Chapter 9

Karl Bücher (1847-1930):

The Role of Nonmarket Exchange in Health and Health Care

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9.1 Introduction: The Life and Work of Karl Bücher (1847 - 1930)

Karl Bücher, a historically working economic theoretician, has emphasized economic exchange before the advent of markets. In contrast to the classical economists, of whom he was critical for focusing on market exchange processes, Bücher has considered mainly that part of economic behavior which constitutes exchange without a market. As he has noted, nonmarket economic behavior accounted for a large part of the economy in its earlier stage of development. His illustration of nonmarket behavior includes such phenomena as the gift relationship, borrowing and lending of goods and services, and labor provided in exchange for future help. These kinds of nonmarket exchange are characterized by a give-and-take relationship and should therefore be distinguished from actions born out of altruism. In line with von Thünen's and Gossen's work, Bücher held that nonmarket economic behavior is grounded in the principle of marginal utility. His observations and interpretation of nonmarket exchange are included in this book because of the relevance of nonmarket arrangements in health care. The issue of nonmarket exchange in health care has become all the more important with the gradual collectivization of this sector.¹

Bücher's name is neither an entry in The Encyclopedia Britannica of 1997, nor in The Brockhaus Enzyklopädie of 1966, but he is included in the Brockhaus Konversations-Lexikon of 1892, which was published during his lifetime, as well as in the New Palgrave and in the International Encyclopedia of the Social Sciences. Bücher studied history, political science, and classical philology in Bonn and Göttingen, worked several years for the Frankfurter Zeitung and held chairs in Dorpat, Basel and Leipzig.² He was familiar with the English, French and German literature in economics of his time.³ Besides his major works Development of the Economy, Contributions to Economic History and Work and Rhythm he published various monographs on labor conditions, the position of women, tax regulations, bookbinders, organizations of the handicrafts such as guilds and other forms in German towns of the Middle and High Middle Ages.⁴ During his lifetime, he gave lectures at meetings of local organizations of industry and

¹ A particular outgrowth of this literature is the work of the Tidmus School at York University.
³ See for instance the catalogue of his library at the University of Kyoto: Katalog der Karl Bücher Bibliothek in der Wirtschaftswissenschaftlichen Fakultät der Universität Kyoto. Kyoto. 1970.
handicraft upon invitation, and was frequently asked to write expert opinions. On the basis of his work, many doctoral theses have been written.\(^5\)

In *Development of the Economy* (op. cit.) and *Contributions to Economic History* (op. cit.) he showed the transition from a primitive society with no market exchange to a higher developed society in an exchange economy. In antiquity with production mainly taking place in the household ("oikos") there was almost no market exchange. To some extent, market exchange took place in the town economy of the Middle ages, but production had still very much the purpose to create an object of value for own use. Out of the earlier stages, the market economy ("Verkehrswirtschaft") developed which in comparison to earlier forms has the highest degree of market exchange. While Bücher has focused on nonmarket forms of exchange before the advent of markets, he has also shown that in the market economy next to the market other forms of exchange exist which are based on nonmarket transactions.

*Work and Rhythm* (op. cit.) was very popular at the time Bücher wrote. As he has noted in the preface to the fourth edition, he hit upon the subject of music, songs and poetry of laborers when working on older forms of labor cooperation. (1909. Leipzig and Berlin: Teubner). He has observed that music would enhance the productivity of people, and even makes animals work harder. In the book, he questioned why there is a division between play, sports, and movement for health-related reasons on the one hand and work, typically seen as a burden, on the other. A person from a primitive culture does not make the difference between play and work, but performs work according to need ("Bedarfsarbeit"). (Bücher, op. cit., p. 5). The work effort results not only in owning a certain good, but work itself brings along pleasure and satisfaction. Technical means are imperfect and the work processes are long. Despite these circumstances, the products, usually intended for long-term use, often consist in works of art. Bücher found that creating art is a means to overcome the burden of work, but even more important is dance. (Bücher, op. cit., p. 16). In studying music of laborers, Bücher has observed that the work rhythm determines the rhythm of the songs at work and that sometimes two, three, or even more, laborers work together to make a rhythm possible, even if each one of them pursues his own goal. Singing has an even stronger productivity-enhancing effect than dancing, in particular if a social duty requires people to work together on the same goal.\(^6\) In particular in small villages it often was a social duty of neighbors to help each other with work on the fields, building homes, work in the home, in case of illness, or at harvest time, when the work could not be delayed.

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\(^5\) Lectures and industry studies leading to expert opinions, as well as the work of his doctoral candidates are available at the Karl Bücher estate of Kyoto University.

\(^6\) According to Alchian and Demsetz, team production requires costs of monitoring and control. Although Bücher has not made this explicit, he discovered a method of control in team production, as working together according to a rhythm is a method of minimizing costs of monitoring and control. See Armen A. Alchian and H. Demsetz. 1972. "Production, Information Costs, and Economic Organization." *American Economic Review* 62, pp. 777-795.
Bücher has observed that nonmarket exchange relationships in the sense of what might appear as unilateral voluntary behavior and therefore outside the realm of economic analysis is, in fact, bilateral exchange. This exchange is based on mutual advantage made possible by social norms, where the legal order could not bring about feasible results. These institutions such as voluntary labor exchange ("Bittarbeit") are therefore within the scope of economics. In various sections of his work, Bücher has analyzed the exchange of goods, services, productive capital and labor, which takes place outside the market. This will be the subject of the next section (9.2), followed by a discussion of the relevance of his contributions for health economics today (section 9.3), and a summary and conclusions (section 9.4).


Bücher placed particular emphasis on the study of gift giving, borrowing and lending, and labor exchange. He built on a well-established tradition in German economic theory. Already von Thünen pioneered the idea of gift-giving through his will. In his will, von Thünen gave almost his entire estate to his farmhands as a gift. It provided them with a basis for living and the possibility to build up future capital. In return, he expected the children of the beneficiaries to be better educated, to the benefit of their proficiency in agriculture or other pursuits and as mature citizens.

Bücher was aware of the formulation of the principle of marginal utility by Gossen and von Thünen and applied it in order to explain the phenomena of nonmarket exchange. (1919, op. cit., p. 23, note 1). By marking the following quotes, Bücher has emphasized the principle of marginal utility in his personal copy of von Thünen's Isolated State.

At the border of the cultivated land of the Isolated State, where the ground does not yield rent, and the revenue of the estate is limited to the interest borne by buildings and standing capital, the effect of an increase of the labor wage will be that the land rent will become negative, i.e. fall below zero (p. 68). Herein is the reason revealed for such an important phenomenon of our future investigation: that each unit of newly invested, additional capital will bear smaller rents than the one invested earlier (p. 99).
Being the successor of Roscher in Leipzig, Bücher continued in the same tradition. Roscher had pointed towards the production and exchange of goods and services without the use of money. In what was meant as a remark on the side, he described networking in the lower classes as an economic phenomenon.

The network of help of family members and in particular the help of friends and neighbors is admirably strong in the lower classes. It is more than likely that the kind of help provided by these circles is by far higher in value than the charitable care provided by the higher classes. This is not only true with respect to the ability to help, but also in absolute terms. It is most likely that the value of this mutual support is by far higher than that of the so much appraised charities and gifts of the wealthy.

In going beyond Roscher's work, Bücher developed a theory of reciprocal exchange taking place even in the absence of a market. He considered cases of mutual support as examples of such exchange relations.

The nonmarket forms of exchange described in the first chapter of Bücher's *Development of the Economy (Die Entstehung der Volkswirtschaft. II.)* are "Gifts, Borrowing and Lending of Goods or Capital and Labor Provided in Exchange for Other Labor." He has shown how gaps in the own provision lead to nonmarket exchange in
an economy, where markets for monetary exchange are lacking.

These phenomena always belong to the early time of the closed house economy. If gaps in the own provision occur, one endeavors to get from other economies, what one does not own, but what one desires for the one or other reason. In the case of goods, depending on the nature of the goods, this leads either to the gift relationship or to borrowing and lending. In the case of labor input it leads to the provision of voluntary labor (in response to a request). In all of these cases it is not about receiving something without giving anything in return. Instead, this is giving with the purpose to receive something else in return, the amount of which one can determine up to a certain extent.\textsuperscript{13}

The decision for exchange is made by groups of people striving for a common goal, but they are often represented by one person initiating the exchange. Bücher has distinguished among the core family, the extended family, sometimes called "the house," and the tribe. He has illustrated how gift-giving among natural tribes leads to exchange.

The gift relationship is very important among natural tribes ... Not only food is shared voluntarily very often and never denied to the hungry anyway, but frequently, all kinds of implements and utensils are turned over to others. These gifts, however, are not handed over while abandoning any claim of response, but under the expectation of a gift in return, with the person bestowing the gift in the first place having a say in the characteristics of what specifically he will receive back in return.\textsuperscript{14}

While altruistic motives are not the primary motives, they might play a certain role.

\textsuperscript{13} Volkswirtschaft. II. Tübingen: Laupp'sche Buchhandlung, pp. 1-26. The original German quote reads as follows: "Immer aber gehören diese Erscheinungen der Frühzeit der geschlossenen Hauswirtschaft an. Wo man Lücken in der Selbstversorgung verspürt, wird das Streben lebendig, von anderen Wirtschaften zu erlangen, was man selbst nicht besitzt, aber aus irgendeinem Grunde begehrt. Bei Sachgütern greift man je nach der Natur der gewünschten Güter zur Schenkung oder Leihe, bei Arbeitsleistungen zur freiwilligen Hilfeleistung (Bittarbeit). In allen diesen Fällen handelt es sich nicht um ein Erlangen ohne Gegenleistung, sondern um Hingabe mit dem Zwecke, dafür anderes zu gewinnen, dessen Betrag man bis zu gewissem Grade selbst zu bestimmen vermag." 1922, II, \textit{op. cit.}, p. 4.

\textsuperscript{14} "Die Schenkung spielt unter den Naturvölkern überall eine große Rolle.\textsuperscript{1}) Nicht nur das freiwillige Mitteilen von Nahrungsmitteln, das nirgends dem Hungrigen versagt wird, sondern auch die Hingabe von allen Arten von Gebrauchsgegenständen kommt überaus häufig vor. Aber diese Schenkungen sind niemals unter Verzicht auf jede Erwiderung gemacht, sondern in der Erwartung einer Gegengabe, über deren Beschaffenheit der Schenker mitbestimmen kann." 1922, II, \textit{op. cit.}, p. 4.
This kind of gift relationship does not result from pity and mercy on the one hand, or need and poverty on the other; no religious or moral duty has to be fulfilled; it originates solely from the attempt to gain the favor of the receiver and to obtain benefits from it. At this stage of development, the gift originates from egoistic motives; it is nothing else but a means to reach, what one wants and strives for, although altruistic motives might play a larger or smaller supporting role.\(^\text{15}\)

Bücher has pointed out that the gift is intended to set off an exchange which would help to relieve a gap in provision faced by the giver.

It is in particularly significant that the gift at this stage of development is not initiated by the one who has an excess of means of which he wants to make others aware of, but by the one who is facing a gap and who is looking for a remedy to overcome that shortage. Despite this intention, the gift leads to a feeling of satisfaction on the side of the receiver, because it comes unexpectedly and because never there exists a legal claim to a gift.\(^\text{16}\)

When a gift is expected and not received, then a feeling of dissatisfaction will result. Bücher has noted that a gift will usually come unexpected and without being asked for in order to create an introduction for future businesses act that had otherwise not taken place. A gift is transferred in order to initiate a business contact, but a gift unwanted or of low quality can be returned for a more suitable gift in order to start an exchange. Bücher has described the control mechanism in the gift relationship as follows:

Rejection of the gift would be a serious insult to the giver; acceptance of the gift will always oblige the receiver to confer a gift in return, and the gift relationship is only definitive when the first giver has expressed satisfaction with what has been passed over to him in exchange for his original gift. Up to that point, the

\(^{15}\) The original German quote reads as follows: "Wir haben es also bei dieser Art der Schenkung nicht mit Mitleid und Barmherzigkeit auf der einen, Mangel und Dürftigkeit auf der andern Seite zu tun; es wird keine religiöse oder sittliche Pflicht mit ihr erfüllt; sie entspringt vielmehr allein dem Streben, die Gunst des Empfängers zu erwerben und von ihr für sich Nutzen zu ziehen. Es entsteht also das Geschenk auf dieser Stufe der Entwicklung aus eigensüchtigen Beweggründen; es ist nichts weiter als ein Mittel, das zu erlangen, was man wünscht und erstrebt, wobei die Mitwirkung altruistischer Motive immerhin in größerem oder geringerem Maße vorkommen mag." 1922, II, op. cit., p. 6.

\(^{16}\) The original German quote reads as follows: "Da ist es nun besonders bedeutungsvoll, daß die Schenkung dieser Entwicklungsstufe nicht von demjenigen ausgeht, der Überfluß hat und ihn einem andern bekundet, sondern von demjenigen, der Mangel hat und auf diese Weise zur Beseitigung desselben gelangen möchte. Trotzdem erweckt sie Seiten des Beschenkten das Gefühl der Befriedigung, weil sie unerwartet kommt und niemals ein Rechtsanspruch auf das Geschenk besteht." 1922, II, op. cit., p. 6.

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Hospitality is a special case of the gift relationship. In return for the gift, the guest is allowed to travel freely through the territory, and receives protection by the host. (1922, II, op. cit., p. 8).

Bücher has noted that exchange is a characteristic of both, gift-giving as well as borrowing and lending of tools, machinery, and other productive capital. In some cases, slave labor was also subject to borrowing and lending.

In contrast to a gift which refers to the act of conferring a subject permanently into someone else's property, lending means the temporary transfer of use to another person under the provision that the good will be returned undamaged. This provision is likely to be fulfilled, if the lender, in need of something himself, asks the borrower of the good for whatever he is lacking. Among people who lead a simple lifestyle, borrowing and lending can be observed as a custom around the entire world. ... The reason that Roman jurists have so carefully created and treated the contract form of Commodatum is most likely that in the common life next to the overwhelming type of monetary exchange the borrowing-for-use relationship was also fairly important.

As Bücher has pointed out, borrowing and lending is based on custom and was important as an early type of credit. It is not an abstract credit based on money. Rather, as in today's Islam it is a credit based on a particular purpose, an activity, or a function, and it is embodied in an asset that reflects this purpose such as a ship. These embodied credit relationships require norms in order to be credible. Moral hazard needs to be avoided. These norms as they develop are tied to those specific customs.

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17 The original German quote reads as follows: "Ihre Ablehnung [der Schenkung] wäre eine schwere Beleidigung des Schenkers; ihre Annahme verpflichtet den Empfänger unbedingt, und das Geschenk ist erst dann endgültig abgeschlossen, wenn sich der Schenker mit der Gegengabe zufrieden erklärt hat. Bis dahin ist auch das Anfangsgeschenk widerruflich." 1922, II, op. cit., p. 7.

18 The original German quote reads as follows: "Bezeichnet das Geschenk die dauernde Hingabe einer Sache zu fremdem Eigentum, so ist die Leih[e]e eine zeitweise Überlassung zum Gebrauche unter der Voraussetzung unversehrter Rückgabe; sie mag vielleicht darin gefunden werden, daß der Darleiher im Bedarfsfalle seinerseits den Empfänger des Leihguts wieder um eine ihm fehlende Sache in Anspruch nimmt. Sie findet sich als Sitte auf der ganzen Erde unter einfachen Verhältnissen. ... Daß die römischen Juristen die Vertragsform des Commodatum so sorgfältig ausgebildet und behandelt haben, hat wohl darin seine Ursache, daß im gewöhnlichen Leben neben dem alles beherrschenden entgeltlichen Verkehr auch die Gebrauchsleihe noch eine recht große Bedeutung gehabt hat." (1922, II, op. cit., pp. 11, 12). In Rome, both, renting of slaves in exchange for monetary compensation and borrowing and lending of slaves were common. 1922, II, op. cit., p. 12.
techniques, and purposes, and perfected thereupon. This process of perfection is an evolutionary process and can yield superior business practices. However, as Schmoller has pointed out in his discussion of these issues, the superiority comes at a price. "Over time, flexibility gets lost due to the rigidity of law and social customs."¹⁹ Societies based on these embodied credit institutions experience difficulties with entrepreneurship and technical change.

A special form of borrowing and lending discussed by Bücher is labor provided in exchange for future help ("Bittarbeit"). "It is similar to the gift, and also to borrowing and lending where in return of a performance a counter performance is expected, and in all of these cases a precise counter deliberation is not possible..."²⁰ as the issues involved are not commensurable. Hence, the incentive for a high-quality performance lies in the reciprocity of the relationships.

Bücher has shown that in all cases of nonmarket forms of exchange the value cannot be determined easily. This does not cause a problem, because due to the reciprocal relationships all potential participants are motivated to deliver a high quality performance. If they do not follow the social consent as expressed by the social custom they will be faced with sanctions such as unfriendliness in their immediate environment and exclusion from future exchange.

In modern economic terms, the attention shifted from social customs to social norms which are at the basis of social customs and important determinants of our behavior.²¹ Social norms are defined as rules, which are complied with, although they are neither promulgated by any legal source, nor legally enforced. What are the incentives for obeying social norms? As Bücher has pointed out, fear of ostracism is an incentive to follow social norms. Ostracism refers to the refusal of other group members to let an individual participate in any advantageous transactions. The incentive to the ostracizer is to avoid future costs from dealing with the norm breaker. In this sense his or her behavior might privately and socially be cost-justified. An additional incentive to obey social norms becomes important in Bücher's analysis. Social norms are self-enforcing, when norm compliance confers private benefits. An example includes complying with those sets of rules, which govern gift exchange, and borrowing and lending. The norms surrounding those exchanges are too subtle to be backed by law as a precise counter deliberation of the values is not possible. In this case self-selection is present, because the parties have accepted to participate in the exchange and along with it agreed to the

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¹⁹ In the original, this reads as follows: "Die Anpassungsfähigkeit geht aber durch die Starrheit von Recht und Sitte stets mit der Zeit verloren." Gustav Schmoller. 1923 (2). *Grundriß der Allgemeinen Volkswirtschaftslehre*. First Part. (Blueprint, I). Munich, Leipzig: Duncker & Humblot, p. 53.

²⁰ The original German quote reads as follows: "Sie gleicht darin dem Geschenk und am Ende auch der Gebrauchsleihe, daß jedesmal bei ihnen der Leistung die Erwartung einer Gegenleistung gegenübersteht und daß in allen Fällen eine genaue Wertabwägung nicht möglich ist." 1922, II, *op. cit.*, p. 17.

social norms governing this behavior. In this case, social norms are likely to be obeyed, because the private costs of complying are low and the benefits are substantial.

Bücher clearly distinguished “social custom” from law. In studying the transition of societies, he has pointed out that “help among neighbors as far as I can see has never been regulated by law. But help among neighbors is thoroughly rooted in the social custom.” If the common consent as expressed by the social custom is replaced by law then nonmarket forms of exchange may become different and even cease to exist. The historical institutions of gift exchange and voluntary exchange of goods, services, and labor in some cases have developed into forms of taxation customs duties and futile liens with the emergence of the tax state.

In the next section, we will look at the relevance of Bücher’s analysis to health care. The question arises whether we can observe the element of exchange in nonmarket phenomena of health care.

### 9.3 Nonmarket Exchange in Health Care

As Bücher has pointed out, the exchange of performances can regulate behavior in a nonmarket environment. In modern economies, economic life is typically coordinated by markets and regulated by law, but there are still important sectors where other mechanisms are present. Health care is an outstanding example where charity plays a role.

In his contributions to *Economic History (op. cit.)*, Bücher has given the example of the Beguines who joined a lay sisterhood and were devoted to a religious life, but did not belong to an approved religious order. The Beguines first appeared in the beginning of the thirteenth century in Belgium, and later spread to the Netherlands and Germany. Bücher has described them as a group of women who could not get married. They lived together and it was the city’s duty to protect them. In return, the lay sisters performed good deeds and charity, preferably in health care. The Beguines came from the upper class, later middle class. They were rich and had a considerable influence in the city. Help was performed as a reciprocal relationship, a condition under which

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22 In the original German quote this reads as follows: "Nirgends ist die Bittarbeit, soweit ich sehen kann, durch Gesetze geregelt worden. Aber sie ist in der Sitte fest verankert." 1922, II, *op. cit.*, p. 17.

23 In the original German quote this reads as follows: "Under certain conditions, the gift relationship becomes a tax and customs duty, and voluntary labor exchange becomes servitude." The original quote reads as follows: "Der Schenkung entwachsen unter bestimmten Verhältnissen Steuer und Zoll, der Bittarbeit die Fronde." 1922, II, *op. cit.*, p. 18. According to Bücher, such conditions could involve an unequal distribution of the land, or if the common consent is turned into law.

24 Karl Bücher. 1922. *Beiträge zur Wirtschaftsgeschichte*. II. Tübingen: Laupp'sche
according to Bücher a high quality of goods and services will be provided.

The modern political discussion of health issues often centers between legal regulation and the market as governance principles of health care. The third alternative as proposed by Bücher, mutual support based on reciprocity, has often been overlooked. It is the purpose of this section to see whether a niche could be identified that allows for nonmarket exchange in health care.

The issue of quality is crucial to blood donations. Low-quality blood and blood borne diseases such as HIV/AIDS are a challenge to transfusion medicine in the United States. The nationwide, blood collection and distribution system of the United States consists partly of voluntary and partly of commercial donors. As a consequence of self selection, the pool of commercial donors has a higher degree of poor (contaminated) blood than the pre-selected voluntary donors provide. For instance, if there is a blood drive among a particularly healthy segment of the population, the sample is different from people who walk in from the street and give blood for a small monetary reward. While the solution to the problem of low quality blood donated has been looked for in the development of antibody testing and other medical advances, the organizational shortcoming has been overlooked. According to Bücher's theory, the crisis of low blood quality could be solved if one would introduce the condition of reciprocity into blood donating, for instance if a person in exchange for donating blood would receive regular health check ups for free. Under the current American system, the donor remains anonymous, because he or she cannot get a response from the receiver of the blood and will typically not be involved in a future exchange such as a regular health check up. Someone who has donated bad blood will not see the consequences of his action. If reciprocity could be employed in the process, for instance in a nonmarket exchange, then the quality of the blood donated would probably increase.

Fundraising is an important aspect of the health care industry. If a company wants to promote its brand in conjunction with a good cause, such as a charity, then the condition of reciprocity differs from the cases Bücher has discussed. In their marketing efforts, some companies try to reassure consumers that the businesses they patronize are willing to share their profits with charities, or community-related causes. Here, the benefit to the donor neither stems from the response of the direct receiver such as the charity, nor the ultimate receiver such as the patient to be cared for, but consists in the act of giving which yields a reputation that will distinguish the company from others. Major gifts are regularly donated in the areas of health care, education and the arts. Donation of major gifts is an industry by itself. The institutions and people receiving major gifts focus on the exchange relationship. It is the task of the fundraiser to find out what makes the exchange attractive to the major donor. The challenge of this professional's position is to create an exchange. Incentives a fundraiser can use is to provide a donor with the social status and tax-exemptions. It will also be his or her duty to determine the size and form of the gift the charity should aim for. This can be a difficult task, for instance if the gift is given in shares and depends on market revenues. To a donor interested in an exchange it is important to have a good estimation of the

Buchhandlung, p. 277.
value of the gift in terms of the value of the shares, etc. in order to present it in the company's reports.

Bücher's analysis explains the exchange taking place in fundraising from a positive point of view, but does he also give a hint for the question whether fundraising for charities such as a medical center is justified from a normative point of view? Here, the positions of a welfare state advocate favoring government funding of health care drift apart from someone who takes a more liberal stance. For instance, the welfare state advocate argues that charities lack ultimate accountability to the electorate, thereby creating the danger of arbitrariness. This position ignores that only in a direct democracy ultimate accountability is given by way of a referendum. Further arguments against fundraising include that private charities often take a piecemeal approach without the possibility of recourse and that funds of charities are often insufficient. In order to add to the funding, special interest charities often get government subsidies. The more liberal politician would respond that due to the constraint of scarce resources government funding can also lead to a piecemeal approach, and that charities often work with tax brackets instead of government subsidies, thereby not reducing government funding but adding to it. An additional point of the welfare state advocate is that receiving charity can undermine the dignity of someone, who has to regard himself as the recipient of charity, rather than as a citizen whose rights include the right to health care. (Ackerman, op. cit., p. 428.) Here, the liberal will mention the availability of health insurance and a minimum safety net provided by government for people with insufficient funds on their own. While we cannot refer to Bücher for normative guidelines in this controversy, we can still refer to his lesson from a positive point of view. In modern welfare states, the possibility of creating an exchange relationship in health care in order to create a high quality service or product should not be overlooked. While fundraising for charities in the health care sector has shortcomings on the normative side, from a positive point of view it can add to government funding rather than distract from it.

Nonmarket exchange is based on social custom. As Bücher has observed, nonmarket exchange might cease to exist if laws are introduced which replace the social custom. Similar observations can be made with respect to modern health care and are the topic of a book written by Richard A. Epstein who looked for unintended consequences of government regulation. Epstein assumed altruistic behavior, but has not made explicit the element of exchange that can be involved in nonmarket transactions. He gave the example of hospitals, which occasionally have admitted patients with insufficient funds to emergency rooms. If those hospitals were required by law to admit all patients to emergency rooms, then at least some of them would be forced to close down for financial reasons. This, however, would lead to a reduction in the long-term supply of emergency rooms, and is thus contrary to the intentions pursued. (Epstein, 1997, op.

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A problem of undersupply might result if one relies entirely on donations which are based on altruism, even if this gives the person donating a sense of belonging to a group or the satisfaction of having performed a good deed. An example is the donation of organs for transplants. The current government regulation of the United States allows for donative transactions only. Epstein has illustrated how this practice leads to a persistent shortage of organs.²⁷ The most desirable organs come from people who died in accidents. It is estimated that the demand of organs would be met if all of those organs could be harvested. Currently, only 1/3 of suitable donors actually donate organs, and the number remained stable since about 1983. (Epstein, 1997, op. cit. pp. 240, 241). If the motivations of the donors are altruistic, then the incentive to give may be too weak, and the supply of donations may fall short of the needs of potential receivers. Epstein only saw the aspect of altruism, but did not explicitly recognize the element of exchange in charity. The question here is what incentive can be provided to stimulate the supply of organs.

In order to increase the numbers of donors it has been proposed to introduce a market. As organ transplantation technology has changed, increasing the rate of successful transplantations, Epstein has argued that contracts for the sale of organs should legally be allowed in the United States so that physicians and individuals could take advantage of it. While a market could remove the imbalance between organ supply and demand, there are several objections that prevent its introduction. From a normative point of view, the dignity of low income participants might be affected. There is the concern that organs of low quality might be offered from people who are pressed for money and the fear that this market will be open to criminal behavior. Furthermore, when asked whether the market or charity is the preferred alternative, physicians tended to choose the charity mechanism to deal with the constraints of scarce resources, while economists clearly preferred the market as a means of allocation.²⁸

As an alternative to a market for organs, as well as to the system of voluntary donations of organs, a type of nonmarket exchange of organs has been discussed which resembles the case of gift exchange as described by Bücher. An example of this proposal is the following:

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²⁷ The numbers of organs needed for transplant show a strong increase over time: in the US, there was a shortage of almost 14000 kidneys in 1988, the number increased to about 34000 in 1996. Similarly, the need for hearts increased about threefold from 1030 to 3706, as well as that for pancreas from 163 to 319. The shortage for livers and lungs was 616, resp. 69 in 1988 and showed a much stronger increase than the numbers for kidneys, hearts, and pancreas to 7239 resp. 2274 in 1996. Epstein, op. cit., p. 240.

At age 18 (or 21), all men and women would be required, in the presence of a witness, to sign a statement declaring whether or not they are willing to be organ donors. There would be no government pressure to decide one way or the other.

However, one criterion for being eligible to receive a donor organ would be whether or not the individual is signed up as a donor himself. Those who were not willing to donate organs would be placed lower on the waiting list than all individuals, however sick, who had agreed to be donors.29

This plan can be expected to increase the number of donors, because those people who receive preferential treatment should an organ transplantation be required would have to be listed as suitable donors.

9.4 Summary and Conclusions

In his work Bücher has focused on exchange based on nonmarket transactions in the market economy. He has also analyzed nonmarket forms of exchange before the advent of markets. In studying nonmarket phenomena, Bücher built on a well-established tradition in German economic theory. Already von Thünen pioneered the idea of gift-giving through his will and Roscher, Bücher’s predecessor, has pointed towards the economic importance of nonmarket exchange.

Bücher has shown how gaps in the own provision lead to nonmarket exchange in an economy, where markets for monetary exchange were lacking. He placed particular emphasis on the gift relationship, borrowing and lending, and the voluntary exchange of labor. All these forms have in common that the value cannot be determined easily. A set of social norms, Bücher himself speaks of social custom, makes it possible that the exchange takes place. Due to the reciprocal relationships, all potential participants are motivated to deliver a high quality performance. Those participants who do not adhere to the rules are faced with unfriendliness and exclusion from future exchange.

The relevance of Bücher’s analysis to health economics is twofold. On the one hand, his examples can be applied to health care directly. He has observed that in particular in small villages it was often a social duty of neighbors to help each other with work on the fields, building homes, at harvest time, or in case of illness. This was a mutual exchange relationship. He also described the example of the Beguines who performed work in hospitals and health care in exchange for the protection of the city they lived in, so that a mutual exchange situation was given as well. As we have seen above, the condition of reciprocity ensures that a high quality of goods and services will be provided.

On the other hand, Bücher’s analysis of gift exchange, borrowing and lending, and

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voluntary labor is relevant to health economics in an abstract sense. He has delineated reciprocity of exchange as the element that leads to high quality performance in a nonmarket exchange. We have considered four examples in health care, where this element is important. In the case of blood donations, reciprocity could be introduced by setting up a nonmarket exchange. This would probably lead to an increase in the quality of the blood donated. In the case of fundraising in health care, the nonmarket exchange consists in the act of giving which yields a reputation that will distinct the donating company in its marketing efforts from others. The discussion between liberals and welfare state advocates shows that fundraising for charities in the health care sector has shortcomings on the normative side, but from a positive point of view it can add to government funding rather than distract from it. A similar case is the hospital which occasionally has admitted patients with insufficient funds to emergency rooms and which would have to shut down for financial reasons, if it were forced to admit all patients with insufficient funds. The hospital might have accepted indigent persons for treatment because of altruistic reasons or because it wanted to have the reputation of a humane hospital. A law requiring the hospital to take all indigent persons would destroy the underlying exchange process, and the consequence would be less supply of emergency rooms than before. Bücher has shown that nonmarket exchange ceases to exist if legal regulation becomes too strong. In the case of organ donations, nonmarket exchange could be introduced if persons who are willing to donate an organ receive preferential treatment in receiving an organ if they need one. This type of nonmarket exchange could avoid the disadvantages of the market in this area and still increase the supply of organs which under the current system based on altruism is not sufficient.

What are the conclusions to be drawn? Voluntary help provided by friends and neighbors might increase if it is based on a mutual basis. If one could strengthen social norms in health care, then cost-containment might become less of a problem in this sector of the economy; however, there is substantial doubt whether modern social norms allow for enough room for nonmarket forms of exchange as described by Bücher to develop.

References


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