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## **OBNOXIOUS MARKETS**

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# ON OBNOXIOUS MARKETS

by

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## **Abstract**

Certain markets evoke popular discomfort, distrust and even outrage. Trade in arms, drugs, toxic waste, child labor and body parts, for example, elicits these reactions to different degrees. This paper asks—what is it about some markets that brings about these responses? It is argued that three key parameters—extremity, agency and inequality—have a bearing on our intuitive reactions and serve to differentiate markets. The more extreme are the likely outcomes of a market, the further is the agent who acts in the market from agents who bear the consequences of those actions, and the greater is the degree of inequality in market relations, the more likely it is that the operation of the market will provoke discomfort. At the extreme, when outcomes are potentially extreme, agency is minimal and market relations are highly unequal, the market in question may deserve the label “obnoxious”. However, it is not obvious that the best or only answer to an obnoxious market is to attempt to ban it. The forces underlying the market may not disappear, and such attempted bans may in fact intensify the problems of extremity, agency and inequality. While judicious regulation remains an important tool, a complementary approach is to address the underlying issues directly—extremity through safety nets, agency through information, and inequality through redistribution.

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## 1. Introduction

Markets and exchange evoke strangely contradictory emotions. Common language is full of allusions to trading metaphors, ranging from the positive—“fair exchange is no robbery”—to the neutrally factual—“every man has his price”—to the negative—“he would sell his own grandmother if the price were right”. These common expressions capture several instinctive but potentially conflicting reactions—that it is quite natural for things to have a price, that what matters is that this price is “fair”, and that some exchanges are just not right, no matter what the price.

What exactly is going on underneath these reactions? Why exactly, if at all, might we think of the exchange of apples for money to be different in nature to the exchange of body organs or child sex for money? What is it about the nature of particular exchanges that concerns us, to the point that certain types of markets are plainly obnoxious? Are all obnoxious markets the same in nature, or is each obnoxious market obnoxious in its own way? At what point and in what combination do the characteristics of markets “tip” them into the obnoxious domain?

These questions are difficult to address but clearly important. They are important in structuring everyday discourse, but they have become increasingly important in the policy domain. For example, some in the increasingly vocal and successful international campaign for cancellation of debt owed by the poorest countries have based their case not on standard economic grounds (such as the argument that the “debt overhang” acts as a disincentive to investment and growth<sup>1</sup>), but on the notion of “odious debts”. This is the argument that debts that were undertaken by an illegitimate government and for illegitimate purposes should have no standing whatsoever. The economist’s response, based on conceptual and practical difficulties in delineating legitimate from illegitimate, arising from the fungibility of financial resources, seems to cut no ice.

As another example, consider the famous World Bank memo by its then Chief Economist, with its statement that “the economic logic behind dumping a load of toxic waste in the lowest wage country is impeccable and we should face up to that” (quoted in *The Economist*, February 8, 1992, p.66). Since the economic logic is indeed impeccable, why did the memo cause such global outrage? The flippant tone of the memo aside, what is it about trading toxic waste for money that is so different from trading apples for money?<sup>2</sup> More generally, as the trend towards dismantling of state regulations of different sorts has continued apace over the past decade, the reaction based on an undifferentiated distrust of “markets” has equally continued to spread. What role does the notion of “obnoxious” markets play in this generalized distrust?

This paper attempts to frame the issue and provide some tentative answers. It argues that our reactions to certain markets can be understood by considering extremity of outcomes, weakness of agency, and inequality of market relations. Section 2 starts with

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<sup>1</sup> For a review of these standard arguments see Claessens et. al. (1997), and Iqbal and Kanbur, Eds. (1997).

<sup>2</sup> The memo, and the economic and philosophical arguments that pertain to it, are dissected in Hausman and McPherson (1996).

some ground clearing and establishes terminology. Sections 3, 4 and 5 develop the framework by setting out in greater detail the criteria of extremity, agency and inequality by drawing on features of specific markets. Section 6 then applies the overall framework to a number of markets commonly thought to have “obnoxious” characteristics. Section 7 asks—if a market is obnoxious, should it be banned? Section 8 concludes.

## 2. Some Ground Clearing

It is important to set out what this paper is and is not about. It is not about an evaluation of “the market system” vis a vis alternative “systems”. There is an old and huge literature on this.<sup>3</sup> It is also not about generalized criteria for evaluating alternative mechanisms of social organization. In particular, it is not about the usual comparison of deontological and consequentialist approaches to evaluating “the market system”<sup>4</sup>. Rather, the object of the paper is to consider individual markets, with differing characteristics, and to evaluate them. The particular interest is in searching for a characterization that helps to capture “extreme” intuitive reactions to certain types of markets rather than others. Such reactions are relatively easy to frame in terms of deontology, and there is a big literature on this (for example on the morality of certain types of action)<sup>5</sup>. However, this paper focuses on the approach of standard consequentialist neo-classical welfare economics. Within this framework, can we find grounding for the intuition that certain markets are “obnoxious”? As we shall see, it is not entirely possible to exclude at least a minimal deontological discourse, but the object is to see how far we can get without it.

Markets are institutions in which exchanges, of commodities, of labor or of promises, take place between consenting parties. A single idiosyncratic exchange is not a market. For exchanges to turn into markets, there have to be a certain number of them, and they have to happen with some regularity. Also, markets are never present in the abstract. They require mechanisms for the exchange to be effected and enforced, especially if the exchange involves a promise of payment in the future. These mechanisms, for example a functioning legal system or a set of social norms, which make markets into “institutions”, reach beyond and require the resources of a broader group than just those who engage in transactions on that particular market. Moreover, the consequences of market transactions on a given market may range beyond those who transact on that market. Each market, therefore, is in principle the concern of everyone.

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<sup>3</sup> To pick just two examples that traverse economics and philosophy, see Sen (1985) and Gibbard (1985).

<sup>4</sup> To quote Vickers (1997), “Consequentialist ethical criteria look, for the justification or vindication of action, to the goodness, or otherwise, of the outcomes that might be judged to result from it .... On the other hand, deontological ethical criteria have regard, not to contemplated consequences, but to the sense of duty or obligation that lies behind action and behavior.”

<sup>5</sup> As an example, consider Gibbard’s (1985) distinction between the classic approaches of Rawls (1971) and Nozick (1974). In particular, in reference to Nozick’s theory, he talks about “defenses of free exchange ... [that] ... appeal directly to a moral value that is taken as fundamental. I have in mind, here, principally arguments that fundamentally rest on the moral importance of freedom and respect for property rights.”

It will be argued in this paper that our intuitions and strong reactions to certain markets can be understood in terms of three key characteristics: extremity of outcomes, weakness of agency and inequality of market relations. The extremity of outcomes argument is obvious. One reason why the “normal” operation of the market for apples does not raise our hackles is that nothing much of extreme consequence can flow from exchanges on this market—unless there was health risk from eating the apples, or unless a collapse in the price of apples drove apple producers to destitution, in which case the outcomes would indeed be extreme.

The phrase “between consenting parties” is crucial in guiding intuition and in introducing the notion of agency. Forced labor or armed robbery is obnoxious, but it is not an obnoxious market for the simple reason that it not a market. In fact, the analytical problem is to explain how a market can be obnoxious when it consists only of parties who consent to the transactions they are involved in. The problem arises, then, if a transaction willingly engaged in by one party has negative consequences for this party or for another on behalf of whom the transaction is undertaken, or for a party that is not *prima facie* involved in the transaction at all.

Transactions in a market may have negative consequences for the participants or for non-participants even when all transactors are identical in every relevant respect. However, inequality among transactors and how they relate to the market is the third driving intuition that leads some markets to be thought, in the extreme, to be obnoxious. A key aspect of this is the notion of market power, the most obvious illustration of which is classical monopoly. But even when some agents in a market are not large relative to others in terms of the transactions on that specific market, the fact that some agents depend on the market for their very survival, because of (wealth and other) inequalities external to the market, the market in question may come to be regarded as obnoxious.

The next three sections take up each of these key characterizing parameters, extremity, agency and inequality, in turn.

### **3. Extremity of Outcomes**

As noted in the previous section, this paper is not about an evaluation of the market system as a whole versus other systems. Rather, it is an attempt to understand intuitions and reactions to specific markets. Many different types of markets co-exist. Some markets, like the buying and selling of fruit, barely register on our mental radar screens—they are so much a part of the essentials of everyday life that it would be difficult to know what to do without them. Other markets, like roadside markets, register as part of the color of the countryside in rich and poor countries alike. We think of them in a positive light. Yet other markets, like the market for labor, sometime leave us wary even if we recognize their necessity. And, finally, there are markets like those for child sex which we think of as plainly obnoxious.

It is argued, in the consequentialist framework adopted here, that one parameter which serves to distinguish the different types of markets noted above is the potential of the market to lead to extreme outcomes for the individuals who are related to it directly or indirectly. At one level this is straightforward—buying and selling of body parts can plainly lead to much more seriously negative consequences for some of the transactors than the buying and selling of milk. But there are a number of issues to be addressed.

First, what exactly is meant by an extreme outcome? Clearly, the key issue is whether outcomes are extreme in the negative direction—extremely good outcomes could hardly lead to characterization of obnoxious. Of course, some markets, like markets in wildly speculative stock, could have extremes of good and bad. What is important is how bad the bad outcomes can get.

This leads to the second question, how extreme do the negative outcomes need to be to tip a market into potentially obnoxious territory? This is not easy to specify in detail and ex ante. Context will matter. But a good starting point is that if the outcome renders a family or an individual destitute, below some context specific poverty line, say, that is an extreme outcome.<sup>6</sup> This is an important point. It is the final outcome of the market's operation for the individual, taking into account extra-market resources, which matters. Thus a billionaire losing millions on the stock market will not count as an extreme outcome in our sense, even though a loss of millions might be extreme in some other metric. But a poor person losing a few dollars worth of income because of price gouging from the local trader might indeed lead to an extreme outcome that pushes that person into destitution.

In general, though, as with the other parameters discussed in this paper, extremity of outcomes is a tendency rather than a cut and dried delineation. It will be context and case dependent. This is untidy, but that is the way it is. The concept is best tested and sharpened in specific application, and this will be done in Section 6.

#### **4. Weakness of Agency**

The notion of an agent who is fully cognizant of the consequences of actions, and who furthermore acts freely in his or her own direct self interest, is of course central to neoclassical economics. With these two assumptions, the outcomes of consenting interactions in markets would be hard to characterize in as extreme a fashion as “obnoxious”. Let us consider relaxing, in turn, the two component assumptions.

Many of the cases of obnoxious markets occur in situations where there is a great deal of uncertainty about the consequences of market transactions. Whatever the model of individual decision making in these circumstances, extreme outcomes can occur. But if the individual is truly cognizant of the outcomes and what they mean, albeit in probability, surely the outcomes must be accepted as the outcome of actions? In fact,

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<sup>6</sup> There is of course a large literature on specifying and measuring poverty lines in different contexts. See the survey by Lipton and Ravallion (1995).

however, there is a connection between the extremity of outcomes discussed in the previous section and the weakness of agency that is the concern of this section. Extreme negative situations for individuals that leave them destitute attract our sympathy, no matter that the actions which led to them were freely undertaken. Why?

Consider the case of an individual selling a body part. Such markets exist across the world, in various states of legality, and they cause discomfort to our intuitions and raise our distrust. Leave to one side for the moment the poverty that might lead to such a sale. Even without this, at the core of our discomfort is the suspicion that an individual cannot really know the true consequences of selling his or her kidney, for example, and the near irreversibility of the act once undertaken.<sup>7</sup> The same is true of low probability but extreme consequences of risk taking. Those who do not insure their homes adequately against flooding nevertheless elicit our sympathy when the extreme event renders them absolutely destitute.

Similarly, even those who dissipate a fortune in “full knowledge” of the consequences are the objects of sympathy and perhaps support when their actions finally render them destitute. To quote G.L.S. Shackle (1965)<sup>8</sup>:

“I do not think it is *necessarily possible in the nature of things* for information, as it exists in the human mind (and that is its only real existence) to be perfect .... Suppose I am a young man with a splendid fortune. I decide to pursue the joys of youth; I know that in doing so I shall dissipate my fortune, but I am the ‘prodigal son’ of our Bible story ...., when middle age comes, I find myself destitute and filled with regret, regret which I *foresaw*. Two moments, two different dates, cannot be the same moment, cannot give to an event, an action, a situation, which objectively are one and the same events or actions, the *same meaning* for the individual. I do not think, in human terms, knowledge can be so perfect that tomorrow’s hunger can be felt today.”

Thus against the intuitive appeal of “he knew what he was doing” is to be pitted the intuition that “tomorrow’s hunger cannot be felt today”. To the extent that the latter is stronger, even the agency of an individual on his own behalf with seemingly “full” knowledge can be questioned as truly “consenting” since, presumably, if tomorrow’s hunger could indeed be felt today those actions would not be undertaken. And if this is so “in the nature of things” then extreme consequences can raise our discomfort on the agency front as well.<sup>9</sup>

The conclusion is that those markets in which consequences are separated from transactions by time and by uncertainty, and in which some of the consequences can, ex post, be extreme, are the ones that cause discomfort when these extreme consequences actually occur. The greater the separation of time and uncertainty, and the more extreme

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<sup>7</sup> For a recent popular account of the different forces underlying the market for body parts, see Finkle (2001).

<sup>8</sup> Shackle’s comments were made in response to Mukerji (1965), which cast the question in terms of “anticipative” and “retrospective” utility.

<sup>9</sup> For an examination of the consequences of this approach for the ex ante and ex post evaluation of welfare, see Kanbur (1987).



are some of the consequences of transactions, the more likely it is that the operation of such markets will raise distrust. The sale of body parts clearly falls into this category. Wild speculative markets, which can render some absolutely destitute, are also likely to be viewed with suspicion.

So much for agency when transactors in a market act on their own behalf and bear the consequences themselves. The market for child labor is not like that. We have to assume that parents or those in loco parentis are the transactors in this market on behalf of the children whose time is traded. This dependency relationship, the lack of agency by those most directly affected by the transactions in this market, is what raises a red flag and discomforts our intuition. When the outcomes in these markets are extreme—for example, child prostitution—they evoke outrage. But are we going outside of the consequentialist framework here? Is not the special outrage felt at child prostitution to do not just with the consequences (lack of schooling and a perpetuation of the cycle of poverty) but also with the fact that it is someone else who is making the decisions? As a check on intuition, compare child prostitution with adult prostitution. The outrage is less for the latter, perhaps because the consequences may be less severe (although this might be arguable) but also because, presumably, the agent has more control over action and consequences. Surely this is slipping into a non-consequentialist argument?

As in many other cases, however, the line between consequentialist and deontological arguments is blurred here.<sup>10</sup> Weakening agency may be evaluated negatively in its own terms, or because it increases the likelihood of negative consequences for those whose agency is weaker. It may well be that a child's best interests, in the context of poverty, are what drive families to sell their children into prostitution. But in such markets where agency is weak the opposite is also quiet likely. Lack of agency leaves the child vulnerable to its interests not being paramount. Agency as the guarantee of protection against negative extreme outcomes for an individual is how a seemingly deontological argument can be made consistent with an essentially consequentialist framework.<sup>11</sup>

An important case of such “agency at one remove” is the case of a government transacting in the international market on behalf of its citizens—for example, in contracting international debt. In the 1970s and 1980s, many African governments contracted huge amounts of debt to international firms, to international agencies and to other (mainly Northern) governments. Nigeria's outstanding debt of \$30 billion dollars, despite (or perhaps because of) its enormous oil wealth is a case in point. It is argued that this debt is illegitimate because it was not undertaken by a legitimate democratic government, and therefore the present democratic government should be absolved of the

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<sup>10</sup> As Vickers (1997) argues in a slightly different context, “It will be clear, of course, that consequentialist and deontological criteria cannot always and necessarily be understood to be rigorously separable and distinct. One's sense of duty and obligation to an economic grouping, such as family or class or regional or national interests, may lead to actions or policy recommendations that contemplate objectives and ends that address primarily those interests”.

<sup>11</sup> Further complications, which are not dealt with here, arise in the agency argument when those in loco parentis, more generally those in a position to “care” for others, are themselves tied to those they care through emotional bonds. For a powerful investigation of this dimension of the agency question, see Kittay (1999) and Folbre (2001).

responsibility of repaying it. Again, on the face of it this looks like an argument based on deontology, and it is true that our intuitions on international transactions are strongly conditioned by our notions of the “legitimacy” of governments that undertake them. However, it cannot also be denied that another key driving force behind our intuitions is the fact that the money that successive Nigerian governments borrowed was not put to developmental use, so there is very little to show for it. While there may be some argument on this, our intuitions on borrowings by the Chinese government in the 1980s and 1990s, which contributed to spectacular growth and poverty reduction, may be different from those on borrowings by the Nigerian government. Once again, consequences matter, and extreme consequences matter a lot. Weak agency in a market such as that for international debt is problematic because it might lead to extreme consequences, and when it does, our discomfort with and distrust of that market is aroused.

Consider now the case where actions in one market have consequences for those who are neither transacting in the market nor having transactions conducted on their behalf the market in question. This is the standard case of an externality and is well dealt with in the welfare economics literature. But the Pigouvian tax-subsidy formulae for correcting externalities hardly capture the outrage felt at the arms trade, for example, which has consequences for those well beyond the group of transactors in this market. What is going on here? There is an aspect of non-consequentialist agency argument in explaining our intuitions. The arms dealers are somewhat removed from the innocent civilians who bear the brunt of destruction caused by the arms they sell and buy. But it is really the extremity of likely outcome that explains the level of outrage, and this outcome for those under discussion is more likely because their agency is far removed from those who transact on the market.

To summarize, weakness of agency, but always in conjunction with extremity of likely outcomes, is a key parameter in explaining our discomfort, distrust and even outrage at the operation of certain markets. This weakness of agency operates at three successively more general levels. First, at the level of the individual agent, in markets where time and uncertainty break the link between perceived and actual consequences, especially when these consequences are extremely negative. Second, when an agent transacts on behalf of someone who is wholly or partially incapable of transacting himself or herself, with likely extreme consequences for the dependent. Third, when transactions in a market have extreme consequences for those not engaged at all in transactions in that market.

## **5. Inequality in Market Relations**

Consider now a situation where weakness of agency is not at issue. Agents act on their own behalf and, it is assumed, are fully cognizant of the consequences of their actions. But agents are not identical. This asymmetry plays a crucial role in guiding our intuitions about markets. An agent’s relative weight in the market in terms of transactions is central, and translates into the classical problem of monopoly. But even

without monopoly there is an issue of how dependent are certain agents on the market to avoid extreme negative outcomes for themselves. These twin features help to explain intuitive reactions to certain types of markets. Let us take each one in turn.

There is broad agreement, at the intuitive, analytical and policy level that monopoly (or monopsony) in a market is “bad”. The images of a company town, or an oil monopoly, or a single moneylender in a village, or even the monopolization by the state of certain activities, are powerful in everyday discourse. The theorems of welfare economics elevate the state of “non-monopoly” to center stage. One difference between popular sentiments and core economic analysis is that popular sentiment responds to countervailing power, but such situations, for example of bilateral monopoly, are as much a threat to the fundamental theorems of welfare economics as is unilateral monopoly. This consideration suggests that it is not so much monopoly or market power per se which arouses intuitions, as much as asymmetry or inequality in market power.

An example of the conflicts that can arise between main stream economists’ perceptions of the operation of markets and that of popular sentiment expressed by civil society is seen in the broad disagreements about “globalization”.<sup>12</sup> To illustrate, let us take a specific policy dispute—about whether liberalization of capital flows is “good” or not. To keep the issues sharp, leave to one side portfolio capital, which raises issues of short-term volatility, and focus on long-term foreign direct investment. A strongly held view in many civil society quarters is that liberalization of capital flows makes workers worse off everywhere. This view is seen as being incoherent by main stream economists, who cannot see how allowing capital to flow to higher return locations can make workers everywhere worse off. At worst, it is argued, this will only make workers worse off in the country exporting the capital. And, since total return to capital will be maximized, these losses can be potentially compensated, following the standard theorems of welfare economics.

The above view of mainstream economics follows of course from the standard set up of competitive markets in which we start with the only distortion being the restriction on mobility of capital, which is then lifted. But consider now the following scenario. Markets are not perfect in the classical sense. In fact, labor and capital bargain for wages in each country separately. Now make capital mobile while leaving labor immobile. It is easy to see that the bargaining power of capital has increased as the result of this improved “outside option”. Workers everywhere can indeed be made worse off as a result, to the benefit of capital.

Now, whether or not a particular market has these features of monopoly and asymmetric power is an empirical question. But what there is no question on is that the very different views one finds on the role of markets find their roots in very different views on market power. Mainstream economic analysis, for example of capital market liberalization, privatization, or trade liberalization, relies on a framework of analysis in which agents do not have market power. On the other hand, civil society positions are driven by a view of the world that sees pockets of market power everywhere, but

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<sup>12</sup> The argument that follows is taken from Kanbur (2001).

especially in markets where big corporations operate. Both would agree that market power makes the outcomes of market transactions “less good”. It is just that one group sees market power as being a more widespread in reality than the other.

Suppose now that there is no issue of monopoly power in the classical sense. All agents are small relative to the market in question. But there are asymmetries in how much each agent “needs” the market. In particular, there are asymmetries in the extent to which an agent would suffer extreme negative outcomes without the market. This is not of course particularly a feature of the market in question, but it nevertheless conditions the way our intuitions respond to the workings of that market. Consider for example asset sales at “fire sale prices”, which happen regularly in drought stricken areas in poor countries. Assets sold include livestock and land. Even when there is no element of monopoly in the operation of these markets, they set in motion processes of cumulative dispossession of assets by the poorest and accumulation by the richest.

As noted above, the underlying factor here is the inequality of conditions that different agents bring to the market and which affects their prospects in that market. As another example, consider the impeccable economic logic of poor countries exchanging toxic waste for money. There are many reasons why this causes discomfort. Some of these are to do with the agency issues discussed in the previous section. Some of it may have to do with the structure of the market for toxic waste—not exactly classically competitive. But mainly it is do with the fact that poor countries would not engage in such an exchange if they were not poor. The transactions in this market hold up a mirror to the underlying inequality. It is the fact that the market brings into sharp relief the underlying inequality that leads the market itself, and its outcomes, to be viewed as outrageous. Some of these same considerations are also present in markets for child labor and child prostitution. The argument that without these markets the individuals might be worse off may be true, but does not stop us feeling revulsion. Indeed, the revulsion is all the greater because this is what some agents have to do to improve their lot.

Note again that we are slipping into a non-consequentialist frame a little here. In terms of the consequences, the agents in these markets are better off as a result of engaging in these markets. A consequentialist would applaud that, and nothing else would matter. The intuition we are exploring here is built on a basic concern with the nature of the activity undertaken in the market (moral degradation, even if accompanied by improving standard of living), and the very fact that individual have to engage in these activities to improve their lot. But, once again, consequentialism is not very far away from our concerns. For a start, some of the long-term consequences of child labor, for example, may be detrimental to the child even if there are short-term benefits to the family and to the child. Second, the actions on the market are a consequence of the underlying inequalities in wealth and power. We will return to this in the Section 7, but while a strict consequentialist position would frown upon “banning” this market, it would support removal of the underlying inequalities that lead to the nature of participation in the obnoxious market.

Of course, when asymmetry and monopoly combine together, the discomfort and distrust is the greatest. When distress sales of land by the poor are to the rich landlord who is the only one in the vicinity with the means to purchase the land, or when child labor is sold to a large monopsonistic labor contractor, or when a consortium of rich countries prevails upon a poorer country to open up its market for capital, the popular sense of outrage is the greatest. Add to this weak agency and extreme outcomes, and we come close to the characterization of an “obnoxious market”.

## **6. Each Obnoxious Market is Obnoxious in its Own Way**

There are, therefore, three dimensions along which we can move from “normal” to “obnoxious” markets. The first is obvious, in the consequentialist framework adopted here—the (negative) extremity of the outcomes. The other two, agency and inequality (or asymmetry), have to be seen in conjunction with the likelihood of negative consequences. The more extreme the outcomes, the weaker the agency, and the greater the inequality of relations to the market, the more is the outrage that the operations of a market are likely to cause. There is no set dividing line but, eventually, movement along these dimensions “tips” a market into the obnoxious range. Let us now consider an application of this framework to some specific markets, some of which have already been used to check intuitions earlier in the paper.

The global market for arms scores “high” on extreme outcomes. It also scores high on weakness of agency, not because arms sellers and buyers are not cognizant of the consequences, but because (i) some of the key transactors on this market (e.g. governments) are transacting on behalf of others who will bear the true consequences and (ii) the negative consequences are likely to spillover to beyond the direct and indirect transactors on these markets. The score on inequality and market power is much less clear cut because of the different types of arms markets—the formal, government sanctioned, arms markets and the informal markets for small arms and the like. There is no doubt considerable asymmetry in the market for large weaponry, but countervailing power as well, as different governments back their own arms companies. On the other hand, some arms companies may well pressure a poor country into purchasing arms through bribing its officials, or through using their rich country governments to pressure the poor country government, the latter pressure working because of the poverty of the country. However, by and large the case for declaring the arms trade obnoxious rests on the argument that it can lead to extreme outcomes for those with little or no agency in it.

The market for hard drugs also has extreme outcomes. And once addicted, agents on one side of the market have minimal control over their actions, so agency is weak. The consequences spread beyond the transactors in the market itself through crime and further addiction. There is considerable asymmetry in the market between suppliers and demanders, with escalating monopoly up the supply chain from dealers to the processors. On all counts, the charge of an “obnoxious market” is difficult to refute. Indeed, the contrast with the market for soft drugs confirms the analysis. The outcomes are less extreme, and in this market there is greater agency of individual consumers, and less of

an argument that users hurt others. The facts of monopoly on the soft drugs side are not clear, but the “low” score on the agency front probably tips it away from being classified as an obnoxious market.

What about toxic waste and the famous World Bank memorandum? Applying our schema, let us start from the position that although there is room for scientific debate on this topic, some of the likely outcomes of accepting and storing toxic waste are very extreme indeed. There is clearly an agency problem since the transactors on the side of poor countries are their governments, or the officials of these governments, who may or may not have the true interests of their citizens in mind when transacting with companies that ship toxic waste. But, on top of this, there is an asymmetry between trading parties that is highlighted by the transaction itself. One party is taking on the likelihood (perhaps small, but not insignificant) of extreme consequences, which it would not do if it were not so poor. Trade in toxic waste holds up a mirror to global inequality. The variations in type and range of toxic waste preclude a general judgment, but trade in some of the more extreme forms of waste between rich and poor countries would indeed fall into the category of an obnoxious market.

Markets for child labor need to be discussed carefully because there are so many different types of child labor, ranging from light work delivering newspapers, through work on construction sites, to the horrible case of child prostitution.<sup>13</sup> There is thus a range of outcomes, from the almost benign and beneficial to the extreme ends of the consequences for education, health and well being of hard manual labor and prostitution. We focus as usual at the extreme end of the spectrum. Agency is clearly minimal in the sense that it is the parents or those in loco parentis who are making the decisions. And the inequality factor is large because it is the poverty of some parents that is a key determinant of sending a child to work—child labor is a symptom of poverty and inequality. In addition, in some cases market power may be asymmetrically distributed since the purchasers of child labor (e.g. those who run prostitution rings) will be fewer and more organized than parents. On all counts, therefore, the more extreme forms of child labor, those with extreme negative consequences for children, are obnoxious markets.

Markets for body parts raise strong instinctive reactions. Unlike the selling of blood, which gets renewed by the body, the selling of body parts is pretty much irreversible and extreme. Agency problems are severe, in the sense that it is not reasonable to assume that an individual can truly conceptualize life without that body part, so even the individual himself or herself may not be the best judge of future well being. If the seller is doing it on behalf of another who is incapacitated, the situation is even worse. We don't know the market structures of markets of body parts, but the basic asymmetry that this can only be an action contemplated by those who are relatively poor, should be clear to all. On grounds of extreme outcomes, weak agency, and asymmetry by wealth inequality, the trading of body parts qualifies as an obnoxious market. However, the market for blood, while containing some of the same features on inequality (since it is the poverty which drives many to sell blood), does not have as extreme a set of outcomes or as weak an

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<sup>13</sup> For an economic perspective on child labor, see Grooatert and Kanbur (1995).

agency characteristic, and might therefore (just) escape the characterization “obnoxious”<sup>14</sup>.

Consider now the (past) markets for sovereign debt, which have left many African countries today heavily indebted. The consequences, as argued by some, are pretty extreme. To repay the debt is quite simply impossible for many countries without imposing further deprivations on their populations. On agency, these debts were not incurred by individuals but by the state, or rather perhaps the corrupt and venal officers of the state who were not pursuing the interests of their citizens. Agency was therefore quite weak, and as a result of this weakness we have the extreme consequences of today. Asymmetries may not have been quite so large between the directly transacting parties in the markets where the debt was contracted—the lenders didn’t exactly force corrupt governments to borrow—although they may have been some market power exercised by lending consortia, especially on private debt. What pushes us towards the characterization of obnoxious is thus primarily the weak agency and the extreme outcomes.

Finally, let us consider the current market for short-term capital flows. The agents in these markets, at least those who play the markets professionally, can be assumed to be fully cognizant of the risks they face and take, or to take risk on behalf of clients who are equally so cognizant. But the consequences of these markets stretch far beyond their own spheres. As recent crises have shown, their unregulated operation can lead to extreme consequences for people who are not at all transacting in these markets. The collateral damage in the East Asia crisis was such as to wipe out, by some estimates, as much as a decade’s gain in poverty reduction. There are no big issues of inequalities of wealth between transactors on these markets, but there is dispute about market power. One view is that these markets satisfy the requirement of classically competitive markets of each actor being small relative to the total market—if not, it is argued, how could we rationalize the notion of “herd behavior” in these markets, which some analyses present as the basis of crises. But another view is that a small number of traders or groups of traders can indeed manipulate these markets to their own advantage, with negative consequences for other traders but, most importantly, for those who are not traders at all but are far removed, in the real economy. Thus verdicts on these markets are equally divided—between statements that these markets are necessary and ultimately self-correcting, and statements that these markets are obnoxious and need to be regulated.

Table 1 gives a highly stylized presentation of the above arguments for the nine markets discussed. A “+” or a “–” is only a representation of a relatively “high” or a relatively “low” score. In particular, a “–” does not indicate that there is no problem or issue along this dimension. It should be emphasized that the Table is merely a device to highlight the fact that different forces are in play in guiding our intuitions in different settings. It depicts how movements along each of the three dimensions could “tip” a market into obnoxious territory. It captures intuitions reasonably well and suggests how a similar framework could be used as the start of discussions on any given market. But

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<sup>14</sup> For a different entry point in to the discussion on markets for blood, see Seabright (2001) and Titmus (1970).

above all, it shows that all obnoxious markets are not the same. Each obnoxious market is obnoxious in its own way.

## 7. Should Obnoxious Markets be Banned?

So some markets are obnoxious. They score “high” on extremity, agency, and inequality. What should be done about such markets? There are two strategies—to ban such markets, or to lower the score on each of these counts. The moral outrage is often so strong that attempts to ban particular markets are very common. However, as is well known, while formal banning is useful as an expression of public sentiment and position, it doesn’t necessarily destroy markets—they simply reappear under a different guise, sometimes illegally and underground. In fact, many of the markets discussed above—hard drugs, child prostitution, and body parts—are indeed “banned”. That has not stopped them from existing, and from operating illegally. When they do so, the score on extremity, agency and inequality could go even higher.

The paradox is best illustrated by the difficult case of child labor—an obnoxious market, on all counts, in its more extreme incarnations in poor countries. Parents send their children to work rather than school because of poverty. Indeed, the fact that parents have to send their children out to work because of poverty, reflecting the underlying inequalities to which this phenomenon holds up a damning mirror, is the very reason we feel outrage. But, the mirror image of this same phenomenon is that without the child labor the household and the child would be worse off.

An argument has similarly raged over the market for hard (and soft) drugs. It is increasingly recognized in the US that the “war on drugs” is being lost. Making hard drugs illegal has, if anything increased the scores along the three criteria of our framework. The arguments of those who argue for education and safety in use, reducing the extremity and agency problems, seem to have increasing validity.

None of this is to say that the public sentiment of outrage at child prostitution, for example, should not be expressed through making it illegal. There are good deontological arguments for not allowing some transactions in the formal sphere. But we must then not stop there. There are consequences to banning, and to the resultant illegality that, if not attended to, may make the market even more obnoxious on all scores.<sup>15</sup>

What then is the answer? Alongside “banning” (which in many cases will only be valuable for the expression of public disgust, since the market itself will not disappear), we can act directly to lower the scores along dimensions discussed here. Scores can be lowered on each of the three dimensions, and multiple strategies are possible. Generalized safety nets mitigate extreme outcomes. Information campaigns targeted by

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<sup>15</sup> I note here Basu’s (2001) argument that certain types of legal interventions in markets, if successful, may improve welfare even in terms of standard neo-classical economics because an effective intervention such as a ban on certain types of activities may shift the whole general equilibrium of the economy.



topic and audience help to reduce the distance between action and perceived consequences, especially in the areas of health. Regulatory structures can equalize market power disparities between buyers and sellers. And purposive redistribution can reduce the underlying inequalities of which transactions in certain markets, obnoxious as they are to our sentiments, are merely a reflection.<sup>16</sup> The answers to specific obnoxious markets thus lie not only or even necessarily in measures specific to those markets, although these may be needed, but in more general measures at the level of the whole society which put a floor underneath extremity, which narrow the agency gaps, and which address underlying inequalities.

## 8. Conclusion

This paper has attempted an exploration of our discomfort, distrust and outrage at the operation of certain types of markets. What underlies our intuitions, and can we find a systematic framework for understanding them? This paper argues that “obnoxious” markets potentially have three characteristics, to different degrees: extremity of outcomes, weakness of agency and inequality in market relations. It is the extent of these characteristics that sparks our instinctive reactions to markets in arms, drugs, toxic waste, body parts, child labor, etc. When the scores on these criteria are sufficiently high, a market may “tip” into the obnoxious category. It is argued that all obnoxious markets are not alike. Different markets have “high” scores on different criteria and in different combinations.

The analysis presented here is clearly incomplete. Methodologically, I have not addressed the issue of whether such a direct “positive” examination of intuitions, though interesting, may in fact be misleading. There is an argument that such “untutored” intuitions need to be examined more carefully than mere description, especially if the examination leads to normative prescriptions. I accept this criticism and offer this analysis as the beginning of the argument rather than the end.<sup>17</sup> Moreover, the paper deliberately tries to restrict itself to the consequentialist mode of thinking and evaluation. But even in this paper, recourse to non-consequentialist argument, or at least non-consequentialist sentiment, has sometimes been necessary. More generally, there are aspects to the evaluation of child prostitution, for example, which go beyond the consequences for the children, important as they are. Use of another person as an object is a long-standing criterion for delineating morality of an action directly, without consideration of consequences. There are also other routes, for example those based on the nature of democracy, to arguing that “some things should not be for sale”<sup>18</sup>. I do not deny these other substantive approaches to the problem, nor even that for some cases they may provide a stronger grounding for our intuitions than the consequentialist mode of

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<sup>16</sup> Miller (1998) and Unger(1996) provide illuminating philosophical arguments on why the plight of the poor in poor countries should concern the middle classes in rich countries.

<sup>17</sup> In particular, we need to take seriously the arguments of Unger (1996) that deeper investigation of first blush intuitions may reveal misleading “distortions” which affect the conclusions reached.

<sup>18</sup> This argument is developed, for example, in Satz (2001).

thinking. My object, rather, has been to see how far we can get by sticking as far as possible to a standard sounding neo-classical economics framework.

Finally, even within the standard framework, I have not given sufficient thought to indirect linkages. For example, I have not addressed the question: Is a market that is linked to an obnoxious market through sale or purchase itself obnoxious? If so, how much? What happens as the degree of linkage gets weaker and very indirect? An answer to these questions is important since otherwise, given the interconnectedness of modern markets, we might be in danger of pronouncing everything to be obnoxious. It is also important from the policy point of view, since information about such linkages, such “transparency” in market relations, could be one tool for addressing obnoxious markets.<sup>19</sup>

Despite these shortcomings, I hope the analysis in this paper contributes to a more nuanced thinking about obnoxious markets. All obnoxious markets are not alike. What makes a market obnoxious is different from market to market. It also suggests that addressing the issue of obnoxious markets may take us beyond the specifics of the market in question (in particular, beyond the instinctive reaction to “ban” the market). Safety nets, information campaigns and redistribution of income and wealth are revealed to be complementary instruments to address the problem of obnoxious markets. Of these, perhaps the most important is redistribution. For so long as severe inequalities persist, within countries and between countries, the asymmetries that are so fundamental to our judgments on outcomes will also persist, and obnoxious markets will continue to be with us.

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<sup>19</sup> I am grateful to Steve Cullenberg for raising these considerations in his comments on an earlier draft of this paper.

**Table 1**

**EACH OBNOXIOUS MARKET IS OBNOXIOUS IN ITS OWN WAY**

	<i>Extremity</i>	<i>Agency</i>	<i>Inequality</i>
<b>Arms</b>	+	+	-
<b>Hard Drugs</b>	+	+	-
<b>Soft Drugs</b>	-	-	-
<b>Toxic Waste</b>	+	+	+
<b>Blood</b>	-	-	+
<b>Body Parts</b>	+	+	+
<b>Child Prostitution</b>	+	+	+
<b>International Debt</b>	+	+	-
<b>Speculative Capital</b>	+	+	-

Note: A “+” denotes a relatively high score while a “-” denotes a relatively low score. A “-” does not indicate that there is no problem along this dimension.

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