

THE SOCIAL COST OF ADOPTION AGENCIES

JOHN PALMER*

*Centre for Economic Analysis of Property Rights, The University of Western
Ontario, London, Ontario, Canada N6A 5C2*

ABSTRACT

The use of adoption agencies to place adoptable children is compared with a market. The lost consumer surplus to potential adopting parents amounts to between \$45 million and \$1.7 billion per year. In addition, evidence is presented from follow-up studies of adoptions to indicate that social workers do a poorer job of matching parents with children than the market would. Finally, recent trends are surveyed to show that the market for parenthood rights is continuing to evolve despite various barriers to its development.

This is the day they give babies away
With a half a pound of tea
You open the lid, and out pops the kid
With a ten-year guarantee. (Margaret Berry)

Over the last few decades there has been a growing interest among economists, lawyers, and social workers in how society reallocates children from biological parents who might be willing to give up parenthood rights to adopting parent(s) who seek to acquire parenthood rights to one or more children.¹ To date, however, the discussions have been incomplete at best because they have lacked any estimates of the costs to society of using different possible reallocative schemes. While previous studies have been important in drawing attention to the issues involved and in demonstrating which items need measurement to answer the questions raised by the discussions, none has provided any of the requisite estimates.

This paper fills the numerical void which has emerged in a typically emotion-laden area by comparing some of the social costs of adoption agency placements with the costs of using a market to allocate parenthood rights. The first section discusses the lost consumer and producer surplus resulting from the use of non-market adoption agency allocative schemes. The second section discusses some of the possible social costs which might be caused by the negative externalities which could emerge if the market were relied upon to allocate parenthood rights. The third section treats the effects of different allocative schemes on adopted and adoptable children. The fourth and concluding section discusses qualifications to the numbers which emerge

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from the first three sections. The initial discussion is in terms of infants, though this assumption is relaxed somewhat in Section IV.

Throughout the analysis in Section I, the demand curves and supply curves are shown with the assumption that people have no moral objections to a market for the parenthood rights to children. The social costs calculated within this framework can then be traded off against society's aversion to the existence of such a market. In the end, the large social costs indicated from not using a market may be little more than a large tax imposed on a comparatively small segment of society to satisfy the moral preferences of others.

I.

Ignoring the grey² and black markets, it is reasonable to represent the supply function for infants as following the quantity axis at a zero price out to the quantity, X_A , which is currently being placed in adopting homes (see Figure 1). This quantity is forthcoming under current conditions even though the mothers receive no market compensation for their children, presumably because the biological mothers receive some form of non-market compensation for bearing children, or, and more likely, because they choose neither to have an abortion nor to retain the parenthood rights to the child after an accidental conception.

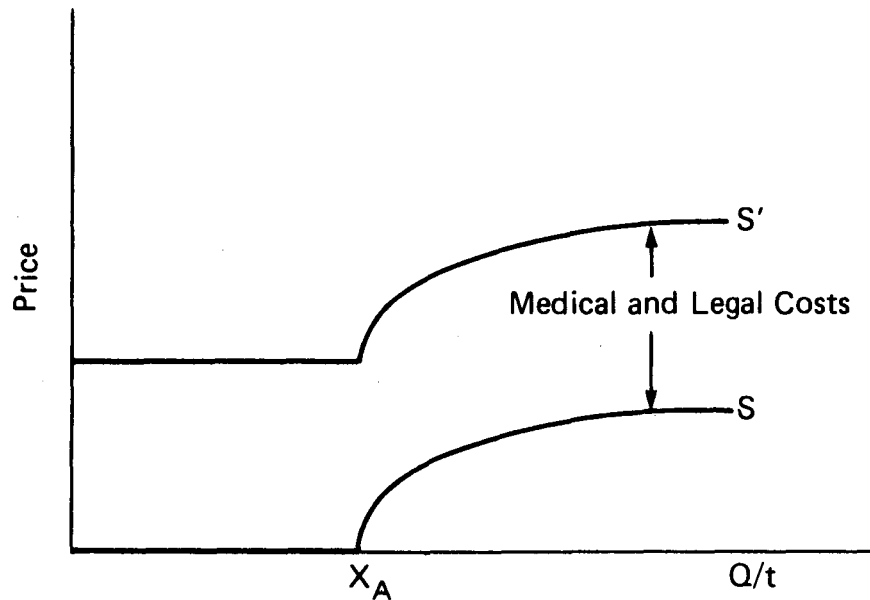


FIG. 1. The supply of parenthood rights to infants

As the price begins to rise above zero, it is unlikely that at low prices many, if any, women would perceive an incentive to conceive a child for the marketplace. Nevertheless, the price elasticity of supply is perhaps somewhat greater than zero because as the price increases above zero, the parenthood rights to some of the children accidentally conceived would no longer be retained by one or both of the biological parents, but instead the children would be put up for adoption.

To move from the realm of accidental to intentional conception for the marketplace would require a price considerably above zero and would also substantially alter the price elasticity of supply. Assuming that the expected opportunity costs to

most mothers in this market might be approximately \$2000³ during the last month or so of pregnancy and after the birth of the child, it seems reasonable to construct the supply curve so that it eventually becomes highly elastic for all relevant quantities, at this price (net of legal and medical expenses).⁴ This supply curve is shown in Figure 1 along with a similar one which is higher by a fixed amount to represent medical and legal costs.

The demand for adoptable infants is represented by a linear demand curve in Figure 2. The lost consumer and producer surplus resulting from the use of adoption agencies rather than the market can be thought of as emanating from two different sources, to be discussed separately. The first occurs because agencies allocate some of the available X_A quantity of children to parents who would be willing and able to pay more than P_A , the price charged by the agencies to cover medical and legal expenses, but less than P_B , the price that would just clear the demand side of the market for that quantity of children. This allocation creates a net loss of consumer surplus to the parents, the amount of which depends on how closely the agencies' placements align with allocations that would occur in the marketplace. If the agency allocations were completely random, they would be spread evenly along the demand curve between points C and H . The consumer surplus generated from the random allocation of X_A children can be represented as the area below the straight line C_A in Figure 2, lying below the demand curve. Triangle ABC represents the lost consumer surplus to the prospective parents from using a random allocation instead of a market.⁵

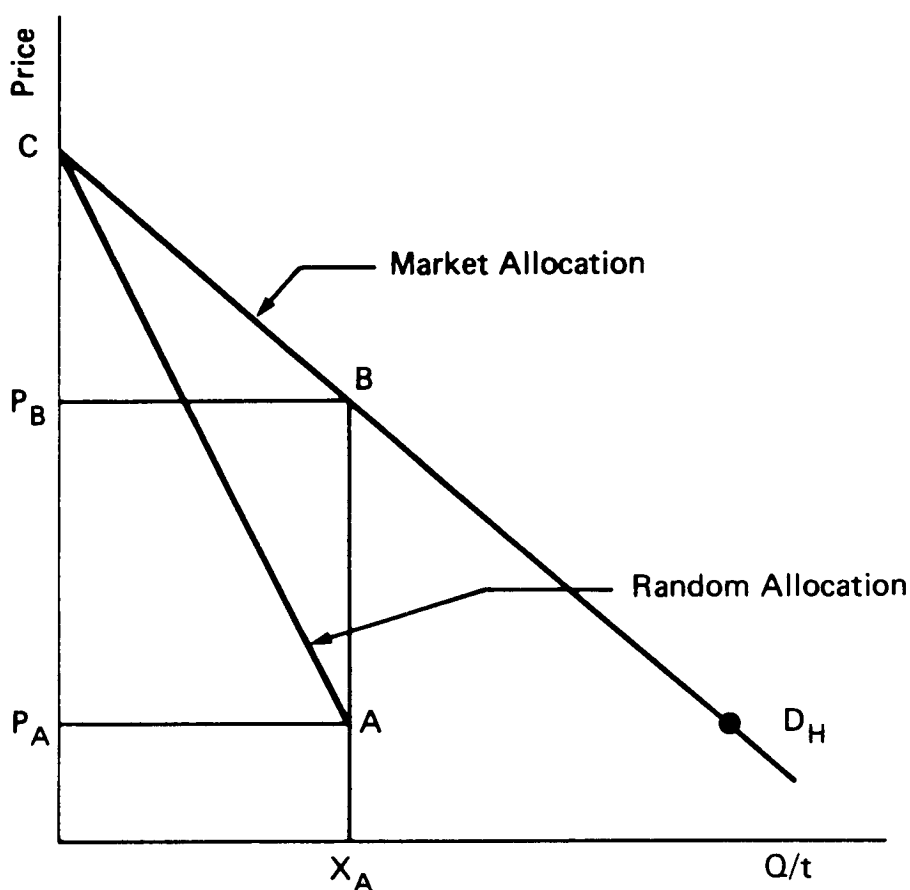


FIG. 2. Market and random allocations

To the extent that agencies are more likely to allocate children to parents willing to pay higher prices, the allocations would lie along a curved line between points *C* and *A* in Figure 3. Such a possibility seems quite reasonable, for one would expect that parents willing but banned by law from purchasing the parenthood rights to an infant would be more likely to devote resources to influencing the decisions of the agency, e.g., by reading more about what factors influence agency decisions, attending meetings, doing volunteer work with children, and acquiring material possessions designed to impress agencies favorably. Perhaps, too, the mere relative intensity of their desire would influence social workers' decisions.⁶ The lost surplus from agency allocation vs. market allocation can then be shown as the entire shaded area, *CMA*, in Figure 3.

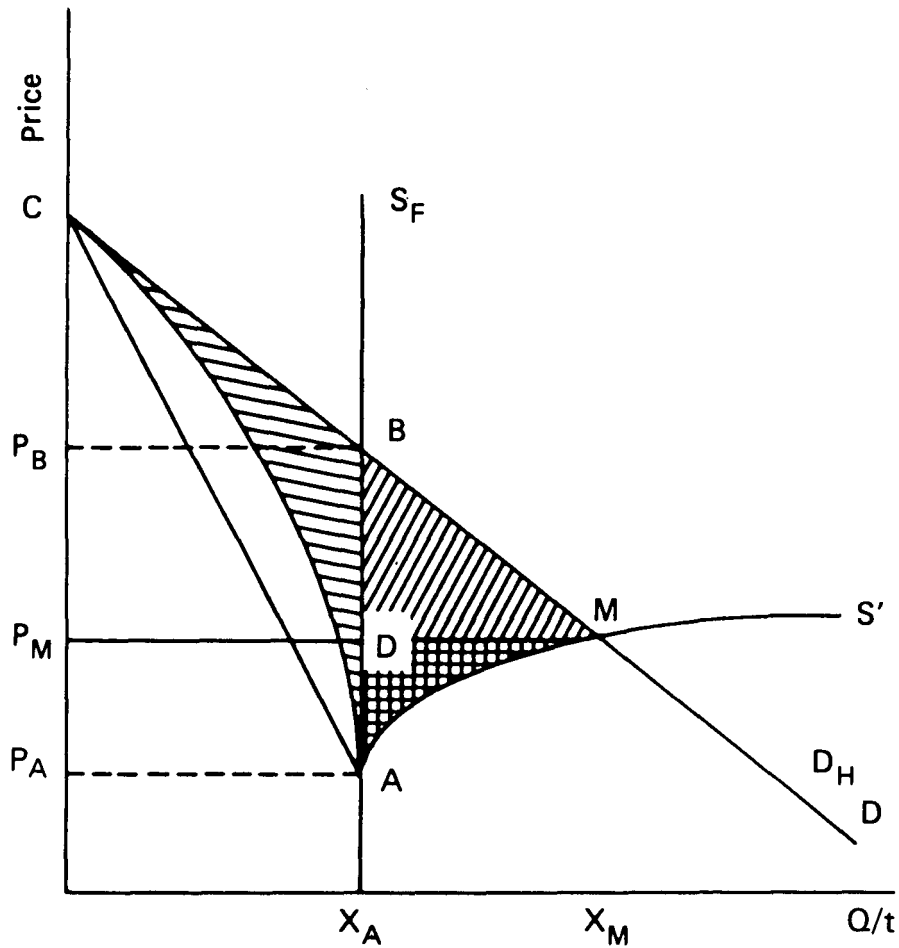


FIG. 3. Lost surpluses

The linear demand curve shown in Figures 2 and 3 can be represented by the equation

$$P = C - \frac{C - P_B}{X_A} Q. \quad (1)$$

One way (though others may be just as good) to represent the agency allocation of children (the bowed curve between *C* and *A*) is

$$P = C - \frac{C - P_B}{X_A} Q - \frac{(P_B - P_A) Q^n}{X_A^n}, n \geq 1, 0 \leq Q < X_A \quad (2)$$

where n is the degree to which agency allocation captures potential consumer surplus. For random allocation, $n=1$, and the children are allocated along the straight line CA . The coefficient n increases as agency allocation captures increasing amounts of potential consumer surplus, and the agency allocation curve between C and A becomes increasingly bowed outward, away from the origin and toward the demand curve. In the limit, n approaches infinity as the agency allocation yields all of the potential consumer surplus, and the agency allocation curve follows the line segments CBA .

The lost consumer surplus from having agency vs. market allocation of the currently available quantity of adoptable infants, X_A (shown as the shaded area in Figure 3 to the left of S_f), is the integral of equation (1) minus the integral of equation (2) evaluated between 0 and X_A , or

$$\int_0^{X_A} \frac{P_B - P_A}{X_A^n} Q^n dQ = \frac{(P_B - P_A) X_A}{n+1}. \quad (3)$$

The value of expression (3) is the area between the angle ABC and the curve CA . In order to attach a value to the area representing expression (3), estimates are needed for P_A , P_B , X_A , and n . P_A , the amount paid by adopting parents to adoption agencies, appears to have been approximately \$3000 in the late 1970s in the USA.⁷ There is also some evidence indicating that X_A , the quantity of children (predominantly infants) placed each year is about 100000.⁸ Estimates of P_B and n would be considerably more nebulous, and so a range of values for each of these terms is considered.

Evidence about what the market clearing price for 100000 infants would be is non-existent; however, tales abound of grey market prices between £5000 and £25000, and of black market prices of \$25000 or more.⁹ These numbers may be excessively high, representing primarily a risk premium for suppliers, or they may be too low, as estimates of P_B , due to the riskiness perceived by the adopting parents of using semi-legal or illegal avenues to obtain parenthood rights to a child. The fact that people have been willing to pay between \$10000 and \$25000 for surrogate mothers to be artificially inseminated and give birth to a child for them suggests that such prices are not an unreasonable estimate of P_B , though the people willing to pay that much may in fact represent the portion of potential demanders willing to pay more than market prices. Also, it is not clear to what extent this price, typically paid to an attorney as a legal fee, is presently tax deductible. In the ensuing discussion of social costs, values of 7, 12, and 23 thousand dollars will be used for P_B in expression (3).

Similarly one has no way of knowing how closely agency allocation replicates the market result, but the existence of grey and black markets strongly implies that n is less than ∞ . Furthermore, to the extent that prospective parents devote resources to currying favor with adoption agencies (having the effect of increasing n), a different type of social cost is created.¹⁰ The agencies may create more consumer surplus by increasing n , but there is a partially offsetting cost in the form of resources used in ways they would not otherwise have been used. Letting $n=10$ would bring the curve CA up very close to the demand curve, and hence seems extreme on the high side. Other values used for n in the discussion of costs are 1 and 5.

Table 1 indicates that even in the unlikely case of a market clearing price for the parenthood rights to presently existing children that would be fairly low and even if adoption agencies allocated children fairly closely to the parental demand curve, the lost consumer surplus per year would be quite large (for $n = 10$ and $P_B = \$7000$, the loss in the USA in the late 1970s would have been \$36.4 million per year). This loss is due to the non-market allocation of the fixed quantity, X_A , of children.

Table 1. Some of the lost parent surplus (in millions of dollars)

$P_B =$	$n =$	1	5	10
\$7000		200	66.7	36.4
12000		450	150	81.8
23000		1000	350	190.9

The second type of loss arises because legal restrictions on the market for parenthood rights artificially reduce the number of children available for adoption. If biological mothers were paid for their rights to be parents of adoptable infants, some children for whom parenthood is now retained by their biological mothers would be available for adoption, and additional children would be conceived specifically for the adoption market. The value of this second type of loss is the area ABM in Figure 3. The lost consumer surplus is BDM and the lost producer surplus is ADM . It will be assumed throughout that area ADM is negligibly small, hence the estimates of social costs are biased downward (area $P_M P_A A D$ is a transfer, not a loss). Evaluating E , the price elasticity of demand, at P_B and X_A , the area of BDM is

$$BDM = \frac{(P_B - P_M)^2 E X_A}{2P_B}. \quad (4)$$

In addition to values for P_B and X_A , values for P_M and E are necessary to determine area BDM . P_M is the sum of medical and administrative expenses plus the amount received by the biological mother. As was assumed earlier, the amount received by the biological mother in a competitive market might reasonably be approximated as \$2000 and the medical and administrative expenses in a competitive market should be close to P_A , or \$3000, yielding a sum for P_M of \$5000.

One of the best proxies for E in terms of opportunity costs is the elasticity of demand for children with respect to the female wage rate. De Tray has observed that this elasticity is 0.3 using *OLS* and 0.8 using *TSLs*. Ashenfelter has expressed considerable doubt about the reliability of the De Tray estimates.¹¹ Table 2 presents the values for expression (4), letting E take on values of 0.3, 0.8, and 1.0, and letting P_B as before take on values of 7, 12, and 23000 dollars.

Even if adoption agencies maximize the generation of consumer surplus based on the number of children available to them, a welfare loss of at least 8.6 million dollars per year is caused anyway because legal restrictions on the sale of parenthood rights create a disincentive to produce children and/or exchange parenthood rights to them.

With agency allocation, the surplus generated would be the area $P_A A C$ of Figure 3; with market allocation, the surplus generated would be $P_A A M C$. The difference is the shaded area, $A M C$, and can be approximated (ignoring the lost producer surplus $A D M$) by summing the values in Tables 1 and 2.

The numbers in Table 3 represent impressive, and possibly staggering social losses. Using numbers which are heavily biased toward minimizing the social loss caused by adoption agencies relative to a market, the annual welfare losses to parents would amount to approximately \$45 million; and the losses could arguably be ten, 20 or even 40 times as much.

Table 2. Some more of the lost parent surplus (in millions of dollars)

$P_B =$	$E =$		
	0.3	0.8	1.0
7000	8.6	22.9	28.6
12000	61.3	163.3	204.2
23000	211.3	563.5	704.4

Table 3. Lost parent surplus (in millions of dollars)

$P_B =$	$E = 0.3$			$E = 0.8$			$E = 1.0$		
	$n = 1$	$n = 5$	$n = 10$	$n = 1$	$n = 5$	$n = 10$	$n = 1$	$n = 5$	$n = 10$
7000	208.6	75.3	45.0	222.9	89.6	59.3	228.6	95.3	65.0
12000	511.3	211.3	143.1	613.3	313.3	245.1	654.2	354.2	286.0
23000	1211.3	561.3	402.2	1563.5	913.5	754.4	1704.4	1054.4	895.3

II.

One oft-stated reason for eschewing the market in favour of adoption agencies to allocate parenthood rights arises from the position taken by many social workers that if children are carefully placed in adoptive homes, the reduced social costs arising from externalities such as crime and/or mental illness will more than make up for the other social costs of not using a market. It is, of course, difficult to compare the outcomes of adoptions via agencies versus the market since there is not a ready market available generating data for such a test. Nevertheless, studies of adoption outcomes do provide some useful data which can at least provide an inkling of the comparative outcomes.

In a follow-up study of adoption, social workers interviewed the parents and children in homes in which children had been placed by adoption authorities approximately seven to fifteen years previously.¹² Among other things, the interviewers rated the overall outcome of each adoption on a four-category scale of low, fair, good, and superior. One would expect that a majority of the adoptions would be rated good or superior for two reasons. First, it would be surprising if most family relationships, adoptive or not, were rated only low or fair. Second, in each of these situations, the adopting homes were presumably interviewed and screened prior to the adoption so that many of the potential adoptions which might not have worked out very well were not allowed to proceed in the beginning. Of the 250 families studied, the global rating on the adoption outcome was 23 low, 72 fair, 116 good, and 39 superior.

Each placement was also retroactively assessed 'ex ante' by having different researchers examine

. . . information about the child's background, characteristic problems, etc., and on the prospective parents' potential for enhancing his development and adjustment. . . . The raters attempted to determine the appropriateness of the placements on the basis of the above considerations and on the case record data available about parents and child up to the point of legal adoption. Their ratings correlated with the global rating of adoption outcome, as depicted in Table [4] (p. 109).¹³

Table 4. Appropriateness for the child of the adoptive placement by global rating on adoption outcome

<i>Rating on appropriateness</i>	<i>Global rating</i>				<i>Total</i>
	<i>Low</i>	<i>Fair</i>	<i>Good</i>	<i>Superior</i>	
Very inappropriate	—	4	4	1	9
Inappropriate	5	6	8	2	21
Appropriate	11	35	41	13	100
Very appropriate	7	24	59	23	113
No information	—	3	4	—	7
Total	23	72	116	39	250

In addition, each placement was correlated with a 'preference image' index for the adoptive parents. 'In a sense, this was a composite rating of parental preferences in conjunction with the degree to which the child met these preferences' (p. 108).¹⁴ Table 5 shows how the preference image ratings related to the global ratings of the adoption outcomes.

Table 5. Degree to which child met parents' preference image, by global rating on adoption outcome

<i>Preference image rating</i>	<i>Global rating</i>				<i>Total</i>
	<i>Low</i>	<i>Fair</i>	<i>Good</i>	<i>Superior</i>	
Not close to image	1	5	1	1	8
Some resemblance to image	2	10	6	3	21
Close but lacks important factor	7	13	25	8	53
Almost complete agreement	11	42	80	27	160
No information	2	2	4	—	8
Total	23	72	116	39	250

At first glance it looks as if pre-adoption ratings of appropriateness are more highly correlated with adoption outcome than are the ratings of the closeness of the match between the child and the adopting parents' preferences; there are more observations on the diagonal and fewer on the off-diagonal corners of Table 4 than Table 5. In fact, the chi-squared test for independence between the rows and columns yields values of 15.7 for Table 4 and 15.1 for Table 5, confirming this impression. Interestingly, however, the critical value for this test with 9 d.f. is 16.9, meaning that at the 5 per cent level of statistical significance the hypotheses cannot be rejected that the rows and columns are independent of each other in both tables. These tests suggest that careful home studies by social workers to judge the appropriateness of an adoption do not do much better than the parents' preferences at predicting the outcome of the adoption; and neither can do a significantly better job than if they

weren't done at all, and the children were allocated to adoptive homes on a purely random basis.

But perhaps these are the wrong tests. Perhaps the goal of society is to avoid social costs imposed by adoptions that do not work out. It may be that everyone would be happier with social policy toward adoptions if egregious errors were avoided, but no one really cares much whether an adoption has a global rating of good or superior. Perhaps, to reflect this satisficing goal, a better test would be to decide which adoptions were acceptable and which ones were not. This task is easy when one refers to the descriptions of the categories:

Rating 4: Superior

These families exhibited outstanding joie de vivre and enthusiasm. They displayed skillful childrearing practices, and acknowledged and confronted problems of life. The children were thriving. The parents were enthusiastic about adoption, highly compatible, and cooperated to give the children a warm and encouraging atmosphere. They provided good models for the children's emotional maturation. The children were happy, responsive, and related well to each other and to others. If a child had suffered from physical or emotional disability prior to being adopted, marked improvement had taken place. The child's performance was consistent with his assumed potential. The family as a unit showed a pronounced ability to face problems squarely, evaluate them realistically, and resort to mature methods of solving them.

Rating 3: Good

Each of these units had healthy familial relationships and showed strong affection. The children were developing well. Some parenting functions may have been awkwardly performed. The parents were compatible and both were involved in nurturing the children, but not quite as successfully as a rating-4 family—the parents might be less vivacious, less adept, or there might be some other limiting factor. For example, one parent might find that taking responsibility for the children was a difficult task, but the other parent counterbalanced this with better than average strengths. As in a "4" rating, the children were happy and responsive, and related well to others. A child's performance was consistent with his estimated potential. Existing family problems were relatively minor and were being dealt with adequately. The family might exhibit weaknesses in coping with some problems, but most problems were being solved in a mature manner. Excessive pressure for achievement was put on a child by some of these families.

Rating 2: Fair

In these cases, the parents were deficient in their capacity to deal with problems regardless of whether these originated with the child, the home setup, or within the parents themselves. There were, however, some basic strengths. Some of these parents had problems in the marital relationship and transferred them to the parent-child relationship. In families with children of both sexes, sex-linked conflicts and neurotic entanglements were sometimes seen (e.g., mother-son clashes). Parental models for the children were inadequate. Quite frequently the fathers were detached from the center of family relationships, because they either were absorbed in outside interests or had been shoved out of these relationships by the mother. Some of the parents were of limited emotional or intellectual capacity. In other cases the child might have brought problems with him that were unusually taxing and beyond the parents' capacity to manage. The children were often found to be anxious or immature, troubled or disturbed. The child's early symptoms of emotional trauma were unimproved or only slightly better,

and his school performance or social adjustment was below expectation. The parents of children under 10 might not have reported such symptoms, but the distorted family relationships gave clear evidence that healthy personality development was not taking place.

Rating 1: Low

In these families, there was pathology in the parent-child relationship that affected the child's growth and proper development. Emotional damage to the child was visible. Either separately or together, the parents, however well intentioned, could not give the children the nurturing required. As with a "2" rating, the children appeared anxious, immature, or disturbed. The child's performance and social development were below expectation. Unmistakable evidence was present of emotional distress. The family faced serious problems which it was unable to handle and which threatened to impede the child's progress toward healthy adulthood. In some cases, some of these problems may have been caused because the child's original handicaps at placement were irreparable.

Aside from the question of how any worldly adoption could qualify for the superior rating, the categories quite clearly indicate that those adoptions judged good and superior had characteristics which would generally be desired in society and those rated fair and low had characteristics which society would probably like to try to avoid in future adoptions. Further, this two-way classificatory scheme seems more appropriate than a more elaborate one since the decision to be made is (at least in each case observed in isolation) a simple two-way decision of whether or not an adopting family should receive parenthood rights to a particular child. Tables 6 and 7 show the regrouping of the data to conform with these two-way classifications.

Table 6. Agency match

<i>Predicted outcome</i>	<i>Outcome</i>	
	<i>not ok</i>	<i>ok</i>
not ok	15	15
ok	77	136

Chi-squared = 2.16.

Table 7. Image match

<i>Predicted outcome</i>	<i>Outcome</i>	
	<i>not ok</i>	<i>ok</i>
not ok	18	11
ok	73	140

Chi-squared = 8.49.

Under this more useful classificatory scheme, the results are reversed: simple image match appears to be a better predictor of adoption outcome than the hours of interviewing and matching by social workers. Furthermore, the 5 per cent critical value of χ^2 for a test of independence of the rows and columns of Tables 6 and 7 is 3.84, indicating that image match can significantly predict the outcome of an adoption better than random allocation, whereas adoption agencies cannot. It can be inferred that for this data set, the marginal productivity of social workers in matching adopters with adoptees is no greater than zero and may be negative.

Image matching is probably a very good proxy for how well a market would work in the allocation of parenthood rights. It is unlikely that people would purchase the entitlement to any good or service which did not match their pre-purchase images unless they were deceived. Consequently, assuming that the market would do as well as image matching in Tables 6 and 7 it can be seen that the alleged social savings of using adoption agencies do not exist and are probably negative. A market would allocate parenthood rights in such a fashion that there would be lower social costs not only in the form of reduced negative externalities but also in the form of reduced administrative costs.

III.

One of the major objections to the use of the market to allocate parenthood rights for children is that the calculations thus far take into consideration only the utility of parents and others in society, but not of the children involved. Allocating parenthood rights is something like the matching which occurs in escort services or employment agencies except that the preferences of only one of the matchees can be observed. The preferences of the remaining matchees (in this case the infants) are not known.

One could view the children as the principals in a principal-agent problem. It is difficult to determine whether a child chosen by a particular set of parents would choose those people as parents, were such a choice possible. It seems plausible that most people, if they could now choose who their parents would have been, would list such characteristics as loving, caring, wealthy, generous, and 'eager to have me as a child' as desirable traits, though perhaps not in that order. Further, it also seems plausible that such characteristics are at least as likely to be identified by the marketplace as by adoption agencies, though some may disagree.

This plausibility has some empirical support from the previous section. There it was shown that matching children to parental preadoption preferences can substantially increase the quality of the adoption outcome and, hence, reduce the likelihood that the adoption would impose negative externalities on society. It can similarly be argued that adoptions which are judged to work out better also yield higher utility for the adopted children. Consequently, the market, by matching a specific child with parents wanting to adopt precisely that type of child, will also do at least as well as, and probably better than, adoption agencies in the task of looking after the children's interests.

IV. QUALIFICATIONS AND LAMENTATIONS

The arguments presented in the first three sections must be used cautiously. The fact is that all of the homes studied in the research discussed in Section II had been screened by adoption agencies prior to the placement of a child in them. There may have been some parents who would have liked to acquire parenthood entitlements but who were eliminated from the sample because agency workers decided that the probability would be unduly high that those parents would raise children in such a fashion that substantial social costs would be generated. There is some different evidence available, however, which suggests that even the screening activity of adoption agencies yields small, if any, benefits.

There have been numerous studies on the outcomes of independent adoptions, i.e., adoptions not involving an agency, but generally involving an intermediary such as a doctor, lawyer, or nurse.¹⁵ Typically, these studies have found that independent

adoptions have a lower success rate than agency placements, suggesting that perhaps the screening function of the agencies is of some value. Yet often times the samples for the studies are not directly comparable. Once corrections in the data are made to allow for the problems of older children, for the lack of counselling, and for independent placements of children with friends or relatives, then independent adoptions generally cannot be shown to have a lower success rate than agency adoptions. To the extent that many of these situations giving rise to data incomparability would have existed regardless of the type of placement (or regardless of the possibility that the children placed independently might have had foster care or institutional care as their next best alternative), the results of these studies do not provide strong evidence in favor of the social benefits of the screening activities of agencies.

As noted above, another function of adoption agencies includes the provision of pre- and post-adoption counselling. While it has commonly been assumed that the benefits of this counselling are positive (and this assumption may be open to question), little if any work has been done on the *net* social benefits of this counselling. If the screening and matching benefits of having adoption agencies are negligible, then aside from moral and distributional objectives the only remaining justification for their operation must be that their counselling benefits outweigh their entire costs. There is no evidence available at present on these costs and benefits.

One of the possible benefits of allowing parenthood markets to develop is the reduction or elimination of administration costs of operating adoption agencies. Caution must be used in this assertion, however, because many of the costs experienced under the present agency scheme would also be experienced under a market regime. These might include pre- and post-natal care of the biological mother, decision-making time for the prospective parents, and some of the post-natal care for the child. Despite our strongest wishes (often incorporated into implicit assumptions), markets do not work costlessly. Information and decision costs exist, along with negotiation and contractual costs.

Even though there are qualifications, the costs of not using the market to allocate parenthood rights are probably quite high. Why then has not such a market been legitimized? As a matter of fact, it is becoming increasingly legitimized through independent (grey market) adoptions which include side payments for the intermediaries which are often legal yet considerably larger than one might expect when one considers the costs (excluding risks) of the intermediary service. Biological mothers are sometimes provided with luxurious environments as well as educational allowances by adopting parents.¹⁶ Furthermore, contractual relationships appear to have been legitimized between parents and women who are willing to carry and give birth to a child created by the sperm and egg of the parents.¹⁷

But these examples are only partial legitimizations of the market for parenthood entitlements. There is still apparently some strong resistance to the full legalization of the market. There are, perhaps, five major reasons for this resistance.

First, many people apparently object to the practice of paying mutually consenting adults to engage in fornication (there are only a few jurisdictions in North America where prostitution is legalized). Paying biological parents for the parenthood rights to their offspring is viewed by some people as roundabout prostitution and, hence, to be proscribed by policy.

Second, concern has been raised about the erosion and eventual nonexistence of a market for parenthood rights to offspring who currently fall into the category of 'hard-to-place'. A market might deal with these situations in one of several ways. The

question to be answered is, 'who will bear the risk of bearing a child in whom no one values parenthood rights?' If the biological parents are obliged to bear the risk, one might expect an active insurance type of market to develop. However, if biological parents can avoid the risk by donating their parenthood rights to the state (i.e., leaving an infant on the doorstep of a police station or a church), it might be very costly for society to require that the biological parents bear the risks of giving birth to a less desirable child.

If intermediaries were required to bear the risk, one would also expect an insurance market to evolve. Presumably, over time the insurance premia would vary with the amount of monitoring the intermediary did of the biological mother's prenatal activities. Alternatively, if the adopting parents were required to bear the risk, their willingness to pay would depend on an intermediary's ability to guarantee quality. In either case, intermediaries would have an incentive to monitor the prenatal care of the biological mother and child.¹⁸ An important consideration for social policy and economic efficiency is that the burden of bearing such a risk be clearly specified so that the contracting parties can negotiate about the possible reassignment of the risk. Clearly, whoever ultimately bears the risk, secondary markets with negative prices will evolve for parenthood rights (or more limited rights and obligations) to children who have traditionally been characterized as hard to place.¹⁹

A third concern is one often raised by the potential beneficiaries of any government policy which regulates the price of a commodity to be well below its market-clearing price: if the price is allowed to increase, only the rich will be able to afford it. It is not clear that it is desirable to use the market for parenthood rights (or any other item) as a vehicle for redistributing wealth, but some questions come to mind immediately whenever distributional issues are used to justify the abrogation of the market. First, which income classes benefit and which are hurt by the regulations? Although there is little evidence available, the market may end up favoring the rich no more than agencies do. Second, precisely to what does society wish the poor to receive an entitlement? Parenthood rights would surely sell at quite different prices (not all necessarily positive) for different children; the market would measure willingness to pay for different characteristics, and the poor would most likely choose parenthood rights to children with characteristics not sought after by the wealthier members of society. Third, though less efficient in some ways, to what extent might partial subsidies tied to the adoption market alleviate concerns for equity? If society wants every household to have the opportunity to acquire the parenthood rights to at least one child, tying a wealth-based subsidy to this acquisition would enable poorer families to choose a 'higher quality' child than they otherwise would have chosen. And finally, it is quite plausible that restrictions on this market redistribute wealth away from the poor who might otherwise choose to be active suppliers.

A fourth concern is that the use of adoption agencies to allocate parenthood rights facilitates the pursuit of some additional social objectives which might not be considered by individuals making private decisions in the marketplace. One good example might be the decision of agencies to place a particular child with a particular family because the child would be quite likely to benefit from the special characteristics of the adopting parents. Even if the parents would marginally prefer a different child and even if that different child would marginally benefit from placement with these parents, the 'needy' child is placed with these parents so that it can be made considerably better off. The child has no way to bargain for such special consideration on its own in the market allocation scheme but must rely, as a

principal, on social workers to act as agents on its behalf. Despite a strong *a priori* argument that the market would in general efficiently look out for children's interests, society may wish to reallocate some of the potential benefits away from adopting parents and adoptable infants and toward these particular children who might otherwise be made worse off by the market scheme.

A final concern is that some people object to the selling of human beings; visions of depraved and perverted slavemasters are easily conjured up. It may be purely a matter of semantics, but throughout this study no reference has been made to the market for babies or the market for children; rather, what has been discussed is the potential for value-maximizing exchanges of parenthood rights from one owner to another. No parent, biological or otherwise, *owns* a child. A parent has rights only to the parenthood of a child, and this entitlement is clearly limited by custom and by such legislation as education, child labor, and child abuse laws.

These remarks are not designed to argue that moral objections to a market for parenthood rights are incorrect, unfounded, or even inefficient. It would be contrary to the neo-classical paradigm to argue that the use of scarce resources to pursue such moral considerations is any of those. Rather, the remarks are intended to emphasize the nature of the market that might exist and the extent of the existing controls on the exercise of parenthood rights. In many ways, the results of this study do little more than to indicate the possible size of the costs society bears to satisfy its tastes for not allowing a formal market for parenthood rights to emerge.

From a Panglossian static viewpoint, it is probably optimal that we bear these costs (and impose them as we do on some members of society more than others). However, the evidence presented here showing that there are large social costs of not using the market suggests that this conclusion would be lamentable to those who value wealth maximization highly.²⁰ Nevertheless, the lamentations should not be too loud or too long. If social benefits outweigh social costs, and if private benefits outweigh private costs, experience has been that markets slowly evolve by chipping away at social inhibitions. New institutions are created and close alternatives to markets continue to emerge as the laws are gradually changed and reinterpreted.

REFERENCES AND NOTES

1. R. Posner and E. Landes, 'The Economics of the Baby Shortage', (1978) 7 J. Legal Studies 323–348; 'Experiment in Independent Adoptions', (1977) Social Casework; 'Cost/Benefit Analysis in the Social Services: The Example of Adoption Reimbursement', (1977) Soc. Serv. Rev.; D. W. Young, 'Referral and Placement in Child Care: NY City Purchase of Service System', (1974) 22 Public Policy 293–327; Meezan, Katz, and Russo, *Adoptions Without Agencies: A Study of Independent Adoptions*; Child Welfare League of America Inc. (1978), 'Subsidized Adoption Programs', (1976–77) 15 J. Family Law, 750; Witmer, Herzog, Weinstein and Sullivan, *Independent Adoptions: a Followup Study*, Russell Sage Foundation (1963); 'Independent Adoptions: Is the Black and White Beginning to Appear in the Controversy Over Grey Market Adoptions?' (1980) 18 Duquesne L. Rev. 629–652; M. Kronos, 'Stimulation of Independent Adoptions—a Sensible Approach to Eradicating the Baby Black Market', (1979) 6 Orange county B.J. 192–204; 'Black Market Adoptions', (1976) 22 Catholic Lawyer 48–69; 'Matching for Adoption: A Study of Current Trends', (1976) 22 Catholic Lawyer 70–86; Louise Raymond, *Adoption and After*, Harper and Row (1974).
2. The adoptions which take place independently of adoption agencies are often referred to as 'grey market' adoptions because, while they are not illegal in most jurisdictions, they sometimes include substantial facilitation payments to intermediaries.
3. Some readers may object that this figure is too low. It was selected because it seemed

- appropriate for the mid-1970s, the period of reference for the other data in this study. Recalculating the later tables using a different figure is relatively simple, however.
4. Although the 1982 payment to surrogate mothers was approximately \$10000, the lower figure is used to reflect both lower price levels for the 1970s, during which most of the other data were collected, and the presumption that the prices would be lower in real terms if the markets were more fully developed, with smaller information and risk costs.
 5. Technically, for the use of consumer surplus arguments, the income elasticity of demand for parenthood rights must be zero. That this condition is at least approximately met is borne out by studies cited in T. Paul Schultz, *Economics of Population*, Addison-Wesley (1981). Note that the area of triangle *ABC* is invariant with *C*.
 6. Of course, to the extent that potential parents devote scarce resources to activities, which they would not otherwise pursue, in order to impress child placement agencies, they generate additional social losses which are not captured in the estimates provided here.
 7. *Adoption and Foster Care, 1975: Hearings before the Subcommittee on Children and Youth of the Senate Committee on Labor and Public Welfare, 94th Congress, 1st Session*, pp. 132, 139.
 8. Posner and Landes, *supra*, note 1, p. 325.
 9. See Meezan *et al.*, *supra*, note 1; 'I Could Place 500 Babies', Toronto Star, 15 April 1978; 'Baby Selling Scheme Linked to BC', Vancouver Sun, 3 May 1980; 'Media Reports of Baby Sales Denied', Winnipeg Free Press, 23 March 1981; plus articles in the New York Times (13 and 27 April 1980).
 10. See R. Posner, 'The Social Costs of Monopoly and Regulation', 83 *JPE* 807 (1975) for a discussion of how competition for private gains causes social costs which erode the gains.
 11. D. DeTray, 'Child Quality and the Demand for Children', and 'Comment' by O. Ashenfelter, *JPE*, March/April 1973.
 12. E. A. Lawder, K. D. Lower, R. G. Andrews, E. A. Sherman, and J. G. Hill, *A Followup Study of Adoptions: Post-Placement Functioning of Adoption Families*, Child Welfare League of America, Inc. (1969).
 13. *Ibid.*
 14. *Ibid.*
 15. See Witmer *et al.*, *supra*, note 1, and, in particular, Meezan *et al.*, *supra*, note 1, who state:

Despite the reports of risks in independent adoptions and the occurrence of "legally questionable activities," the agencies considered a remarkably high proportion of independent homes as good or better than homes where the children are placed through an agency. Almost half of the agencies reported that nearly all independent homes are as good or better in providing physical care for the child, and more than one-third consider almost all the homes as good or better in providing emotional care. Only 15% of the agencies regarded no more than half of the homes as good as agency homes in providing physical care and one-third reported that half or fewer of the homes are as good or better in providing emotional care (p. 42).
 16. *Ibid.* See also *Adoption and Foster Care, 1975: Hearing before the Subcommittee on Children and Youth of the Senate Committee on Labor and Public Welfare, 94th Congress, 1st Session*, p. 13.
 17. 'U.S. is Caught Unprepared for Surrogate Motherhood', Toronto Globe and Mail, 15 July 1981; 'Firm Offers Surrogate Mothers', *UPI*, 3 March 1982; "'Rent-a-Womb' Birth Kicks up Controversy', Toronto Globe and Mail, 17 June 1982.
 18. Some monitoring of prenatal conditions has been specified in some of the more recent surrogate mother contracts. See *ibid.*
 19. These situations are similar to state-funded foster care and institutional care under the present agency scheme.
 20. See Chapter I, 'Justice and Efficiency' of Richard Posner, *The Economics of Justice*, Harvard University Press (1981).