



An Overview of the Moral Foundations of Capitalism

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(Spring Semester Online 2021)

The logic of the course in a nutshell

- (1) Markets are not all equally effective at providing individuals with the material comforts that we take for granted in the contemporary US. Why is that the case?
- (2) Many explanations are incomplete: If it is a lack of technology, why has existing technology not been used? If it is a lack of capital, why had capital not been accumulated? If it is bad government policy, why has government policy been bad in some places and not in others?
- This course suggests that internalized norms, many of which can be regarded as parts of “ethics” or “moral theory” provide at least a partial explanation for the variation stressed under #2 and also contribute to economic growth in other ways as well.

Part I: Ethical Theories

- Part I provided an overview of several important theories of the good life and good society, all of which had implications for a good life. It is important to understand that ethical theories do not all support markets.
- Among the most complete, were those of
 - (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 assessment 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 ethical theories, **part I also demonstrated 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 morally irrelevant because it is motivated by interest rather than duty, 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 a moral activity 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: Changing lists of virtues and reduced reservations concerning commerce

- In general, the philosophical and political writings reviewed in part I reveal sustained trend in increased support for commerce during 18th and 19th centuries.
- Careers in commerce can be a divine calling
- Careers in commerce can be virtuous and praiseworthy
- The wealth of nations was grounded in commerce not governments
- Careers in commerce contributed to social welfare/aggregate utility because of mutual gains from trade and specialization
- Lists of virtues began to include industriousness and honesty
- **A good life gradually became an active creative life and a good society became a prosperous and innovative one—e.g. a commercial society**

Part II: Ethics as Solutions to Social Dilemmas

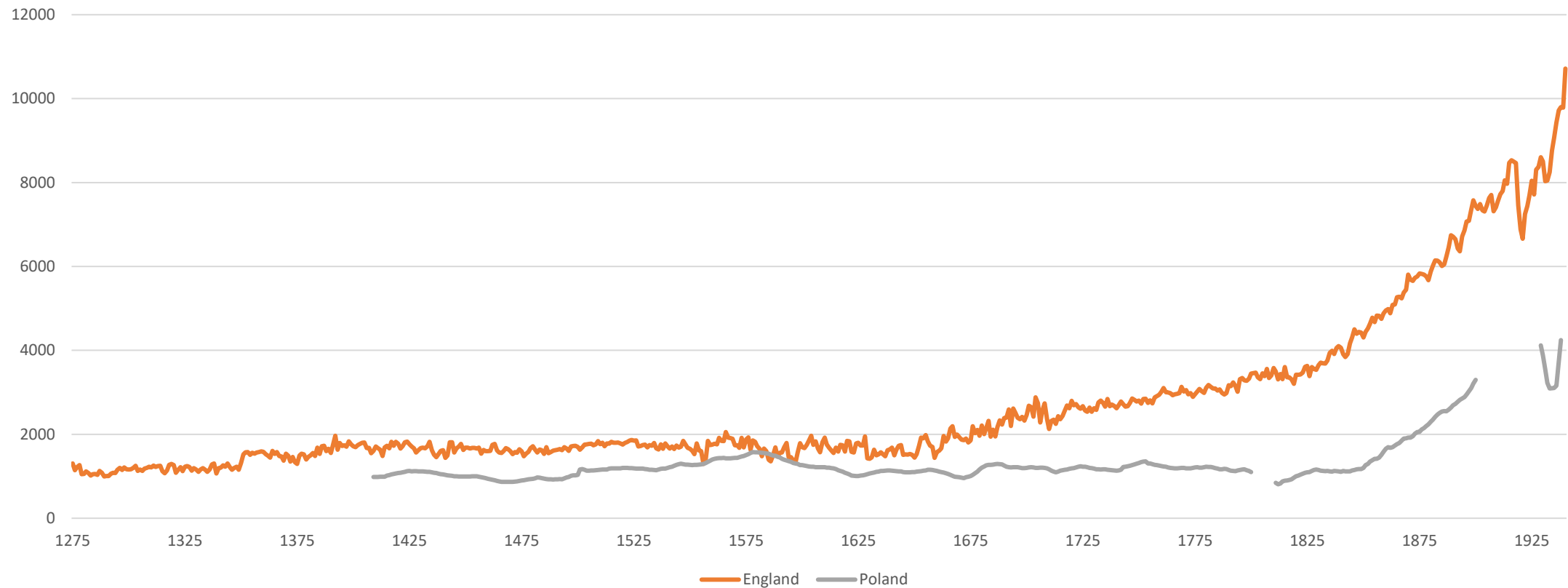
- **Part II of the course suggests that at least a subset of ethical dispositions (virtues) are economically important because they provide solutions to or reduce losses from social dilemmas.**
- Examples include the Hobbesian dilemma (conflict), the Hardin dilemma (commons problem) and various free riding problems (public goods, team production, the ethical training of children, etc.)
- Markets, perhaps surprisingly, have their own dilemmas. Trade is not automatic. Market dilemmas include trade itself, the problem of fraud, and realizing the benefits of specialization and team production.
- Norms—internalized rules of conduct and/or methods of evaluating conduct—may solve dilemmas, encourage the development of solutions, or reinforce solutions previously worked out.
- Rules of conduct that solve social dilemmas have an evolutionary advantage over those that do not—and so tend to be more often passed on to others.

Part II: Innovation and Capital Accumulation as characteristics of commercial societies

- One can have markets without having much capital accumulation or innovation. Many products sold today (spices, grains, meat, wooden bowls, wooden handled tools, ceramic cups, plates, jugs, and gold jewelry) have been produced in more or less the same way for several thousand years.
- With innovation and capital accumulation, new possibilities emerge. Technology advances and both new products and production methods are adopted by commercial organizations, which reduces costs for many items.
- Ethical innovations include changes religious doctrine (some of which were associated Protestantism), contract theories of societies, and utilitarian characterizations of the good society. These innovations tended to support economic development.
- **According to the theory worked out in Part II, the ethical theories reviewed in Part I should be associated with an acceleration of economic development in the West—if the theory worked out in part II is correct.**
- We do see such an acceleration.

Part II: Some Evidence—a quadrupling of average income in England after a century and a half

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



Part III: Ethics and Politics

- 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 or solve social dilemmas that contribute to economic development but which were not solved by the norms internalized in the society of interest.
- However, **to do so, a variety of political dilemmas have to be solved** as developed in part III of the course.
- These too are likely to be solved for the most part by recruiting persons with appropriate ethical dispositions. [Remember that it is not ethical behavior itself that solves social dilemmas but only a subset of the behavior regarded to be ethical, the part that solve relevant social dilemmas.]
- Part three demonstrates that a variety of dilemmas are associated with 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 from 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 disenfranchise those out of office
- **Part III demonstrates that ethical dispositions are likely to play a role in solving all of these problems**
- **If that is true, there should be systematic differences among governments that are associated with differences in the most commonplace norms within the territories governed. There is evidence of such differences.**

Part III:
Some
Evidence
that
Ethical
Dispo-
sitions
Affect
Political-
Economy
Outcomes

Table 7: On the Variety of Democratic 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

Conclusion



- (1) This course developed a theory of the role of ethics in society that is largely in accord with ancient and contemporary history. It provides an explanation for the observed variation in the extent of commerce around the world and in particular regions through time. **That theory implies that capitalism—contemporary commercial societies—have moral foundations.**
- (2) **A subset of ethical disposition are economically important because the solve social dilemmas.** 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 of these problems to be resolved. It also benefits from supportive ethical dispositions such as a work ethic, and it also requires public policies that do not discourage capital accumulation and innovation. The latter are largely determined by the ethical dispositions of moderate voters in countries with democratic constitutions (their ideas about the nature of a good life and good society).