

Adam Smith and Repugnance as a Constraint on Markets

Walter Castro (Fundación Libertad and Universidad Francisco Marroquín)

Julio Elias (UCEMA and JILAEE)¹

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1. Introduction

“Why can’t you eat horse or dog meat in a restaurant in California, a state with a population that hails from all over the world, including some places where such meals are appreciated? The answer is that many Californians not only don’t wish to eat horses or dogs themselves, but find it repugnant that anyone else should do so, and they enacted this repugnance into California law by referendum in 1998 (Alvin Roth, 2007).”

The economic concept of Repugnance, developed by Alvin Roth (2007), suggests that some transactions, such as the buy and sale of kidneys for transplantation or to sell horsemeat for human consumption in California, are illegal simply because a sufficient number of people find it repugnant. In a repugnant transaction the participants are willing to transact, but third parties disapprove and wish to prevent the transaction.

As Alvin Roth (2007) argued, these could have big consequences in what markets we see and can generate important social costs. For example, banning payments to organ donors is the main cause of the severe organ shortages in virtually all countries (Becker and Elias 2007), and outlawing activities such as abortion or prostitution typically drives them underground, reducing their safety and fuelling crime.

¹ Corresponding author je49@cema.edu.ar

Castro and Elias (2022) show that many of the developments in the economics of organ donation find a foundation on the Economic Principles developed by Adam Smith in both the *Wealth of Nations* and in the *Theory of Moral Sentiments*. Could Adam Smith ideas provide a basis for deciding what should, and what should not, be up for sale?

In this paper we analyze the economic concept of repugnance and its implications using insights from *The Theory of Moral Sentiments* and the *Wealth of Nations*. In terms of Smith, repugnance at the individual level is a moral sentiment. Departing from the idea of the impartial spectator, we analyze whether repugnance should translate into prohibition and affects legislation when the spectator disapproves it and how his judgement could vary across communities and time.

However, Smith view of the legislator, the man of the system, that “seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess-board; he does not consider that the pieces upon the chess-board have no other principle of motion besides that which the hand impresses upon them; but that, in the great chess-board of human society, every single piece has a principle of motion of its own, altogether different from that which the legislature might choose to impress upon it.”

By translating repugnance into law, the legislator (the man of the system) may limit the expansion (the “extent”) of the market, that promotes specialization with its fundamental benefits for society. There is a tension between repugnance and efficiency. Elias et al (2019, 2022) show that the gains in efficiency are also valued by people and could make repugnant markets more acceptable. How would Adam Smith have weighed both?

2. The Economic Concept of Repugnance and Its Consequences

According to the clinical medical ethicist Dr. Mark Siegler of the University of Chicago, “in organ transplantation we encounter every important ethical issue in medicine. I sometimes use the image of the Rosetta Stone to suggest that just as it helped us to understand and translate the mysteries of hieroglyphics, so organ transplantation can help us understand the complexities of medical ethics. Essentially, if you can grasp the ethical issues in transplantation, you grasp the major ethical issues in medicine.”²

While the benefits of eliminating the shortage of organs and ending deaths on the waiting list are significant, many transplant surgeons, other physicians, philosophers and economists oppose the proposal to pay for organs (see, for example, Segev and Gentry, 2010, and Sandel, 2012), a practice prohibited by law in virtually all countries, with the exception of Iran.

In reference to the economic analysis of organ transplants and the possibility of allowing an organ market, Paul Bloom, a Yale psychologist, says that “the problem is not that economists are unreasonable people, but that they are demonic people. They work in a different moral universe.”

The words often used suggest that keeping these transactions out of the marketplace is considered a “protected value”—that is, a value that people are unwilling to trade off no matter what the costs of doing so may be (Elias, et al 2015). In fact, arguments against payments for organs often acknowledge the potential benefits of allowing such trades; yet the moral basis of the opposition is considered strong enough to forego those benefits (Delmonico et al., 2002; Sandel, 2012).

² <https://magazine.uchicago.edu/0778/features/organs.shtml>

Alvin Roth resumes the arch of opposition to the introduction of monetary compensation as follows: “Selling organs is illegal in most countries. Legalizing kidney sales faces substantial, perhaps insuperable obstacles. Just as you can't sell yourself into indentured servitude anymore, some transactions are illegal because enough people find them repugnant,” (Elías and Roth, 2007).

In a repugnant transaction the participants are willing to transact, but third parties disapprove and wish to prevent the transaction. It is important to note that unlike the standard case of externalities in which the person is directly affected because they are somehow involved in the transaction or in the market (e.g. annoying noise, pollution, congestion), in a “repugnant” transaction, the participants are willing to exchange without affecting third parties directly, but they disapprove it and want to prevent the transaction from taking place.

Table 1, from Roth (2007), shows examples of markets where repugnance has operated, or currently operates, as a real constraint.

Table 1

Markets In Which Some Transactions Are, or Were Once, Repugnant

Human remains

Cadavers for anatomical study, organ donation,
bone and tissue
Live donor organs (kidneys, livers)

Labor

Indentured servitude, slavery
Volunteer army, mercenary soldiers
Discrimination based on race, gender,
handicap, marital status, etc.

Reproduction and sex

Adoption
Surrogate mothers, egg and sperm donation,
abortion, birth control
Prostitution, pornography
Brideprice, dowry
Polygamy, gay marriage, incest

Words, ideas, and art

Obscenity, profanity, and blasphemy
Cultural treasures, art, and antiquities

Risk

Life insurance for adults, children, and
strangers
Gambling
Prediction markets

Finance

Short selling, currency speculation
Interest on loans

Pollution markets

Tradable emissions entitlements
Dirty industries in less developed countries

"Price gouging"

After natural disasters
Ticket scalping

Religion/Sports

Sale of indulgences and ecclesiastical
offices ("simony")
Endorsements/payments for amateur
versus pro athletes
Drugs and sports

Food, drink, and drugs

Horse and dog meat
Alcohol (Prohibition)
Marijuana and narcotics

Vote selling and bribery

Dwarf-tossing

Source: Roth, Alvin E. (2007), "Repugnance as a constraint on markets," November, *Journal of Economic Perspectives*, vol. 21 (3), Summer, pp. 37-58.

The idea of repugnance is present in Adam Smith. Disgust is the base of morality; it is an input for morality. Then, the Principle of Approbation attenuates it. We interpret that, in a community, repugnance is the degree of disgust approved by the impartial spectator. It represents a feeling of rejection that is enacted into law against what would be considered inappropriate or vicious. In introducing the concept of Sympathy, Adam Smith account for the sentiment of immediate disgust:

"There are some passions of which the expressions excite no sort of sympathy, but, before we are acquainted with what gave occasion to them, serve rather to disgust and provoke us against them. The furious behaviour of an angry man is more likely to exasperate us against himself than against his enemies." (TMS, 1.1.i)

He elaborates further and explains that this sentiment can be moderated upon reflection by the judgement of the spectator:

“When the original passions of the person principally concerned are in perfect concord with the sympathetic emotions of the spectator, they necessarily appear to this last just and proper, and suitable to their objects; and, on the contrary, when, upon bringing the case home to himself, he finds that they do not coincide with what he feels, they necessarily appear to him unjust and improper, and unsuitable to the causes which excite them. To approve of the passions of another, therefore, as suitable to their objects, is the same thing as to observe that we entirely sympathize with them; and not to approve of them as such, is the same thing as to observe that we do not entirely sympathize with them.” (TMS, 1.1.iii)

3. Determinants of Repugnance

Tracing a parallel with our sense of beauty, Adam Smith recognizes that customs affect what is considered proper or improper:

“Our first ideas of personal beauty and deformity are drawn from the shape and appearance of others, not from our own. We soon become sensible, however, that others exercise the same criticism upon us. We are pleased when they approve of our figure, and are disobliged when they seem to be disgusted. We become anxious to know how far our appearance deserves either their blame or approbation.

...In the same manner our first moral criticisms are exercised upon the characters and conduct of other people; and we are all very forward to observe how each of these affects us. But we soon learn, that other people are equally frank with regard to our own. We become anxious to know

how far we deserve their censure or applause, and whether to them we must necessarily appear those agreeable or disagreeable creatures which they represent us.” (TMS, 3.1)

The Scottish Enlightenment was characterized by an empiricist and practical morality, which could change gradually, making society a more open or, on the contrary, a more closed system.

Smith explains how what is considered appropriate could vary in time and across places:

“The different situations of different ages and countries are apt, in the same manner, to give different characters to the generality of those who live in them, and their sentiments concerning the particular degree of each quality that is either blameable or praiseworthy, vary according to that degree which is usual in their own country and in their own times. That degree of politeness which would be highly esteemed, perhaps would be thought effeminate adulation, in Russia, would be regarded as rudeness and barbarism at the court of France. That degree of order and frugality which, in a Polish nobleman, would be considered as excessive parsimony, would be regarded as extravagance in a citizen of Amsterdam. Every age and country look upon that degree of each quality which is commonly to be met with in those who are esteemed, among themselves, as the golden mean of that particular talent or virtue; and as this varies according as their different circumstances render different qualities more or less habitual to them, their sentiments, concerning the exact propriety of character and behaviour, vary accordingly.”

For example, the South Korean president, Moon Jae-in, has recently raised banning the eating of dogs in the country, amidst growing pet ownership. The story from the Guardian reports that “The practice is something of a taboo among younger generations and pressure from animal rights activists has been mounting. “Hasn’t the time come to prudently consider prohibiting dog

meat consumption?” Moon asked the prime minister, Kim Boo-kyum, during a weekly meeting, according to the presidential spokesperson.”

However, Smith poses a limit to customs and situations across ages and countries influencing what is considered an appropriate conduct and is enacted into law:

“There is an obvious reason why custom should never pervert our sentiments with regard to the general style and character of conduct and behaviour, in the same degree as with regard to the propriety or unlawfulness of particular usages. There never can be any such custom [killing children]. No society could subsist a moment, in which the usual strain of men’s conduct and behaviour was of a piece with the horrible practice I have just now mentioned.”

In Part Seventh, Section III, (Of the Different Systems Which Have Been Formed Concerning the Principle of Approbation) Adam Smith discusses the foundations of repugnance:

“After the inquiry concerning the nature of virtue, the next question of importance in Moral Philosophy is concerning the principle of approbation; concerning the power or faculty of the mind which renders certain characters agreeable or disagreeable to us; makes us prefer one tenor of conduct to another; denominate the one right and the other wrong; and consider the one as the object of approbation, honour, and reward; the other as that of blame, censure, and punishment.

Three different accounts have been given of this principle of approbation. According to some, we approve and disapprove both of our own actions and of those of others, from self-love only, or from some view of their tendency to our own happiness or disadvantage; according to others, reason, the same faculty by which we distinguish between truth and falsehood, enables us to distinguish between what is fit and unfit, both in actions and affections; according to others, this

distinction is altogether the effect of immediate sentiment and feeling, and arises from the satisfaction or disgust with which the view of certain actions or affections inspires us. Self-love, reason, and sentiment, therefore, are the three different sources which have been assigned for the principle of approbation...To examine from what contrivance or mechanism within those different notions or sentiments arise, is a mere matter of philosophical curiosity." (TMS, 7.III)

4. Efficiency versus Repugnance

As table 1 shows, in many cases repugnance is translated into law and have consequences on market regulations, imposing important social costs. For example, Adam Smith explains the adverse effects of price controls, such as anti-price gouging laws, indented to ensure access to necessary goods during emergencies:

"When the government, in order to remedy the inconveniencies of dearth, orders all the dealers to sell their corn at what it supposes a reasonable price, it either hinders them from bringing it to market which may sometimes produce a famine even in the beginning of the season; or if they bring it thither, it enables the people, and thereby encourages them to consume it so fast, as must necessarily produce a famine before the end of the season. The unlimited, unrestrained freedom of the corn trade, as it is the only effectual preventative of the miseries of a famine, so it is the best palliative of the inconveniences of a dearth; for the inconveniencies of a real scarcity cannot be remedied; they can only be palliated." (WN, 4.v)

Moreover, Adam Smith explains how relying in "mercenary exchanges" is much more effective than to rely on exchanges motivated by disinterested motives:

"But though the necessary assistance should not be afforded from such generous and disinterested motives, though among the different members of the society there should be no

mutual love and affection, the society, though less happy and agreeable, will not necessarily be dissolved. Society may subsist among different men, as among different merchants, from a sense of its utility, without any mutual love or affection; and though no man in it should owe any obligation, or be bound in gratitude to any other, it may still be upheld by a mercenary exchange of good offices according to an agreed valuation.”

By translating repugnance into law or market regulation, the legislator may limit the expansion (the “extent”) of the market, that promotes specialization with its fundamental benefits for society. According to Adam Smith, “the man of system” imposes his own ideal without contemplating its costs:

“The man of system, on the contrary [of the prudent statesman], is apt to be very wise in his own conceit, and is often so enamoured with the supposed beauty of his own ideal plan of government, that he cannot suffer the smallest deviation from any part of it. He goes on to establish it completely and in all its parts, without any regard either to the great interests or to the strong prejudices which may oppose it: he seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess-board; he does not consider that the pieces upon the chess-board have no other principle of motion besides that which the hand impresses upon them; but that, in the great chess-board of human society, every single piece has a principle of motion of its own, altogether different from that which the legislature might choose to impress upon it. If those two principles coincide and act in the same direction, the game of human society will go on easily and harmoniously, and is very likely to be happy and successful. If they are opposite or different, the game will go on miserably, and the society must be at all times in the highest degree of disorder.”

There is a tension between repugnance and efficiency and the prudent statesman should look for a balance:

“The man whose public spirit is prompted altogether by humanity and benevolence, will respect the established powers and privileges even of individuals, and still more those of the great orders and societies into which the state is divided. Though he should consider some of them as in some measure abusive, he will content himself with moderating, what he often cannot annihilate without great violence. When he cannot conquer the rooted prejudices of the people by reason and persuasion, he will not attempt to subdue them by force, but will religiously observe what by Cicero is justly called the divine maxim of Plato, never to use violence to his country, no more than to his parents. He will accommodate, as well as he can, his public arrangements to the confirmed habits and prejudices of the people, and will remedy, as well as he can, the inconveniencies which may flow from the want of those regulations which the people are averse to submit to. When he cannot establish the right, he will not disdain to ameliorate the wrong; but, like Solon, when he cannot establish the best system of laws, he will endeavour to establish the best that the people can bear.”

Considering these moral constraints that could impede certain transactions, Alvin Roth sees an important role for economics: “One of the interesting ways that economics could intersect with sociology...is to try to understand which markets get social support and which prohibitions on markets get social support, and how can we intervene in those things.”

One example of overcoming moral constraints to extend the market by “establish[ing] the best that the people can bear” is Kidney Exchange. In 2019, 29% of kidney transplants in the US were performed with live altruistic donors, 50% of the organs being donated by family members.

Unfortunately, a healthy person's kidney is often incompatible with the intended recipient. There would be more live-donor transplants if any altruistic live donors who wanted to help a loved one in need could do so.

Using tools from Market Design and introducing new developments, Nobel Laureate economist Alvin Roth has helped, and continues to help along with other economists in collaboration with medical professionals, in organizing a marketplace for Kidney Exchanges between internally incompatible patient donor pairs (Bradley et al, 2011). The simplest type of kidney exchange is between two incompatible patient donor pairs. In more complex cases, additional patient donor pairs can be included generating more than 2 kidney transplants.

As highlighted by market designer (and Nobel laureate) Alvin Roth, “we need to understand better and engage more with the phenomenon of ‘repugnant transactions’, which often serves as an important constraint on markets and market design.”

Recent research suggests that individual choices based on repugnance considerations respond in a predictable way to efficiency and to information. In the case of introducing regulated payments for organ donors and their families in particular, the evidence is particularly strong that informing society about the potential benefits of economic incentives does impact the acceptability of this transaction (Elias et al, 2015) and that the gains in efficiency are also valued by people and could make repugnant markets more acceptable (Elias et al, 2019).

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