

Moral Foundations of Capitalism

Instructor: Professor Roger Congleton

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Required Textbook

Congleton, R. D. (2022). *Solving Social Dilemmas: Ethics, Politics, and Prosperity*. Oxford University Press. (Available as hardback and as an e-book in various formats.)

Optional Readings:

Aristotle (350 bc) *Nicomachean Ethics* (Available as an E-book from Google, Liberty Fund, Amazon, etc.).

Buchanan, J. M. (1997) *Ethics and Economic Progress*. Norman OK: University of Oklahoma Press.

Spencer, H. (1896) *Principles of Ethics*. Appleton and Company, New York. (available as an e-book at liberty fund and the Mises Institute).

Weber, Max (1930) *The Protestant Ethic and the Spirit of Capitalism*. Available as an e-book from Google and Amazon.

Required Course Materials: Class Notes provided at the class website:

http://www.rdc1.net/class/Moral%20Foundations/Moral_Foundations_index.html

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| Grades: | 2 Exams | 60% |
| | 6 Homeworks | 15% |
| | 1 Term Paper (6-8 pages) | 25% |

Marginal extra credit for class participation (up to 5% bonus)
Midterm grades are based on the first three homeworks

Course Overview:

Moral Foundations of Capitalism is a course in socio-economy theory and history. It analyzes how some types of internalized rules—specifically those regarded to be moral or ethical maxims or theories—allow markets to become larger and more effective by reducing principle agent problems, simplifying contract enforcement, and internalizing externalities. It also discusses how such rules may affect public policies and how they may be used to assess market processes, networks, and outcomes. Two general types of normative theories are examined: (i) personal ethics and (ii) civil ethics. Both collections of ethical ideas have long played roles in arguments for and defenses of relatively open competitive markets.

The course is divided in to three parts. The first part reviews theories of personal ethics from Aristotle through Mill. It shows how private and social ethics changed in the West during the same period in which capitalism emerged. It is a relatively philosophical section and introduces students to several

theories of personal ethics, with particular emphasis on widely read theories that support commerce. The second part uses game theory and economic tools to show why a subset of ethical norms tends to make markets more extensive by both allowing more potential gains to trade to be realized. Norms tend to reduce risks from fraud, allow longer trading networks and organizations to become feasible, and may increase rates of innovation. The third part reviews how such norms may induce public policies to be adopted that further increase the effectiveness of markets and related institutions as methods for increasing prosperity. Examples of ethical theories that do so include: Pareto efficiency, social welfare (utilitarian), contractarian (consensus), human development based norms (Sen), and a subset of property right-based (voluntarist) norms.

Teaching Objectives. The two main pedagogical objectives of the course are: (1) Students will master sufficient elementary game theory to understand the nature of several social dilemmas, how ethical disposition can ameliorate them, and thereby why they may support social and economic development. (2) Student will also become familiar with the history of Western ethical ideas and principles as they relate to commerce and careers in commerce in the period from 1500-1920. These demonstrate that ethical support for markets (in a good life and good society) generally increased and opposition to market activities diminished in the period leading up to the great acceleration of commerce in the mid-to-late 19th century. Thus, ethical ideas contributed to the emergence of commercial societies and their associated prosperity and lifestyles.

The course is lecture oriented. Lectures are normally presented in class and detailed lecture notes are provided on the class website.

COURSE OUTLINE

I. 1/14 Introduction to Moral Foundations of Capitalism

Different kinds of rules. The internalization of rules. Norms as personal motivations and self-restraint. Two approaches to the study of ethical ideas: positive--the study of the effects of those ideas, and normative--the application of ethical and other normative theories to assess the consequent behavior and outcomes. Norms that help and hurt economic growth. Capitalism as a name for contemporary market-based networks and lifestyles.

II. Private Ethics, a Short Intellectual History of Ethics Assessments of Commerce

1/16 Aristotle's Ethics and Political Theory as Private Aristotle's Ethics (web notes)

Ethics as the pursuit of lifetime happiness, rather than short term pleasure. Aristotle's principle of moderation in all things. Wealth as a means to an end. Aristotelian virtues. Aristotle as the foundation of contemporary secular ethics.

1/23 The Early Enlightenment and Market Supporting Ethics More: Utopia, Locke: Tolerance

Three major disruptions of the medieval order. Nature law and the moral sense. Markets as a distracting or supporting system for ethical development. Rising importance of life on earth. Locke on civil ethics. Smith and moral sentiments. Franklin and the "spirit" of capitalism (**Homework 1**)

1/30 Classical Liberalism, Ethics, and Markets

Franklin: Autobiography
Smith: Moral Sentiments

Franklin and the "spirit" of capitalism. Smith on the use and origins of moral sentiments. Approbation as virtue, the impartial spectator, social dependence on justice. Kantian Ethics, Bastiat and market support for ethics under appropriate civil law.

2/6 Utilitarian Private and Social Ethics

Mill: On Liberty, Utilitarianism
Spencer Principles of Ethics

Acceptance of core ethical norms leads to a search for core principles. Bentham and the utilitarian revolution, Mill's extensions. Spencer's evolutionary approach. Do ethics improve both wealth and survival prospects in groups? Emergence of social ethics along with democratic politics. Ideology as social ethics. (**Homework 2**)

III. Ethics and the Extent of Commercial Networks

2/13 Elementary Game Theory and Civil Ethics

(web notes)

Elementary game theory. Nash Equilibrium. Dominant Strategies. Changing payoffs to change social outcomes. Ethics and the Hobbesian dilemma. Free rider, coordination, and externality problems. Ethical solutions. (**Homework 3**)

2/25 Review for Second Midterm Exam

Study Guide 1

2/27 Midterm Exam

3/4 Review of Midterm Exams

3/6 Market Dilemma and Ethical Solutions: Ethical Foundations of Commerce (web notes)

Market supporting vs market undermining ethics. How the work ethic helps team production and specialization. How honesty reduces contract complexity and enforcement costs. How selecting ethical persons can improve profits and encourage some types of ethical behavior.

The effects of cultural shocks on the extent of markets. Weber's theory of the emergence of capitalism as a cultural shock. Market support for ethics. (**Homework 4**)

3/25 Neoclassical Economics with Ethics (possible travel week, lectures may be online)

Bringing ethics into the Marginal Benefit Marginal Cost Framework, Marginal Revenue Product as a consequence of team production and private ethics. Equilibrium investments and distributions of Virtue. Ethics and Commerce are codetermined.

4/3 Ethics and Economic Progress: Capital Accumulation, Innovation, and Economic Development

What does progress mean? Do markets improve? Do institutions improve? Use of social and private norms to evaluate changes in institutions. Role of ethics in specialization, capital accumulation, and

innovation. Honest enough to produce rather than defraud. Brave enough to be unorthodox, to take chances? Smart enough to innovate and see opportunities? Alternative conceptions of entrepreneurship and market process. Markets as experimental laboratories (**Homework 5**)

IV.Ethics, Politics and Prosperity

4/10 Ethics, the Law, and Political Economy

The simplest form of government. Ethics and effective customary law enforcement. The customary origins of law in a commonwealth--customary and common law. Ethics as a prerequisite for honest and diligent law enforcement. Ethics as a constraint on statutory law.

4/10 Ethics and Democratic Public Policy

Ethics and the evaluation of officials and policies. Importance of trust worthiness when selecting among candidates. The Median Voter Model of public policy. (**Homework 6**)

4/13 Ethics and Democratic Public Policy

The prevalence of ethical disposition and the choice of political and economic institutions.

4/22 Review for Second Midterm Exam

Study Guide II

4/24 Midterm Exam

4/29 Midterm Exams Returned and Reviewed, Paper workshop

5/1 Last day of class / Forest from the Trees Lecture Paper Topics

5/7 **6-8 Page paper due on a topic on morality and economic development (via e-mail)**

Institutional Policies and Services: Students are responsible for reviewing [policies](#) on inclusivity, academic integrity, incompletes, sale of course materials, sexual misconduct, adverse weather, as well as student evaluation of instruction, and days of special concern/religious holiday statements.

E Link to [WVU Policies and Syllabus Addenda](#)

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