

COMMENT

Repugnance, externalities and subjectivism: a comment on Krawiec

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Abstract

In her ‘Markets, repugnance, and externalities’ (2022), Kimberly Krawiec notes that the so-called corruption theorists fail to provide evidence that the adoption of repugnant behaviours or commodification destroy social values. She adds that, the values repugnant behaviours are supposed to destroy may even be reinforced after a market has been created. The explanation she explores is that the creation of a market never goes without debates that allow the society to ponder the values it stands for. We suggest an alternative view on the lack of evidence Krawiec identifies. Our starting point is Krawiec’s interpretation of repugnance in terms of externalities. We claim that an analysis of repugnance based on externalities requires a characterization of what an externality is, which is rarely done. We show that economists use two opposed definitions of externalities, an objective and a subjective one, and then show what it implies for an analysis of repugnance and justify why the corruption thesis is not always verified empirically.

Keywords: Buchanan; corruption theory; externalities; objectivism; repugnance; subjectivism

A ‘prominent’ claim, ‘relied on by the most influential market skeptics’ (9), put forward in the debates about the (moral) limits to the use of markets, is that ‘commodification’ can undermine, threaten the foundations of our societies, corrupt the values on which they rest (see, among others, Anderson, 1990, 1993; Sandel, 2012, 2013; Satz, 1995, 2008, 2012). Creating markets for some goods, on which they would be traded against money, would thus be ‘repugnant’, to uses Alvin Roth’s term (2007). This is the so-called ‘corruption thesis’ which considers that ‘some markets are ‘repugnant’ because they degrade and corrupt a variety of nonmarket values and relations’ (Krawiec, 2022: 2). Indeed, adopting a repugnant behaviour or engaging in a repugnant transaction does not only harm the individuals who are involved in the transaction – ‘the willing parties to the exchange’ (Krawiec, 2022: 2) – but that the harm spreads also ‘to larger segments of society’ (2). Repugnant behaviours or transactions generate unintended consequences on third parties. Or, in economic terms, repugnance creates negative externalities (see also Bertrand, 2021; Calabresi, 2016).

One of the problems Kimberly Krawiec notes about ‘corruption theorists’ is that they ‘fail to provide evidence of this predicted corruption’ (10). The negative externalities repugnant transactions generate or ‘the negative effects predicted by market skeptics do not appear’, she argues, ‘to have materialized’ (6). Is it because these behaviours or transactions are actually not repugnant? No, suggests Krawiec. They are, but there exist counteracting forces that prevent the causal relationship between adopting repugnant behaviours and the corruption of values to work. Thus, Krawiec goes on, certain organs – eggs or kidneys – became the object of market transactions, but without corrupting or destroying the sacredness of the human body. One of the reasons for the absence of corruption is

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that the creation of these markets promoted discussion about the values these markets were going to destroy. But it is only one part of the explanation, since Krawiec also stresses the fact that these markets were structured in a manner that reinforces the values in question, otherwise neither sellers (egg donors) nor purchasers (intended parents) would have wanted to participate in it. The sacredness of motherhood and the sacredness of life were preserved and reinforced by commodification. Not the reverse.

Many aspects of Krawiec's article could be commented. We have chosen to focus on the concept of externality that is central to her analysis (and to the corruption thesis), but that she does not rigorously define or characterize. And precisely, the empirical problem she identifies, the lack of evidence to the corruption thesis, is the consequence of a specific vision of economics and externalities. We would like to show here not only that an alternative definition is possible, but that this alternative definition solves the problem Krawiec identifies or, at least, allows us to suggest another and complementary explanation to the absence of evidence for the corruption thesis. In addition, making the definition of externalities explicit helps us to better understand what is the underlying definition of externality used by the corruption theorists, and also to shed some new light on repugnance.

Corruption theorists rely on what could be called a standard perspective, in which externalities are viewed as an *objective* phenomenon. The term *objective*, that we use here, is not synonymous to anti-individualist. No one imagines and claims that external effects could not be perceived or experienced by *individuals*. Even from an objectivist perspective, an externality is an effect of an unpriced action on another individual utility or cost function. What characterizes this (standard) objectivist approach is that the damage, the loss suffered by the individuals affected by an external effect exist independently of the individuals themselves. These are also objects, because individual preferences (and therefore utility functions) or cost curves exist objectively. Therefore, utilities and costs, and external effects as well, can be identified and measured outside and independently from the individuals to which they are associated. In particular, they can be known to 'an omniscient referee' as Richard Musgrave said of Paul Samuelson's model (1985: 12), and as James Buchanan had also noted about Samuelson too (1959). These observers can therefore measure how much individuals lose (or gain) because of these external effects. They can also identify the existence of externalities – by the interdependence between utility (or production) functions, the existence of indivisibilities and the impossibility to exclude others from the benefits (or losses) generated by the creation of the external effect. Such interdependencies are not subject to any interpretation or discussion. All this is independent from what individuals experience. This reinforces the objective dimension of the phenomenon.

Alternatively, externalities can be viewed as having a *subjective* dimension. In echo to what we noted about objectivism, subjectivism should not be equated to individualism; it would be too trivial to characterize subjectivism in this way. Subjectivism thus does not mean only that externalities are felt or incurred by individuals. What is subjective, and we refer here to the meaning given by James Buchanan to this concept, is known only by the individual himself or herself.¹ Individual preferences (utilities) or costs thus 'exist in the mind of the decision-maker and nowhere else' (Buchanan, 1969: 41). As a corollary, costs, for instance, have a subjective dimension because they 'cannot be measured by someone other than the decision-maker because there is no way that subjective experience can be directly observed' (Buchanan, 1969: 41). The same applies to externalities. Certainly, subjectivism does not mean that the external effect does not exist objectively. When a chimney emits smoke, there is no doubt that smoke is a physical and objective phenomenon. Or, to use another example, '[t]he color of the automobile that your colleague drives... certainly influences your own utility to some extent' (Buchanan and Tullock, 1962: 52), and therefore an externality obviously exists – 'Spillover effects are clearly present' (52). However, only the affected party is able to say whether there is a cost or a damage and how much it amounts to. To say that externalities are subjective means that the harm,

¹This is what Rutger Claassen claims in 'Externalities as a basis for regulation: a philosophical view' (2016). Claassen refers to Ronald Coase as the one who said that externalities are not necessarily a basis for regulation but does not mention Buchanan who made the same point before Coase had.

the damage, the loss of utility or the cost suffered by the victim cannot be known by any external observer.

To adopt a subjectivist approach to externalities has a very strong implication: some of – but obviously not all – the external effects that effectively exist can be perceived as ‘negligible’ (Buchanan, 1960: 237) or ‘Pareto irrelevant’ (Buchanan and Stubblebine, 1962) to the harmed parties themselves. In that case, that is for the externalities that are negligible and Pareto irrelevant, there is no necessity to engage an action to internalize it. With the more specific words of public economics, ‘the impossibility of exclusion is not a necessary condition for collective action in satisfying a genuinely “social want.”’ (Buchanan, 1960: 237) Or, ‘[t]he existence of external effects of private behavior is neither a necessary nor a sufficient condition for an activity to be placed in the realm of collective choice’ (Buchanan and Tullock, 1962: 61; emphasis in original).

More broadly, a subjectivist perspective claims that the dividing line between private and public or political action is not given but varies.² It is no longer given by the objective properties of the phenomenon but chosen by the individuals themselves. Indeed, as Buchanan noted, needs ‘are always relative, never absolute.’ (1957: 175). At some point, there are always different and competing needs that must be met. Choices must be made and as the saying goes, to choose is to give up. Consequently, some needs must be sacrificed to allow the satisfaction of the ones that are chosen. Therefore, satisfying a need necessarily implies an opportunity cost. And the only individuals who know how much this opportunity cost are the individuals who make the choice. They are the ones who know exactly what has been lost to satisfy the chosen needs. Only they can decide if the cost imposed by a specific action is sufficiently high to warrant a collective action. And this is the case because, indeed, preferences or costs do not exist outside the choice itself and therefore cannot be presumed before the choice. As Buchanan wrote,

“there is simply no means of determining, even indirectly, the value that they [individuals] place on the utility loss that might be avoided. In the classic example, how much would the housewife whose laundry is fouled give to have the smoke removed from the air? Until and unless she is actually confronted with this choice, any estimate must remain almost wholly arbitrary.” (1969: 84; see also 1959)

What does it imply for an analysis of repugnance? The standard perspective of externalities is adopted by those, such as some of the moral philosophers who defend the corruption thesis but also Krawiec or Bertrand and Calabresi as well, who believe that repugnance is an objective phenomenon. Not only there are norms and values that exist and that are accepted by the whole society but these norms and values are objective and ought to be respected. These norms and values are a moral or social imperative, that are identified by (omniscient) external observers. Thus, as a corollary, at some point of time, and of space, any external observer can say whether or not the behaviour or transaction he or she is observing is repugnant. Exactly as with externalities, when an omniscient external observer can determine whether or not pollution should be dealt with and how much polluters should pay, repugnance can be evaluated (and measured) by external observers, who can, accordingly, call for a ban of the observed transaction or behaviour. Consequently, that a behaviour is repugnant or not is independent from the opinion of the individuals who are involved in the transaction, and from their personal perception.

The second and alternative subjectivist perspective to which we have associated the name of Buchanan necessarily leads to a different conclusion about repugnance. In this approach, repugnance is no longer characterized as an objective phenomenon. Repugnance is subjectively defined by –

²From this perspective, an individual who gets stuck in a traffic jam, but nonetheless relishes the experience because he can listen to music or podcasts on his car radio, or because being elsewhere would be more costly, then the individual does not suffer from any net cost or negative externality. That there is still a traffic jam and that it is still the cause of a negative externality for others remains. We take this example from a comment made by Geoffrey Hodgson.

and therefore depends on – the individuals who are involved in the situation, either directly or as third parties. Repugnance is thus a matter of personal ‘judgement’ (Khalil and Marciano, 2018) by one of the parties or by a third party. Individuals thus decide what is the context relevant to a certain action or interaction, which therefore determines what is acceptable and what is not, *i.e.* what is repugnant. And the reason is that only the individuals directly or indirectly affected by a behaviour, or an activity know the costs or the harm this behaviour or activity impose on them.

From this perspective, the individuals may consider the direct or external costs imposed by the behaviour or activity they are involved in or they witness to be sufficiently high that this behaviour or activity is indeed considered repugnant. They will then seek to prevent such an activity to take place. By contrast, the individuals may also perceive the action (activity or behaviour) of the other as generating external costs and damage, but they may well accept to bear these costs. Individuals are actually impacted by the action – the external effect does exist –, but the impact is small enough that the action is not perceived as immoral or repugnant. Or, put differently, the activity is perceived as sufficiently harmless that it is not seen as immoral or repugnant.³ In this case, even if an outside observer (such as a moral philosopher) considers the action to be repugnant, it will not be repugnant to the individuals who are affected by this activity.⁴ No action will be sought to prevent this activity. In other words, the fact that we do not observe such actions against commodification suggests that these behaviours are not actually repugnant to them (or not sufficiently so to overcome the costs of action). Therefore, it may well happen that individuals do not find repugnant what external observers assume is repugnant. They will therefore not interpret it as a threat to their values. There is no reason that individual values be affected by a behaviour that individuals do not find repugnant. Thus, without judging the relevance of Krawiec’s own demonstration, what we claim is that the lack of empirical evidence to the corruption thesis may well be supported by a subjective view of externalities.

Let us note here an important point, once again referring to Buchanan. One of the claims he made was that theorists could only assume that the current situation was inefficient and that a change should be introduced (see, in particular, 1959; or 1962). If the change was accepted unanimously – or, at least, by a large number of individuals – then it meant that the theorist was right and that the change was necessary. Otherwise, it meant that the assumption made by the external observer was wrong. The reason is still that only individuals know if the situation is inefficient and therefore if a change is required. Thus, one sees that in this subjectivist perspective, a form of experimentation is thus required to allow individuals to measure the costs associated with any commodification. Again, this confirms (part of) Krawiec’s claim that one does not observe a corruption of values after an item is commodified because individuals change their views on the commodification of this item.

This experimentation leads us to envisage another aspect that might be important, namely the change of preferences. So far, we have reasoned with given preferences. But, one may argue that Krawiec’s point is that contestation and debates accompany the introduction of repugnant markets and they serve to curb the moral effects on values. From a subjectivist perspective, after a proposal to change a social situation is made, a discussion and a debate could ensue that would lead to a change in the individual preferences. Thus, introducing a new market to exchange items that were not traded before can trigger a debate that will affect how individuals perceive the external costs differently. They

³This is exactly the point Buchanan and Tullock make in *The Calculus of Consent* about prostitution (1962: 269). An individual may find prostitution immoral and suffer from the external costs prostitution generates to him or her but he or she may accept to bear these costs. In that case and according to the Buchanan’s terminology, prostitution is not viewed as immoral, or repugnant activity. On the other hand, when an individual ‘rationally seek[s] collective action aimed at preventing the activity from taking place’ (Buchanan and Tullock, 1962: 269), means that he or she finds prostitution immoral or repugnant.

⁴An important point, suggested by one of the reviewers, must be noted here. The costs can be manipulated or influenced (in particular by firms or entrepreneurs who may want to exploit repugnance to increase their profits; on entrepreneurship and repugnance, see Allen, Berg and Davidson, 2022; Dekker and Gradoz, 2022). As a consequence, these costs can be maintained artificially high (or low) and therefore affect what individuals find repugnant or not. Yet, this does not fundamentally change the perspective we adopt here: that an individual accepts to bear the external costs of an activity undertaken by someone else means that this activity is not perceived as repugnant.

may (or may not, for that matter) change their mind regarding the activity or behaviour in question. What happens in that case is probably similar to what happens if externalities are objective. With a difference, however: if one sticks to the subjectivist perspective, the change in preferences can only occur after the new market has been introduced, after commodification has taken place (and then accepted or rejected); the objectivist would always oppose to commodification as soon as it is identified.

To conclude this note, let us note that our goal was to explain that the lack of evidence that values are corrupted can easily be explained if we adopt a subjectivist approach. It simply means that the individuals do not find the commodification of one item repugnant. The lack of evidence means that the assumption – an external observer makes – that commodification is repugnant is refuted. The lack of evidence is paradoxical only from an objectivist perspective. Put differently, in her article, Kimberly Krawiec does more than stressing the empirical problem that corruption theorists face. She points at a specific assumption these theorists make, about values, utilities, costs and externalities.

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