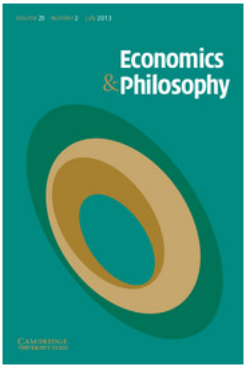

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REVIEWS

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Strings Attached: Untangling the Ethics of Incentives, Ruth Grant. Princeton University Press, 2012, xvi + 202 pages.

'What is wrong with letting people buy and sell babies if they choose?', Michael Sandel provocatively asked an Oxford University audience in 1998 (Sandel 1998). Neither was he proposing to legalize the practice, nor offering a Swiftian satire – he was inviting the audience to reflect more carefully on the difference between sperm-donation and baby-selling. The former is nowadays largely uncontroversial while the latter is widely condemned and illegal. But why should we treat these practices so differently? And what about surrogacy? It lies somewhere in-between, but is it more like trading sperm or trading babies? Should surrogacy be a commercially available service or not?

In his new book, *What Money can't Buy*, Sandel once again challenges our moral intuitions about ethical and unethical ways of allocating children. If not a general market in babies, how about just using market mechanisms to allocate children for adoption? Would this be less objectionable? Perhaps we dislike the very idea of selling children, and sperm-donation is permitted because we are trading 'potential children', not actual children. In that case, how about issuing couples with tradable procreation permits? If they want more children than they have permits, they can buy additional permits from other would-be parents. If they want fewer children, they are free to sell their surplus. Perhaps we still object. What is our objection here? After all, this is a market for 'potential children'. When are markets appropriate, and when are they not?

It is an understatement – and a cliché – to say that drawing the line is difficult. Even if *What Money can't Buy* and *Strings Attached* did not exhibit remarkable pedagogical skill (as they do), they would be praiseworthy simply for their unapologetic attempts to tackle this type of line-drawing exercise openly and concretely. After all, each of the aforementioned allocation mechanisms invokes principles we already employ elsewhere, so what makes the problem of allocating babies different? Nothing, one could answer. ‘Economists might argue’, Sandel reflects, ‘that a market in children, or the right to have them, has the virtue of efficiency: it allocates kids to those who value them most highly’ (p. 71). Indeed, if markets are merely mechanisms, if incentives are but instruments for achieving allocative objectives, then how could one protest?

To understand what our objection might be, and whether it is a reasonable one, it is helpful to first cleanse the palate of frequently repeated immaculate definitions of ‘market exchange’ and ‘incentives’ – usually variations on the theme: ‘mutually beneficial voluntary exchanges between consenting parties’. Such definitions appear to transcend questions of morality, but both Sandel and Grant express their reservations. The problem is that in modern conversation these concepts have been almost entirely stripped of their historical context, so both authors do their best to remedy the situation, Grant devoting an entire chapter to this task. It was once generally agreed that ‘market exchanges’ and ‘incentives’ do not transcend questions of morality. Adam Smith, after all, saw the study of markets as an outgrowth of moral philosophy. Each individual, by acting selfishly, would produce the greatest good for society. Later, throughout the 19th and 20th centuries, the role of markets and incentives became the central moral front in the battle between capitalism and socialism. Taylorites and the Labour movement, segregationists and the Civil Rights movement, the ‘Washington consensus’ and its detractors, all propounded fundamentally ethical arguments about the ability or otherwise of individuals and businesses, if left to arrange ‘voluntary exchanges’, to produce a fair, just and efficient arrangements of resources. The very intensity of these struggles draws attention to the shortcomings of the ‘voluntary exchange’ definition of market exchange and incentives.

It is only in the wake of Thatcher’s and Reagan’s revolution that the glare of these ethically evocative terms (‘markets’ and ‘incentives’) has dimmed, and as Sandel expertly documents, that ‘without quite realizing it, without ever deciding to do so, we [have] drifted from *having* a market economy to *being* a market society’ (p. 10).

Once we recognize the limitations of the ‘voluntary exchange’ definition (both historical and conceptual), it becomes possible to contemplate more subtle answers to questions about the morality of markets and incentives. The next step, then, is to subject our instinctual queasiness about a market in children to more systematic scrutiny. What exactly is our objection?

Sandel helpfully hones in on those things which money really *can’t* buy (despite the title, his book mostly discusses things that money *can* buy, but perhaps shouldn't, like children). One particular example should make the objection perfectly clear to even the most free-market-oriented economist. Suppose the Swedish Riksbank committee decided, in the interest of efficiency, that instead of awarding the Nobel prize for economics on the basis of careful deliberation on whom is most worthy of the honour, they will henceforth auction off the prize to the highest bidder. If Sandel's notional economist had no fundamental problem with a market in children, surely he could not object to a market for Nobel prizes. After all, this will ensure the prizes go to those who value them most.

Even a caricature of Sandel's economist could not fail to recognize what is going on here. A bought Nobel prize is not the same as one that is awarded. The mechanism for allocation changes the nature of the good, and this is the crux of Sandel's argument. Whenever markets or incentives replace non-market norms as the mechanisms of resource allocation, they alter, even corrupt, the thing which is being allocated.

This argument has a rich tradition, which brings us to another matter of life and death: giving blood. Richard Titmuss' classic study *The Gift Relationship* (Titmuss 1970) began by observing that US blood banks were facing constant shortages *despite* offering financial compensation for giving blood, while UK blood banks were well-stocked *despite not* offering any compensation for blood donations. He went on to develop a theory that the US was experiencing shortages precisely *because* compensation was offered, and the UK was kept in steady supply because there was *no* compensation. A market turns an act of giving into an act of trading – it reduces a social relationship to an exchange of commodities.

Out of such concerns grew a large body of psychology and economics literature that have reliably documented how extrinsic motivations degrade our intrinsic motivations. This literature extends Titmuss' original objection beyond the case of blood, and well beyond babies and Nobel prizes too. When Sandel now argues that commodification can corrupt a thing's value, therefore, there is a decades-long accumulation of data to back him up. The combination of this Himalaya of evidence and Sandel's didacticism makes it easy to be sympathetic to the mantra of his book: commodification corrupts. Commodification encourages us to abandon one set of norms used to measure value, and instead call on market norms. Adding an incentive, as Titmuss and many others have shown, can undermine our motivation rather than boost it. This can clearly cause immediate problems, such as shortages at blood banks, but the problems can also extend much further. The principal shortcoming of *What Money can't Buy* is that, although it briefly hints at the broader consequences of commodification, it does not develop a clear idea of the ultimate social implications. It is worth highlighting two of these unfinished thoughts in particular.

Firstly, commodification is at least potentially *irreversible*. In a famous study of Israeli day-care centres, cited by Sandel, charging parents for collecting their children late increased the number of late pick-ups (Gneezy and Rustichini 2000). This fits with Sandel's narrative of how prices crowd out other social norms. But when the charge was later removed, the number of late pick-ups actually increased further. Prices crowd out other social norms, but the social norms do not necessarily come back when prices are removed. Once we have created a commodity, the market is no longer necessary for the commodity to remain as such. Sandel acknowledges this, but does not consider it any further.

Secondly, not only is commodification potentially irreversible, it is *infectious*. The more our lives are governed by market relations, the easier it becomes to imagine them entirely governed by them. Again, Sandel fleetingly acknowledges this point, but to fully appreciate the importance of reasoning about 'the moral limits of markets' (Sandel's subtitle) we must pursue its implications. It is a tame euphemism to say that markets sometimes 'corrupt the value of the good', when in fact what one really means is that they corrupt people and their values. One must ask, therefore, what values markets and incentives promote? A salient feature of markets, in this respect, is their adversarial nature. The peaceful warfare of competition, to borrow an elegant phrase, pits seller against seller, buyer against buyer, and sellers and buyers against one another. Sandel displays an array of examples that show how more and more of our lives are being gobbled up by a general market mentality, and he, like Titmuss, argues that this happens without sufficient reflection.

To reason more intelligently about legitimate and illegitimate uses of market mechanisms and incentives, then, we need a suitable replacement for the 'voluntary exchange' definition. To make headway, it is necessary to abandon Sandel's stroll through the crooked streets of our moral shanty towns, and instead join Ruth Grant's more disciplined march. Her orderly discussion will be more familiar to academics, and it better marshals our intellectual powers to solve the problem at hand. She helps the reader think more clearly about when we do not use the word 'incentives', gradually zeroing in on what exactly we mean when we do use it. First, consider the difference between 'incentives' and 'motivation'. We often use them synonymously, as if the term 'incentives' encompassed a great variety of human motivations, but there are many occasions where this substitution obscures or perverts our meaning – 'compare "President Obama incentivized African American children to pursue political careers" to "President Obama inspired African American children to pursue political careers"' (p. 33). An 'incentive' can clearly be a motive for action, but there are many motivations, particularly of the 'intrinsic' variety, for which the term is a particularly inept substitute.

But we can narrow the focus further. Not all 'extrinsic' bonuses or penalties qualify as 'incentives'. The words 'rewards' and 'punishments' also describe 'extrinsic' bonuses and penalties, but suggest that they are in some sense deserved. 'Incentives' lack this dimension, instead being concerned with eliciting a particular response. It is strange, for instance, to imagine the Olympic committee having decided to hand out medals, not as rewards for athletic achievement, but as incentives to get athletes to run faster. Whether deserved or not, an 'incentive' is an external offer made with the intention of eliciting a certain response.

Grant supplies us with this more precise definition of 'incentives', but we also need to understand the link between an 'incentive' and a 'market' before we can clarify our queasiness about a market for babies. Alfred Marshall, the famous 19th century economist and father of modern economics, once suggested 'that every person putting up a house in a district that has got as closely populated as is good, should be compelled to contribute towards providing free playgrounds' (Royal Commission on Labour 1893). Whether or not it had been the intended meaning of this remark, his star pupil Arthur Pigou interpreted it as a suggestion that taxation could be used not only for the traditional purpose of filling the public purse, but also to manipulate behaviour without the need to either persuade or coerce (Pigou 1912). A tax achieves the desired change in behaviour by imitating the role prices play in a market. Prices, whether set by a government, a company, or an individual, involve an exercise of power, power that one party can use (and abuse) to influence the behaviour of another.

In a way Grant takes the next step forward from Sandel, allowing us to develop our reasoning about the appropriate uses of markets and incentives. But her definition of incentives also helps us understand what is really Sandel's issue – why markets corrupt. At heart, our moral questions are about *prices* rather than markets. Grant's definition of incentives leads us to reinterpret the market relation as a power relation, providing a replacement for the ethically neutral 'voluntary exchange' definition. It is not that 'voluntariness' does not matter, but it now becomes one of several criteria we use to make ethical judgements, other criteria including 'legitimacy of purpose' and 'effect on the character of the parties'.

We can then begin to answer Sandel's questions about the moral limits of markets by looking at the power relations that markets facilitate and promote. A marketplace can be a forum for mutually beneficial exchanges between equals, and can promote productive activities by encouraging us to think about raw materials as instruments for experimentation and improvement. But a marketplace can also be a device to portray exploitation as 'voluntary exchange', and can promote destructive activities by encouraging us to think about everything and everyone as instruments of short-term private gain. The difference, perhaps unnervingly, lies in the price. A price-tag can encourage us to expend a great deal of creative energy for purposes that ultimately benefit society, no doubt, but it can also be destructive when the price comes to substitute for all other measures of value. Prices commodify. The caricature economist may dismiss this objection as 'sentimental', but notions like 'human rights', 'the sanctity of life', 'justice', and 'civic duty' are no more sentimental, and no less instrumental to our social order than 'consumer sovereignty'. Whenever we put a price on something, we are changing the balance between these sometimes conflicting values. We move the border between market and non-market.

No single rule-of-thumb will allow us to draw neat lines of division, but at least we know what kind of questions we should ask. Is it likely that the price-setter can abuse his power to unduly influence the price-taker? Does the power of price-setting itself transform the objects and subjects of a potential transaction into the mere raw materials of profit? It is now easier to express our objection to a market for babies. Attaching a price-tag to a child is objectionable, first because of how uneven (and likely abusive) the power relation would be between desperate to-be parents and a seller getting rid of his surplus, and second, because the act of attaching the price-tag encourages the seller to think of the buyers' desperation as a profit opportunity to be exploited, and it encourages the buyers to think of a baby as a means to satisfying their own preferences. We can begin to answer Sandel's question, then, as well as many others about the proper and improper uses of incentives, by trying to imagine how the creative and destructive powers of a price-tag will play out.

What Money can't Buy and *Strings Attached* do not exercise our ethical imagination in the same way, but their approaches are complementary. Sandel prods and pokes at our intuitions about the moral limits to the market mentality to the point of frustration and strange fascination. Grant disciplines that unruly intuition to such a degree that we can begin to constructively reason about the appropriate and inappropriate applications of incentives and market norms. Grant 'hope[s] that [her] book will make its readers worry about things they did not worry about before' (p. 8), and Sandel wants to invite us to 'reason together, in public, about how to value the social goods we prize' (p. 15), but their achievements are exactly the reverse. *What Money can't Buy* makes you worry; *Strings Attached* makes you think. Both are needed, and above all, timely. They contribute something substantial (especially in combination), and serve as a reminder that the morality of markets and incentives is never a settled matter.

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Economics for Real. Uskali Mäki and the Place of Truth in Economics, edited by Aki Lehtinen, Jaakko Kuorikoski and Petri Ylikoski. Routledge, 2012, xiii + 280 pages.

Economics for Real aims to provide the first systematic and critical examination of the philosophy of economics of Uskali Mäki. The book brings together 12 articles by different authors who made important contributions to the issues Mäki has addressed in economic modelling and methodology. Most of these issues (e.g. truth, realism, rhetoric) have been discussed by prominent economists and methodologists. Nonetheless, Mäki's contributions to the related debates stand out in the contemporary intellectual landscape for their originality and relevance. Moreover, no comprehensive evaluations of Mäki's writings were previously developed, so this volume fills a significant lacuna in the literature.

The book examines several arguments proposed by Mäki over the last three decades. The articles, divided into four thematic groups, cover a commendably wide range of topics: the notions of truth, model and isolation (Part I); the ontological and epistemic status of commonsensibles in economics (Part II); the domain of economic theory (Part III); and distinct versions of scientific realism (Part IV). I lack the space here to discuss the contents of the individual articles in detail. For the purpose of this review, I will briefly outline the main points made by each contributor and connect them to overarching themes in Mäki's work. I will then consider how the contributors' concerns bear on the merits of Mäki's views and conclude with a few comments on the book as a whole.

The introduction, by Aki Lehtinen, concisely explicates the main aims of the volume and summarizes Mäki's position on various issues. Lehtinen clearly illustrates how the various articles relate to Mäki's contributions and draws insightful connections between different tenets of his philosophy of economics. Frank Hindriks examines whether economists' widespread reliance on unrealistic assumptions can be plausibly reconciled with a realist interpretation of their theories. Hindriks