

An Introduction to and Overview of EC 411: The Moral Foundations of Capitalism

Professor Roger Congleton
(Spring Semester 2023)

Introduction to and Overview of EC 411 Moral Foundations of Capitalism

- This course is not an “ordinary” economics course.
- It does not attempt to teach mainstream economic theory, but shows how a few ideas from economics, political science, philosophy and game theory can be used to understand the many roles that ethics play in contemporary commercial societies.
- Although a few ideas from the neoclassical economics are covered and extended, the main themes of the course are in a sense “non economics.”
- It argues that the main causes are economic development in the long run are not market prices and rates of return—but rather internalized rules that solve social dilemmas associated with economic development—and thereby allow those economic processes to operate more effectively.
- Without those solutions, economic theory provides much weaker insights into economic development.

Introduction to EC 411 Moral Foundations

- Nuts and Bolts

- Grades are based on two exams, a term paper, and 6 E-campus homeworks.
- The 2 exams are 60% of your grade, the term paper 25% and the homeworks are the rest (15%) of your grade.
- My office hours are from 2:30-3:30 on class days (T and Th), and most other afternoons by appointment.
- Email is the most reliable way to reach me: roger.congleton@mail.wvu.edu

- Class Organization

- The class will consist mainly of lectures, although given its small size this year, the format will have more Q&A than usual.
- The course is organized into three parts.

Part I: Ethical Theories

- Part I provides an overview of several important theories of the good life and good society, all of which had implications for a good life.
- Among the most complete of those theories are:
- (1) Aristotle (Happiness is the ultimate end, and happiness is most reliably achieved by acquiring moral and intellectual excellence, moral excellence requires virtuous dispositions),
- (2) Smith (moral sentiments arise from the pursuit of praise and efforts to be praiseworthy in general—the latter being based on the assessments of an imaginary impartial spectator)
- (3) Kant (A good life is a dutiful life, and a virtuous life is one based on duties to follow universal laws, which can be determined by the categorical imperative), and
- (4) Bentham et al. (A good life is a happy life and a good society is one that maximizes the sum of human happiness or aggregate utility)

Part I: The Role of Commerce in a Good Life

- Besides introducing you to alternative ethical theories and conclusions, Part I also demonstrates that philosophers disagreed about the logic behind ethical conduct and the extent to which commerce is or could be a virtuous activity
- (1) Aristotle (Careers that contribute to intellectual and moral excellence are good, others less so. Market prices are often in accord with proportionate justice.)
- (2) Smith (Careers in commerce are moral to the extent that they are praiseworthy. Markets are self-regulating sources of prosperity and prosperity is a good and useful feature of society.)
- (3) Kant (Commerce is generally morally irrelevant because it is motivated by interest rather than duty to follow universal law, although markets may be praiseworthy or advance praiseworthy ends such as world peace)
- (4) Bentham and other 19th century utilitarians (Commerce and careers in commerce are inherently moral activities because they increase total utility [because mutual gains from trade are realized from every transaction not induced by fraud or coercions] and need little help from governments to do so.)

Part I: Role of Commerce in a Good Life

- In general, there is a trend in the various disagreements about the proper role of commerce in a good life and good society.
- The philosophical and political writings reviewed in part I indicate that ethical support for commerce was generally increasing and broadening during the period covered.
 - Careers in commerce can be a divine calling
 - Careers in commerce can be praiseworthy
 - The wealth of nations was grounded in commerce not governments
 - Careers in commerce contribute to social welfare/aggregate utility
- Lists of virtues began including industriousness and honesty
- A good life was an active creative life and a good society was prosperous and innovative—e.g. a commercial society.

Part II: Ethics as Solutions to Social Dilemmas

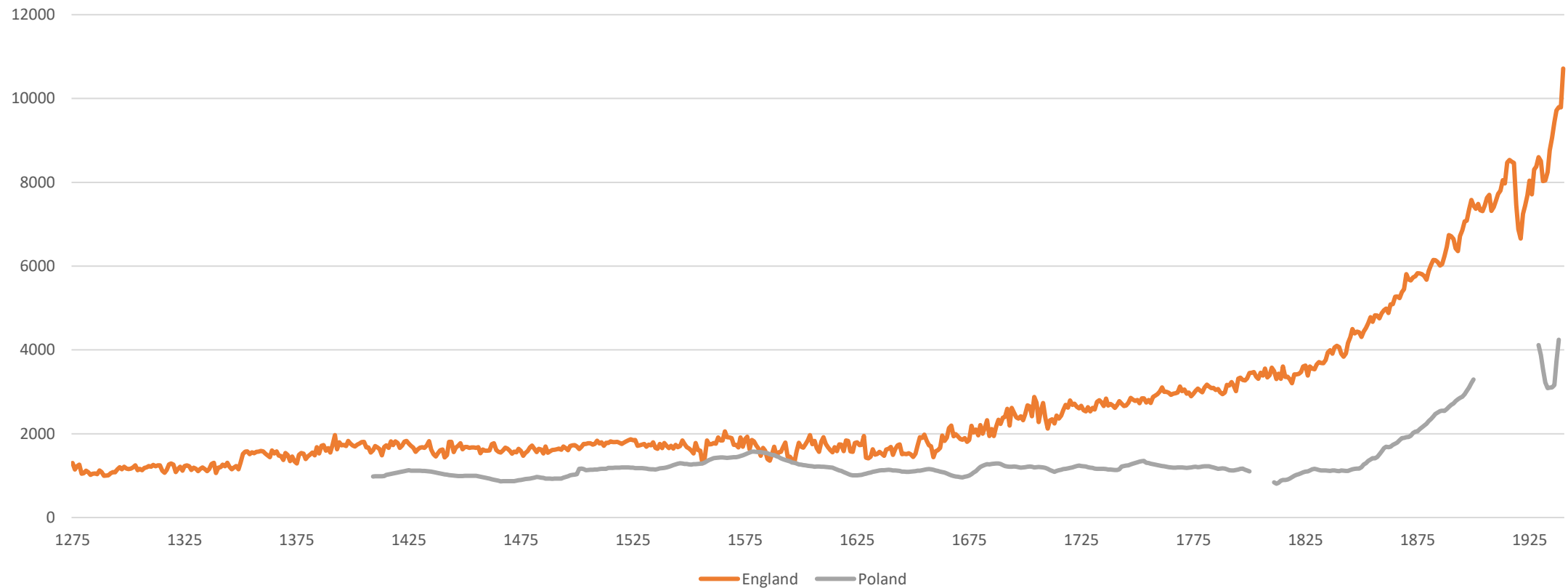
- Part II of the course suggests that at least a subset of ethical dispositions provide solutions to or reduce losses from social dilemmas.
 - Examples include the Hobbesian dilemma (unproductive conflict), the Hardin dilemma (over use of commons problem), various free riding problems (public goods, team production, etc.), and reduction in externality problems.
 - Internalized norms—internalized rules of conduct and/or principles for evaluating conduct may encourage the behavior that solves or reduces the problems associated with social dilemmas—although not all norms do so.
- Rules of conduct that solve or ameliorate social dilemmas, however, have an evolutionary advantage over those that do not—and so tend to be more often passed on to others.
- Markets have their own dilemmas. Trade, capital accumulation, and innovation are not as automatic as economic textbooks make them look.
 - Dilemmas are associated with market networks include the problems associated with fraud and also with realizing the benefits of specialization and team production.

Part II: Ethics and Economic Development

- Markets may exist for centuries without positive growth rates or prosperity
 - Many products sold today (spices, grains, meat, ceramic cups, plates, jugs, and jewelry) have been produced in more or less the same way for several thousand years.
 - Without solutions to social dilemmas that impede specialization, capital accumulation, technological advance, and new products, we would all be “cave” men and women at best.
- Insofar as ethical support: religious (from Protestants), pragmatists (the wealth of nations) and utilitarians supported increases in specialization, capital accumulation, and rates of technological advance, it can be said that ethical developments “caused” the acceleration of economic development in the West during the 19th and 20th centuries.
- As a result we (Westerners) essentially all live well away from threshold of survival—a very rare event in human history.

Part II: Some Evidence—a quadrupling of average income

Figure 12.1 Real Per Capita GNP 1275-1940, England and Poland



Part III: Ethics and Politics

- However, ethical, economic, and technological developments are not by themselves sufficient to generate prosperity.
- Government policies matter as well.
 - An implication of Part II of the course is that a government can potentially make society more attractive and prosperous if it “tops up” or “reinforces” norms that tend to ameliorate social dilemmas in society and markets.
- However to do so, a variety of political dilemmas have to be solved as developed in part III of the course.
 - These political dilemmas are also likely to be solved through supportive ethical disposition within voters, elected representatives, and government employees.
 - Keep in mind that It is not ethical behavior itself that solves social, economic, and political dilemmas but only a subset of the behavior regarded to be ethical.
- Dilemmas are associated with many aspects of governance.

Part III: Political Dilemmas

- Political dilemmas include:
 - (1) Extractive regimes—governments that attempt to harvest as much of the social surplus for themselves. A problem for even quite simple governments.
 - (2) Corruption—purchasing favorable treatment by government officials
- (3) Within democracies, additional dilemmas include:
 - (a) the cycling problem
 - (b) the problem of excessive redistribution
 - (c) incentives to cancel the next election or otherwise disenfranchise those out of office
- **Ethical dispositions are likely to play a role in solving all of these problems**

Part III:
Some
Evidence
that
Ethical
Disposi-
tions
Affect
Political-
Economy
Outcomes

Poorest Democracies (Polity 8,9,10)				Richest Democracies (Polity 8,9,10)			
	Trust WVS+	Rgnp/pop WDI	Corrupt? TI		Trust WVS+	Rgnp/pop WDI	Corrupt? TI
Liberia	17.37	1161	28	Norway	68.18	65389	84
Sierra Leone	22.67	1421	33	Switzerland	49.56	68060	85
Solomon Islands	NA	2149	42	United States	40.57	55719	69
Nepal	22	2741	34	Netherlands	56.94	49787	82
Kenya	9.49	3076	28	Denmark	69.24	48419	87
Kyrgyzstan	27.37	3446	30	Sweden	64.34	47717	85
Nigeria	21.01	5315	26	Austria	39.59	46260	77
Myanmar	19.1	5922	29	Germany	39.53	45393	80
Moldova	16.75	6452	32	Australia	48.01	45377	77
Cape Verde	5.42	6614	41	Canada	47.73	44078	77
India	30.62	6888	41	Belgium	31.9	43582	75
El Salvador	13.12	7393	34	Finland	60.59	42060	86
Guatemala	21.5	7508	26	United Kingdom	37.06	40522	77
Average	18.87	4622	32.62	Average	50.25	49412.54	80.08
St. Deviation.	6.80	2350.20	5.43	St. Deviation.	12.02	8586.25	5.09

Conclusions:

- (1) The course provides a theory of the role of ethics in society that is largely in accord with ancient history, with contemporary history, and variation in the extent of commerce around the world at particular times and through time.
- (2) A subset of ethical dispositions are very important: they reduce violent conflict, the overuse of resources, reduce fraud, and can promote economic development and make it more likely that governments will be productive than extractive.
- (3) A commercial society requires all kinds of problems to be reduced, which is most likely when supportive ethical dispositions such as a work ethic emerge.
- (4) A prosperous society also requires public policies that do not discourage capital accumulation and innovation.
- All these dilemmas are most likely ameliorated by a subset of internalized ethical dispositions—In particular those that solve or ameliorate social dilemmas.