

Are markets moral?

1. Rough draft of remarks

Thank you Bruce, I'm happy to be here.

I'm an economist, so the idea of morality is wasted on me, not to mention good taste. Maybe I should have mentioned that to Bruce earlier. Markets, though, I think about a lot: markets for food, beer, drugs, online tickets, election futures, husbands and wives, body parts, you name it. If you can imagine it, I'm happy to talk about it and eBay is probably happy to sell it.

So are markets moral? I asked a bunch of my friends, and none of them thought the question made any sense. Maybe that's telling me I need some new friends. But I think their point is that markets are a tool, and tools are neither moral nor immoral. We could say the same for hammers, saws, and even guns. On the whole, I think markets are a lot less dangerous than guns. As my colleague John Leahy put it: "Markets don't kill people, guns do."

If you look around the world, I think it's hard not to conclude that markets are an extremely useful tool for generating prosperity. Even Marx and Engels admitted that. A couple decades ago, we found lots of people trying to go from East to West Germany, but very few the other way. I think we can assume that they thought this was a good idea. Today we see people trying to move from Mexico to the US, or from North Korea to China. Not all of this is about markets, but a lot of it is. The US has more and better markets than Mexico, and god knows what passes for markets in North Korea. Right now, we're seeing the greatest reduction in poverty the world has ever seen as China and India undergo relatively modest increases in their use of markets.

It's true, of course, that markets have a dark side. Reality TV is one. And in my business there's the shock of finding out that the worst student in your class is now managing a multi-billion-dollar hedge fund.

That's the usual advertising for so-called free markets, but I'd like to make a different point with an example. Two years ago, I was at a conference in Budapest. I took the train from Prague with a friend of mine, and got in about midnight. We went for a late walk along the river, and as we walked along, women would go out of their way to say hello. I thought to myself, what a friendly town! The next night we were drinking beer with friends, which is what we do at conferences, and asked them whether that market was legal in Hungary. We didn't get an answer for Hungary, but in Turkey I'm told it's legal to sell, but not to buy. That sounds strange, but it turns

out the Turks have devised a brilliant system. They not only protect the sellers, but have an ongoing opportunity to embarrass politicians, who seem to be among the most active buyers. Imagine what Jon Stewart could do if the US adopted this system.

The next year I was at the same conference, this time in Vancouver. I got up one morning and was reading Canada's leading business newspaper, the National Post, and ran across an article about prostitution in Germany. Apparently Germany did one better than Turkey and legalized both buying and selling. What they noticed was that legalization led to a better market experience for both buyers and sellers. Sellers found that they could now call the police when they were robbed or beat up, and buyers appreciated the regular health checkups imposed on the sellers.

The point is not that we should legalize prostitution -- I'll let someone else take that one on -- but that markets work best when there's a legal infrastructure -- what we would call institutions. That's why I referred earlier to better markets: it's not just the existence of the market, but the institutions that support fair and honest exchange. In this country, we're the beneficiaries of centuries of institutional development that have turned out to work pretty well for most people. In many other countries, not so much. China has been doing very well, but it's still possible to be poisoned by water or cough syrup. In Russia, an enterprising entrepreneur stands a fair chance of having his business stolen -- taken from him lock, stock, and barrel, possibly with the connivance of the government. In Mexico, more than in the US, government is often used to support the businesses of the rich and powerful. Carlos Slim is said to be the richest man in the world, and a large part of his wealth benefited from government policies that eliminated his competitors.

In short, markets are great tools, but they need a strong legal and political support to work best. Bruce's second question is whether markets encourage immoral behavior. Certainly it's easy to think of people who have succeeded by lying, cheating, and stealing. Some got caught, some didn't. Did markets make them that way? Let me quote Warren Buffett: "Of the billionaires I have known, money just brings out the basic traits in them. If they were jerks before they had money, they are simply jerks with a billion dollars."

So to summarize: markets are tools, and people are people.

2. Collection of quotations and examples

Leahy: "Markets don't kill people, guns do."

Zin: "Money can't buy happiness, but it's an experiment that everyone wants to run for themselves."

Buffett: "Of the billionaires I have known, money just brings out the basic traits in them. If they were jerks before they had money, they are simply jerks with a billion dollars."

Adam Smith, *Wealth of Nations*: As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.

James Madison, *Federalist Papers No 51*: "But what is government itself, but the greatest of all reflections on human nature. If men were angels, no government would be necessary. If angels were to govern, neither external nor internal controls on government would be necessary. In forming a government which is to be administered by men over men, the great difficulty lies in this: you must first enable government to control the governed; and in the next place oblige it to control itself."

Marx and Engels, *Communist Manifesto*: "The bourgeoisie has been the first to show what man's activity can bring about. It has accomplished wonders far surpassing Egyptian pyramids, Roman aqueducts, and Gothic cathedrals; it has conducted expeditions that put in the shade all former exoduses of nations and crusades."

Teddy Roosevelt ("The New Nationalism"): Now, this means that our government, national and State, must be freed from the sinister influence or control of special interests. ... **The Constitution guarantees protections to property, and we must make that promise good. But it does not give the right of suffrage to any corporation. ... The citizens of the United States**

must effectively control the mighty commercial forces which they have themselves called into being.

Posner from the Becker-Posner blog (Oct 23 06):

But here is an interesting wrinkle. Admiralty law and common law (both are systems of judge-made law, but they are classified separately by lawyers because they used to be administered by separate courts) alike forbid certain practices that might be described as "price gouging." Suppose a ship is sinking, and another ship comes along in time to save the cargo and passengers of the first. The second ship demands, as its price for saving the cargo and passengers of the first ship, that the owner of the ship give it the ship and two-thirds of the rescued cargo, and the captain of the first ship, on behalf of the owner, being desperate agrees. The contract would not be legally enforceable; under the admiralty doctrine of "salvage," the second ship would be entitled to a "fair" price for rescuing the first, but to no more.

In a parallel case, also maritime but governed by common law rather than admiralty law (the *Alaska Packers* case, well known to law students), seamen on board a ship that was fishing for salmon in Alaska waters went on strike, demanding higher wages. The captain of the ship agreed because, the fishing season in these waters being very short, he could not have hired a replacement crew in time to make his quota. Again, however, the court refused to enforce the contract, in essence because it had been obtained under duress.

Markets in everything (marginalrevolution.com)

Organ sales (this one's from Carpe Diem).

WSJ Front Page: Amid a severe kidney-donor shortage, an idea long considered anathema in the medical community is gaining new currency: payments for people willing to give up a kidney.

Under the current system, patients who need a kidney transplant are put on a waiting list for kidneys from deceased donors, which are handed out based on geography, waiting time and various medical factors. Waits vary across the country, and easily top five or six years in many areas. Those who have a willing, living donor can bypass the list altogether and get transplants right away. But the donors must give their kidneys freely and attest that no one is paying them to do so.

Last year, there were about 70,000 people on the waiting list, and about 4,400

people on the waiting list died.

Dr. Arthur Matas envisions a plan where donors would be able to sell their kidneys, regardless of motivation. A set price, he says, could be established by the government and paid by the recipient's insurance, typically Medicare. The kidney would go to whoever is at the top of the waiting list, rich or poor. Potential sellers would be medically and psychologically screened to make sure they are suitable donors. Afterwards, they would be tracked by the government to see what impact the kidney sale had on their life and overall health.

Proposition 1: Anytime you have congestion or shortages, it's almost guaranteed that market pricing is absent.

Proposition 2: Market pricing will almost always reduce or eliminate congestion and shortages.

Conclusion: Market pricing for kidneys would eliminate the artificial shortage and save thousands of lives every year.

From The Economist (human sperm)

GENERALLY, a good has more value when it is relatively scarce, but it also must be desirable. A horse can be quite valuable when it has the potential to be extraordinarily fast. When the racing phase of his life has past, a horse's reproductive value determines his worth. A horse with an excellent pedigree can fetch a fair sum if he might spawn the next Secretariat or Babaro. What determines a good pedigree involves a fairly complex process with experts acting as Walrasian auctioneers/match makers. Despite a fair degree of uncertainty it turns out to be a fairly efficient market. Horses with exceptional DNA fetch a higher value and get paired with equally illustrious partners.

All the more puzzling the same effort is not applied to human reproduction. Most sperm banks impose basic rules for the age, height and educational achievement of donors. Subject to that, they charge and pay a single price—with a \$100 premium if you want sperm from a donor willing to be identified to an eventual off-spring. A rare exception is Fairfax Cryobank, which charges a mere \$90 premium for sperm from a PhD. Given the five to seven years it takes to complete a doctorate this seems to be a good bargain.

Markets in everything, religious cell phones

I call this one: "Price-discriminating monopolists appeal to the weak-willed" edition. Let's say you want to attract the religiously minded parts of the individual. What might your prices look like?

When Larry Pinczower switches on his cellphone, the seal of a rabbinic council appears. Unable to send text messages, take photographs or connect to the Internet, his phone is a religiously approved adaptation to modernity by the ultra-Orthodox sector of Israeli life.

More than 10,000 numbers for phone sex, dating services and the like are blocked, and rabbinical overseers ensure that the lists are up to date. Calls to other kosher phones are less than 2 cents a minute, compared with 9.5 cents for normal phones. But on the Sabbath any call costs \$2.44 a minute, a steep religious penalty.

Or maybe there is no weakness of will, but rather the high prices signal the religious loyalty of the phone owner. Here is [the full and fascinating article](#), and thanks to Zev for the pointer.

African dictator edition

Hmm...I had [just been thinking](#) about related ideas:

Sudanese billionaire Mo Ibrahim (of Celtel fame) has created a [\\$5 million dollar cash prize for Africa's most effective head of state](#).

Each year the winning leader will, at the end of his term, get \$5m (£2.7m) over 10 years and \$200,000 (£107,000) each year for life thereafter. "We need to remove corruption and improve governance," Mr Ibrahim said.

...The Mo Ibrahim Prize for Achievement in African Leadership will be launched in London on Thursday... It will be available only to a president who democratically transfers power to his successor. Harvard University will do the measuring to see just how well the president has served his or her people during their term in office.

Here is [more](#), and thanks to Pablo for the pointer. The prize sounds too small, relative to the lure of corruption, but I see no reason not to try this idea.

Markets in Everything: ICBM silos

There's a hot market for demilitarized ICBM silos. There are three of them on offer at eBay right now, with the asking price of \$500,000 per silo, which includes underground and above ground support facilities. Hundreds of ICBM silos have been sold off in the last twenty years, as new missile forces were reduced with the end of the Cold War, and the enactment of arms reduction treaties. Most of these are located in remote areas. For example, the three silo complex being offered on eBay sits on 57 acres in central Washington State.

Markets in Everything: outsourcing prayer

With Roman Catholic clergy in short supply in the United States, Indian priests are picking up some of their work, saying Mass for special intentions, in a sacred if unusual version of outsourcing. American, as well as Canadian and European churches, are sending Mass intentions, or requests for services like those to remember deceased relatives and thanksgiving prayers, to clergy in India.

Markets in everything, China edition

...there are now Chinese companies that are happy to sell you fake receipts that look just like the real thing.

But what if they sold you a "fake receipt" for buying...*fake receipts*. Would it be a fake receipt, a real receipt, or a real fake receipt? Here is [the story](#), and thanks to Derek for the pointer.

Markets in Everything: Nein!

Markets in Everything usually deals with unusual items but today's post is about a German website where buyers and sellers bid on labor contracts. Here's the [idea](#):



The concept of jobdumping.de is simple. An employer posts a job that needs doing, along with the maximum wage he or she is willing to pay. Interested job seekers then compete with each other for the job by underbidding, meaning the employer ends up with the person willing to do the job for the least amount of money.

The system can also work the other way, with workers entering their skills in the auction at the minimum price they're willing to work for, and interested employers then push the wage up as they outbid each other.

Nothing unusual about that - freelancers as well as firms bid on contracts like this all the time. And yet in Germany, where unemployment is at a record high, this website has generated a furious response:

...some German labor market experts have had harsh words for the Internet site. Dirk Niebel of the Liberal Democratic party even went so far as to call the premise "immoral" in an interview printed in the *Berliner Zeitung* on Tuesday.

"I find it strange," he said. "It smacks of a slave market."

Freedom is slavery. Amazing.
Thanks to Mike Jackmin for the pointer.

Markets in everything, Indian edition

Three Indian doctors caught on camera apparently agreeing to amputate the healthy limbs of beggars are to be questioned by the Indian Medical Council, an official said Tuesday.

Here is [the story](#), the going rate is about \$215, and thanks to [Ted Frank](#) for the pointer.

Lessons from a German Brothel

BYLINE: John Turley-Ewart, National Post
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Having been schooled by Italy in the semi-finals of the World Cup tournament it's hosting, Germany has lost any claim to soccer supremacy. But the nation has much to teach us on a more important issue: prostitution. Four years ago, the country passed legislation decriminalizing both brothels and those who engage in what our own criminal law refers to as "communicating for the purposes of prostitution" (i.e., soliciting johns in media advertisements, or on the street). Canada would do well to follow suit.

Germany's liberal approach to prostitution has been controversial. Condoleezza Rice, the U.S. Secretary of State, claims the policy offers an open invitation to criminal gangs that exploit vulnerable women. And according to the chairman of the U.S. House of Representatives panel on human rights, Republican Christopher Smith, "the clear losers [in the World Cup] will be the thousands of women and children trafficked and sold into Germany's legal sex industry to accommodate the huge influx of [potential clients]." His fears were echoed by widely circulated claims that 40,000 women from Eastern Europe were going to be smuggled into the country for just such a purpose.

Europeans are more liberal-minded about such things. But even many in Europe think Germany has gone too far. Among them is Juliette Engel, who directs the MiraMed Institute, a Moscow-based charity. The German government, she says, is acting as "an official 'pimp' for the 2006 World Cup." And Claes Borgstrom, the Equal Opportunity Ombudsman for Sweden, unsuccessfully called on his country's soccer team to boycott the World Cup over the issue. (In Sweden, buying sex is a criminal act. But selling it has been decriminalized. This reflects the ultra-progressive view that prostitution is a form of male violence against women; and so punishing the prostitute would be to victimize her twice.)

But as the World Cup draws to a close this Sunday, it is clear that Germany's critics got it wrong. According to a report released on Tuesday by the International Organization for Migration, there is no basis in the claim that thousands of women from Eastern Europe were frogmarched into the pleasure trade for the benefit of randy soccer fans. Indeed, business at many brothels has reportedly been quite flat.

The assumption underlying much of the bad press Germany has received is that decriminalization is a boon to the underworld. In fact, the opposite is

closer to the truth. Prostitution is like any other industry. Make it illegal, and you give criminals a monopoly. Legalize it, and you give law-abiding enterprises a chance to compete.

Christel Humme, a German MP and member of the left-of-centre Social Democratic Party (SPD), was one of the German politicians who helped change the country's prostitution laws in 2002 (a move supported by the country's NDP-esque Green Party). Every day, she noted in an interview, more than a million men in Germany (a country with a male adult population of about 40-million), seek out the services of the nation's estimated 400,000 sex workers. "This is the reality," she says.

Several considerations convinced the SPD to make changes. The first was a desire to improve the safety of prostitutes by bringing their industry into the open and giving them legal rights -- so they no longer had to rely on abusive pimps for protection.

The second was the need to ensure that the benefits of Germany's welfare state -- health care and pensions, for instance -- were made available to prostitutes. Giving prostitutes access to doctors would also help improve public health, by allowing the state to identify and treat those sex-trade workers infected with sexually transmitted diseases.

Prostitution and the trafficking of women are separate issues, Ms. Humme told me. In at least one way, in fact, legalizing prostitution has helped stop trafficking: Police are now able to apply their scarce resources to closing down those unregulated brothels where women are forced into the sex trade.

According to Ms. Humme's research, recriminalizing prostitution wouldn't stop the flow of women from poor countries. That, she believes, will happen only when more governments in Eastern Europe, such as Poland, begin to take seriously the problem at cooperate more fully with other countries to stop it.

HYDRA, the German Association of Female and Male Prostitutes, lobbied hard for decriminalization and believes prostitutes that work in the legal system are much safer today than they were before 2002.

According to Katharina Zetin, a former prostitute and a spokesperson for HYDRA, johns were more likely to be violent or to refuse to pay when they knew prostitutes would be prosecuted if they took their concerns to the police. Moreover, she notes in an interview, health and safety standards are far better in today's brothels. Safe sex can no longer be negotiated away by an intimidating john who didn't feel like wearing a condom.

Moreover, regulated brothels now are operated as legitimate businesses, and so attract professional managers -- as opposed to underworld thugs.

Prostitutes can choose where they want to work, and can quit when they want without fear of reprisal. Finally, prostitutes work for themselves and not the brothel. They pay a fee to the brothel owner. But it is up to them who they will have sex with, and what kind of sex act they will perform.

Earlier this year, a National Post editorial criticizing Justice Minister Vic Toews for dismissing decriminalization of the prostitution trade sparked a heated debate on our letters page. Mr. Toews argued that decriminalization would put more women and girls at risk, and strengthen the hands of organized crime. Many letter writers agreed with him.

The underlying assumption of the Minister was that no woman would choose to be a prostitute. But Ms. Zetin says that is nonsense. "No one asks a cashier if she is doing her job of free will," she notes. So why make assumptions about a prostitute? There will always be some women who choose to be prostitutes -- just as she once decided to do -- says Ms. Zetin.

Canada is currently in the same place Germany was in 2001. Brothels are illegal; so is solicitation -- though, technically, the act of having sex in exchange for money is itself not a crime. It is time Canadian politicians realized what their German counterparts did four years ago -- that there will always be men willing to pay for sex and women willing to sell it. We may not like that fact, but it is not something that can be willed away. For all concerned, the best course of action is to bring this business under the ambit of the law. When prostitutes need protection, to whom do we want them to turn -- thugs and mafiosi, or doctors and police?

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