

**Moral Foundations of Capitalism****Instructor:** Professor Roger Congleton**Website:** RDC1.net

Office: 405 B&amp;E

**Office Hours:** Wednesdays and Thursdays 2:00-3:30, and by appointment

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**Suggested Texts:**

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.

**Course Materials:** Available on the class website:

[http://www.rdc1.net/class/Moral%20Foundations/Moral\\_Foundations\\_Index.html](http://www.rdc1.net/class/Moral%20Foundations/Moral_Foundations_Index.html)

<b>Grades:</b>	2 Exams	70%
	1 Term Paper (6-8 pages)	30%

	Marginal extra credit for class participation	(up to 5% bonus)
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**Course Overview:**

Moral Foundations of Capitalism is a course in normative economic and political economy theory and history. It analyzes how some types of morals at the individual level allow markets to become larger and more effective by reducing principle agent problems, simplifying contract enforcement, and internalizing externalities. It also discusses social norms that can 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 types of ethics have played roles in arguments for and defenses of relatively open (free) markets.

The course is divided in to three parts. (1) 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 ones that support commerce. (2) The second part uses game theory and economic tools to show how a subset of ethical norms tend to make markets more extensive: more gains to trade emerge, larger organizations become possible, longer trading networks become feasible, and rates of innovation tend to increase. (3) The third part reviews theories for evaluating public policy and market outcomes. In what ways can a market be said to become "more efficient?" A short review of the history of welfare economics is undertaken. Examples of social norms include: Pareto efficiency, social welfare (utilitarian), contractarian

(voluntaristic) norms, human development based norms (Sen), and pragmatic ones (gnp, longevity, etc)..

The two goals of the course are to (1) provide the student with an intellectual history and core ethical arguments in support of voluntary exchange, innovation, markets, and market networks; and (2) and understanding of why those normative theories had economic and political effects that led to the emergence of modern capitalism.

**The course is lecture oriented.** Grades are determined by two examinations and a final paper.

### TENTATIVE COURSE OUTLINE

<u>Dates</u>	<u>Topics</u>	<u>Supplemental Readings</u>
<b>I. Private Ethics, a Short Intellectual History, with Emphasis on Market Supporting Norms</b>		
<b>8/16</b>	<b>Introduction to Moral Foundations of Capitalism</b>	
Norms as personal motivations and self restraint. Two approaches to norms: positive--the study of the effects of norms, and normative--the application of normative theories to assess market outcomes. Norms that help and hurt economic growth. Capitalism as a name for contemporary market-based networks and lifestyles.		
<b>8/18</b>	<b>Aristotle's Ethics and Political Theory as Private</b>	<b>Aristotle's Ethics</b>
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.		
<b>8/25</b>	<b>The Enlightenment and Market Supporting Ethics</b>	<b>More: Utopia Locke: Tolerance</b>
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		
<b>9/6</b>	<b>Classical Liberalism, Ethics, and Markets</b>	<b>Franklin: Autobiography Smith: Moral Sentiments</b>
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.		
<b>9/15</b>	<b>Utilitarian Private and Social Ethics</b>	<b>Mill: On Liberty, Utilitarianism Spencer Principles of Ethics</b>
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.		

## II. On the Economic Effects of Rules of Conduct

- 9/22 Elementary Game Theory and Civil Ethics Congleton**
- 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.
- 10/04 Elementary Game Theory: Market Dilemma and Ethical Solutions Congleton**
- 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.
- 10/13 Discussion and Review for the First Exam Study Guide 1**
- 10/18 FIRST EXAMINATION**
- 10 /25 Exams Returned and Reviewed / First Paper Workshop (brief) / Paper Topics on Website**
- 10/27 Neoclassical Economics with Ethics**
- Mathematical expected value. Net benefit maximization. Fraud and defect risks. Effects of productivity relevant ethics on demand and supply. Investments in ethics. The supply of ethics. Social-Economic equilibria in competitive markets. 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.
- 11/10 Ethics and the Evaluation of Market Outcomes**
- Social and Private ethical theories as norms for assessing market outcomes. Introduction to Welfare Economics. A short history of ethical theories for ranking social states and societies: Contractarian, Utilitarian, Paretian, Contractarian. Rule vs outcome based utilitarianism.
- 11/12 Neoclassical Welfare Economics**
- The geometry of exchange. Utilitarian and contractarian approaches to evaluating the merits of exchange (a) with given resources, (b) with produced resources, (c) with market power, (d) with externalities. Differences in Utilitarian, Paretian, and Contractarian. approaches to markets as systems.
- 11/15 Ethics, Politics and Public Choice: Capitalism as a Second Best Solution**
- The possibility of policy failures under both majority rule. Capitalism as a second best solution.
- 11/29 Review for Second Exam**
- 12/1 Second Exam**
- 12/6 Second Exam Returned and Reviewed**

**12/8            The Ethics of Progress: Entrepreneurship and Spontaneous Orders**

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 reforms and innovation. Brave enough to be unorthodox, to take chances? Smart enough to innovate and see opportunities? Honest enough to produce rather than defraud. Aristotle's virtues in a market context. Alternative conceptions of entrepreneurship and market process. Markets as experimental laboratories

**12/8            Last day of class / overview / review for final**

**Study Guide II**

**12/14            6-8 Page paper due on an applied public finance topic (via e-mail)**

*If you are a student with a disability and you need academic accommodations, please see me and contact the disability Resource Center*