for the nuclear waste site. After all, aren't two incentives—one financial, the other civic—more powerful than one? Not necessarily. It is a mistake to assume that incentives are additive. To the contrary, for the good citizens of Switzerland, the prospect of a private payoff transformed a civic question into a pecuniary one. The intrusion of market norms crowded out their sense of civic duty.

"Where public spirit prevails," the authors of the study conclude, "using price incentives to muster support for the construction of a socially desirable, but locally unwanted, facility comes at a higher price than suggested by standard economic theory because these incentives tend to crowd out civic duty."[27]

This does not mean that government agencies should simply impose siting decisions on local communities. High-handed regulation can be even more corrosive of public spirit than monetary incentives. Enabling local residents to assess the risks for themselves, allowing citizens to participate in deciding what sites best serve the public interest, giving host communities the right to close dangerous facilities if necessary—these are surer ways of generating public support than simply trying to buy it.[28]

Although cash payoffs are generally resented, compensation in kind is often welcomed. Communities often accept compensation for the siting of undesirable public projects—an airport, a landfill site, a recycling station—in their own backyards. But studies have found that people are more likely to accept such compensation if it takes the form of public goods rather than cash. Public parks, libraries, school improvements, community centers, even jogging and bicycle

trails are more readily accepted as compensation than are monetary payments.[29]

From the standpoint of economic efficiency, this is puzzling, even irrational. Cash is always better, supposedly, than in-kind public goods, for reasons we explored in connection with gift giving. Money is fungible, the universal gift card: if residents are compensated in cash, they can always decide to pool their windfall to pay for public parks, libraries, and playgrounds, if that is what will maximize their utility. Or they can choose to spend the money on private consumption.

But this logic misses the meaning of civic sacrifice. Public goods are more fitting than private cash as compensation for public harms and inconveniences, because such goods acknowledge the civic burdens and shared sacrifice that siting decisions impose. A monetary payment to residents for accepting a new runway or landfill in their town can be seen as a bribe to acquiesce in the degradation of the community. But a new library, playground, or school repays the civic sacrifice in the same coin, so to speak, by strengthening the community and honoring its public spirit.

DONATION DAY AND LATE PICKUPS

Financial incentives have also been found to crowd out public spirit in settings less fateful than those involving nuclear waste. Each year, on a designated "donation day," Israeli high school students go door-to-door to solicit donations for worthy causes—cancer research, aid to disabled children, and so on. Two economists did an experiment to determine the effect of financial incentives on the students' motivations.

They divided the students into three groups. One group was

given a brief motivational speech about the importance of the cause and sent on its way. The second and third groups were given the same speech but also offered a monetary reward based on the amount they collected—1 percent and 10 percent, respectively. The rewards would not be deducted from the charitable donations; they would come from a separate source.[30]

Which group of students do you think raised the most money? If you guessed the unpaid group, you are right. The unpaid students collected 55 percent more in donations than those who were offered a 1 percent commission. Those who were offered 10 percent did considerably better than the 1 percent group, but less well than the students who were not paid at all. (The unpaid volunteers collected 9 percent more than those on the high commission.)[31]

What's the moral of the story? The authors of the study conclude that, if you're going to use financial incentives to motivate people, you should either "pay enough or don't pay at all."[32] While it may be true that paying enough will get you what you want, that's not all this story tells us. There is also a lesson here about how money crowds out norms.

To a degree, the experiment confirms the familiar assumption that monetary incentives work. After all, the 10 percent group collected more in contributions than those who were offered only 1 percent. But the interesting question is why both paid groups lagged behind those doing it for free. Most likely, it was because paying students to do a good deed changed the character of the activity. Going door-to-door collecting funds for charity was now less about performing a civic duty and more about earning a commission. The financial incentive transformed a public-spirited activity into a job for pay. As with the Swiss villagers, so with the Israeli students: the introduction of market norms displaced, or at least dampened, their moral and civic commitment.

A similar lesson emerges from another notable experiment conducted by the same researchers—the one involving the Israeli day-care centers. As we've already seen, introducing a fine for parents who came late to pick up their children did not reduce the number of late-arriving parents, but increased it. In fact, the incidence of late pickups nearly doubled. The parents treated the fine as a fee they were willing to pay. Not only that: When, after about twelve weeks, the day-care centers eliminated the fine, the new, elevated rate of late arrivals persisted. Once the monetary payment had eroded the moral obligation to show up on time, the old sense of responsibility proved difficult to revive.[33]

These three cases—of nuclear waste siting, charitable fund-raising, and late day-care pickups—illustrate the way introducing money into a nonmarket setting can change people's attitudes and crowd out moral and civic commitments. The corrosive effect of market relations is sometimes strong enough to override the price effect: offering a financial incentive to accept a hazardous facility, or go door-to-door collecting charity, or show up on time reduced rather than increased people's willingness to do so.

Why worry about the tendency of markets to crowd out nonmarket norms? For two reasons: one fiscal, the other ethical. From an economic point of view, social norms such as civic virtue and public-spiritedness are great bargains. They motivate socially useful behavior that would otherwise cost a lot to buy. If you had to rely on financial incentives to get communities to accept nuclear waste, you'd have to pay a lot more than if you could rely instead on the residents' sense of civic obligation. If you had to hire schoolchildren to collect charitable donations, you'd have to pay more than a 10 percent commission to get the same result that public spirit produces for free.

But to view moral and civic norms simply as cost-effective ways of motivating people ignores the intrinsic value of the norms. (It's like treating the stigma against cash gifts as a social fact that stands in the way of economic efficiency but that can't be assessed in moral terms.) Relying solely on cash payments to induce residents to accept a nuclear waste facility is not only expensive; it is also corrupting. It bypasses persuasion and the kind of consent that arises from deliberating about the risks the facility poses and the larger community's need for it. In a similar way, paying students to collect contributions on donation day not only adds to the cost of fund-raising; it also dishonors their public spirit and disfigures their moral and civic education.

THE COMMERCIALIZATION EFFECT

Many economists now recognize that markets change the character of the goods and social practices they govern. In recent years, one of the first to emphasize the corrosive effect of markets on nonmarket norms was Fred Hirsch, a British economist who served as a senior adviser to the International Monetary Fund. In a book published in 1976—the same year that Gary Becker's influential *An Economic Approach to Human Behavior* appeared and three years before Margaret Thatcher was elected prime minister—Hirsch challenged the assumption that the value of a good is the same whether provided through the market or in some other way.

Hirsch argues that mainstream economics has overlooked what he calls the "commercialization effect." By this he means "the effect on the characteristics of a product or activity of supplying it exclusively or predominantly on commercial terms rather than on some other

basis—such as informal exchange, mutual obligation, altruism or love, or feelings of service or obligation." The "common assumption, almost always hidden, is that the commercialization process does not affect the product." Hirsch observes that this mistaken assumption loomed large in the rising "economic imperialism" of the time, including attempts, by Becker and others, to extend economic analysis into neighboring realms of social and political life.[34]

Hirsch died just two years later, at the age of forty-seven, and so did not have the chance to elaborate his critique of mainstream economics. In the ensuing decades, his book became a minor classic among those who rejected the growing commodification of social life and the economic reasoning that propelled it. The three empirical cases we've just considered support Hirsch's insight—that the introduction of market incentives and mechanisms can change people's attitudes and crowd out nonmarket values. Recently, other empirically minded economists have been finding further evidence of the commercialization effect.

For example, Dan Ariely, one of a growing number of behavioral economists, did a series of experiments demonstrating that paying people to do something may elicit less effort from them than asking them to do it for free, especially if it's a good deed. He tells a real-life anecdote that illustrates his findings. The American Association of Retired Persons asked a group of lawyers if they would be willing to provide legal services to needy retirees at a discounted rate of $30 an hour. The lawyers refused. Then the AARP asked if they would provide legal advice to the needy retirees for free. The lawyers agreed. Once it was clear they were being asked to engage in a charitable activity rather than a market transaction, the lawyers responded charitably.[35]

A growing body of work in social psychology offers a possible

explanation for this commercialization effect. These studies highlight the difference between intrinsic motivations (such as moral conviction or interest in the task at hand) and external ones (such as money or other tangible rewards). When people are engaged in an activity they consider intrinsically worthwhile, offering them money may weaken their motivation by depreciating or "crowding out" their intrinsic interest or commitment.[36] Standard economic theory construes all motivations, whatever their character or source, as preferences and assumes they are additive. But this misses the corrosive effect of money.

The crowding-out phenomenon has big implications for economics. It calls into question the use of market mechanisms and market reasoning in many aspects of social life, including financial incentives to motivate performance in education, health care, the workplace, voluntary associations, civic life, and other settings in which intrinsic motivations or moral commitments matter. Bruno Frey (an author of the Swiss nuclear waste siting study) and the economist Reto Jegen summarize the implications as follows: "Arguably, the 'crowding-out effect' is one of the most important anomalies in economics, as it suggests the opposite of the most fundamental economic 'law,' that raising monetary incentives increases supply. If the crowding-out effect holds, raising monetary incentives reduces, rather than increases, supply."[37]

BLOOD FOR SALE

Perhaps the best-known illustration of markets crowding out non-market norms is a classic study of blood donation by the British sociologist Richard Titmuss. In his 1970 book *The Gift Relationship*,

Titmuss compared the system of blood collection used in the United Kingdom, where all blood for transfusion is given by unpaid, voluntary donors, and the system in the United States, where some blood is donated and some bought by commercial blood banks from people, typically the poor, who are willing to sell their blood as a way of making money. Titmuss argued in favor of the U.K. system and against treating human blood as a commodity to be bought and sold on the market.

Titmuss presented a wealth of data showing that, in economic and practical terms alone, the British blood collection system works better than the American one. Despite the supposed efficiency of markets, he argued, the American system leads to chronic shortages, wasted blood, higher costs, and a greater risk of contaminated blood.[38] But Titmuss also leveled an ethical argument against the buying and selling of blood.

Titmuss's ethical argument against the commodification of blood offers a good illustration of the two objections to markets identified earlier—fairness and corruption. Part of his argument is that a market in blood exploits the poor (the fairness objection). He observed that for-profit blood banks in the United States recruit much of their supply from Skid Row residents desperate for quick cash. The commercialization of blood leads to more blood "being supplied by the poor, the unskilled, the unemployed, Negroes and other low income groups." A "new class is emerging of an exploited human population of high blood yielders," he wrote. The redistribution of blood "from the poor to the rich appears to be one of the dominant effects of the American blood banking systems."[39]

But Titmuss had a further objection: turning blood into a market commodity erodes people's sense of obligation to donate blood, diminishes the spirit of altruism, and undermines the "gift relationship"

as an active feature of social life (the corruption objection). Looking at the United States, he lamented the "decline in recent years in the voluntary giving of blood," and attributed this to the rise of commercial blood banks. "Commercialization and profit in blood has been driving out the voluntary donor." Once people begin to view blood as a commodity that is routinely bought and sold, Titmuss suggested, they are less likely to feel a moral responsibility to donate it. Here he was pointing to the crowding-out effect of market relations on nonmarket norms, though he didn't use this phrase. The widespread buying and selling of blood demoralizes the practice of giving blood for free.[40]

Titmuss was concerned not only with the declining willingness to give blood but also with the broader moral implications. Beyond its harmful effect on the quantity and quality of blood, the declining spirit of giving made for an impoverished moral and social life. "It is likely that a decline in the spirit of altruism in one sphere of human activities will be accompanied by similar changes in attitudes, motives and relationships in other spheres."[41]

While a market-based system does not prevent anyone from donating blood if he or she wants to, the market values that suffuse the system exert a corrosive effect on the norm of giving. "The ways in which society organizes and structures its social institutions—and particularly its health and welfare systems—can encourage or discourage the altruistic in man; such systems can foster integration or alienation; they can allow the 'theme of the gift'—of generosity towards strangers—to spread among and between social groups and generations." At some point, Titmuss worried, market-driven societies might become so inhospitable to altruism that they could be said to impair the freedom of persons to give. The "commercialization of

blood and donor relationships represses the expression of altruism," he concluded, and "erodes the sense of community."[42]

Titmuss's book prompted much debate. Among his critics was Kenneth Arrow, one of the most distinguished American economists of his time. Arrow was no Milton Friedman–like proponent of unfettered markets. His earlier work had analyzed imperfections in markets for health care. But he took strong exception to Titmuss's critique of economics and market thinking.[43] In doing so, Arrow invoked two key tenets of the market faith—two assumptions about human nature and moral life that economists often assert but rarely defend.

TWO TENETS OF MARKET FAITH

The first is that commercializing an activity doesn't change it. On this assumption, money never corrupts, and market relations never crowd out nonmarket norms. If this is true, then the case for extending markets into every aspect of life is hard to resist. If a previously untraded good is made tradable, no harm is done. Those who wish to buy and sell it can do so, thereby increasing their utility, while those who regard the good as priceless are free to desist from trafficking in it. According to this logic, allowing market transactions makes some people better off without making anyone else worse off—even if the good being bought and sold is human blood. As Arrow explains: "Economists typically take for granted that since the creation of a market increases the individual's area of choice it therefore leads to higher benefits. Thus, if to a voluntary blood donor system we add the possibility of selling blood, we have only expanded

the individual's range of alternatives. If he derives satisfaction from giving, it is argued, he can still give, and nothing has been done to impair that right."[44]

This line of reasoning leans heavily on the notion that creating a market in blood does not change its value or meaning. Blood is blood, and it will serve its life-sustaining purpose whether gifted or sold. Of course, the good at stake here is not only blood but also the act of donating blood out of altruism. Titmuss attaches independent moral value to the generosity that motivates the gift. But Arrow doubts that even this practice could be damaged by the introduction of a market: "Why should it be that the creation of a market for blood would decrease the altruism embodied in giving blood?"[45]

The answer is that commercializing blood changes the meaning of donating it. For consider: In a world where blood is routinely bought and sold, is donating a pint of blood at your local Red Cross still an act of generosity? Or is it an unfair labor practice that deprives needy persons of gainful employment selling their blood? If you want to contribute to a blood drive, would it be better to donate blood yourself, or to donate $50 that can be used to buy an extra pint of blood from a homeless person who needs the income? A would-be altruist could be forgiven for being confused.

The second tenet of market faith that figures in Arrow's critique is that ethical behavior is a commodity that needs to be economized. The idea is this: we should not rely too heavily on altruism, generosity, solidarity, or civic duty, because these moral sentiments are scarce resources that are depleted with use. Markets, which rely on self-interest, spare us from using up the limited supply of virtue. So, for example, if we rely on the generosity of the public for the supply of blood, there will be less generosity left over for other social or charitable purposes. If, however, we use the price system to generate

the blood supply, people's altruistic impulses will be available, undiminished, when we really need them. "Like many economists," Arrow writes, "I do not want to rely too heavily on substituting ethics for self-interest. I think it best on the whole that the requirement of ethical behavior be confined to those circumstances where the price system breaks down . . . We do not wish to use up recklessly the scarce resources of altruistic motivation."[46]

It is easy to see how this economistic conception of virtue, if true, provides yet further grounds for extending markets into every sphere of life, including those traditionally governed by nonmarket values. If the supply of altruism, generosity, and civic virtue is fixed, as if by nature, like the supply of fossil fuels, then we should try to conserve it. The more we use, the less we have. On this assumption, relying more on markets and less on morals is a way of preserving a scarce resource.

ECONOMIZING LOVE

The classic statement of this idea was offered by Sir Dennis H. Robertson, a Cambridge University economist and former student of John Maynard Keynes, in an address at the bicentennial of Columbia University in 1954. The title of Robertson's lecture was a question: "What does the economist economize?" He sought to show that, despite catering to "the aggressive and acquisitive instincts" of human beings, economists nonetheless serve a moral mission.[47]

Robertson began by conceding that economics, concerned as it is with the desire for gain, does not deal with the noblest human motives. "It is for the preacher, lay or clerical," to inculcate the higher virtues—altruism, benevolence, generosity, solidarity, and civic duty.

"It is the humbler, and often the invidious, role of the economist to help, so far as he can, in reducing the preacher's task to manageable dimensions."[48]

How does the economist help? By promoting policies that rely, whenever possible, on self-interest rather than altruism or moral considerations, the economist saves society from squandering its scarce supply of virtue. "If we economists do [our] business well," Robertson concludes, "we can, I believe, contribute mightily to the economizing . . . of that scarce resource Love," the "most precious thing in the world."[49]

To those not steeped in economics, this way of thinking about the generous virtues is strange, even far-fetched. It ignores the possibility that our capacity for love and benevolence is not depleted with use but enlarged with practice. Think of a loving couple. If, over a lifetime, they asked little of one another, in hopes of hoarding their love, how well would they fare? Wouldn't their love deepen rather than diminish the more they called upon it? Would they do better to treat one another in more calculating fashion, to conserve their love for the times they really needed it?

Similar questions can be asked about social solidarity and civic virtue. Should we try to conserve civic virtue by telling citizens to go shopping until their country needs to call upon them to sacrifice for the common good? Or do civic virtue and public spirit atrophy with disuse? Many moralists have taken the second view. Aristotle taught that virtue is something we cultivate with practice: "we become just by doing just acts, temperate by doing temperate acts, brave by doing brave acts."[50]

Rousseau held a similar view. The more a country asks of its citizens, the greater their devotion to it. "In a well-ordered city every man flies to the assemblies." Under a bad government, no one participates in public life "because no one is interested in what happens there" and "domestic cares are all-absorbing." Civic virtue is built up, not spent down, by strenuous citizenship. Use it or lose it, Rousseau says, in effect. "As soon as public service ceases to be the chief business of the citizens, and they would rather serve with their money than with their persons, the state is not far from its fall."[51]

Robertson offers his observation in a lighthearted, speculative spirit. But the notion that love and generosity are scarce resources that are depleted with use continues to exert a powerful hold on the moral imagination of economists, even if they don't argue for it explicitly. It is not an official textbook principle, like the law of supply and demand. No one has proved it empirically. It is more like an adage, a piece of folk wisdom, to which many economists still subscribe.

Almost half a century after Robertson's lecture, the economist Lawrence Summers, then the president of Harvard University, was invited to offer the morning prayer in Harvard's Memorial Church. He chose as his theme what "economics can contribute to thinking about moral questions." Economics, he stated, "is too rarely appreciated for its moral as well as practical significance."[52]

Summers observed that economists place "great emphasis on respect for individuals—and the needs, tastes, choices and judgment they make for themselves." He then offered a standard utilitarian account of the common good as the sum of people's subjective preferences: "It is the basis of much economic analysis that the good is an aggregation of many individuals' assessments of their own well-being, and not something that can be assessed" apart from these preferences on the basis of an independent moral theory.

He illustrated this approach by challenging students who had advocated a boycott of goods produced by sweatshop labor: "We all deplore the conditions in which so many on this planet work and the

paltry compensation they receive. And yet there is surely some moral force to the concern that as long as the workers are voluntarily employed, they have chosen to work because they are working to their best alternative. Is narrowing an individual's set of choices an act of respect, of charity, even of concern?"

He concluded with a reply to those who criticize markets for relying on selfishness and greed: "We all have only so much altruism in us. Economists like me think of altruism as a valuable and rare good that needs conserving. Far better to conserve it by designing a system in which people's wants will be satisfied by individuals being selfish, and saving that altruism for our families, our friends, and the many social problems in this world that markets cannot solve."

Here was Robertson's adage reasserted. Notice that Summers's version of it is even starker than Arrow's: Reckless expenditures of altruism in social and economic life not only deplete the supply available for other public purposes. They even reduce the amount we have left for our families and friends.

This economistic view of virtue fuels the faith in markets and propels their reach into places they don't belong. But the metaphor is misleading. Altruism, generosity, solidarity, and civic spirit are not like commodities that are depleted with use. They are more like muscles that develop and grow stronger with exercise. One of the defects of a market-driven society is that it lets these virtues languish. To renew our public life we need to exercise them more strenuously.

4

Markets in Life and Death

Michael Rice, forty-eight, an assistant manager at a Walmart in Tilton, New Hampshire, was helping a customer carry a television to her car when he had a heart attack and collapsed. He died a week later. An insurance policy on his life paid out about $300,000. But the money did not go to his wife and two children. It went to Walmart, which had purchased the policy on Rice's life and named itself as the beneficiary.[1]

When his widow, Vicki Rice, learned of Walmart's windfall, she was outraged. Why should the company be able to profit from her husband's death? He had worked long hours for the company, sometimes as much as eighty hours a week. "They used Mike terribly," she said, "and then they go out and collect $300,000? It's very immoral."[2]

According to Mrs. Rice, neither she nor her husband had any idea that Walmart had taken out a life insurance policy on him. When she learned of the policy, she sued Walmart in federal court, claiming that the money should go to the family, not the company. Her attorney argued that corporations should not be able to profit from the death of their workers: "It is absolutely reprehensible for a giant like Wal-Mart to be gambling on the lives of its employees."[3]