Today’s agenda

- Today we’ll be discussing Deirdre McCloskey’s *Bourgeois Virtues*
- Prior to that:
  - A brief *motivation*
  - A primer on *virtue ethics*
  - An introduction to *Adam Smith*’s views on capitalism & virtues
Why Capitalism Needs Ethics: A Proof

- Suppose we lived in a world in which **self-interest was the only motivation**
- In such a world **it would be very difficult to conduct any business transactions** because these are usually:
  - sequential
  - based on **under-specified** (if any) **contracts**.
- In other words, we need a modicum of **trust** and **regard for others** (even altruism) if self-interest is to do anything for us
- Note that **trusting an arbiter is trusting too**
- As a good example, think of the **doctor-patient relationship**
Virtue Ethics: A Primer

- One of the three major approaches to (normative) ethics; alternatives: **deontology** and **consequentialism**

- **Deontology**: from *deon* = duty, obligation; ideal: an action is right if it follows or implements an abstract rule such as:
  - The golden rule
  - Kant’s categorical imperative
  - The ten commandments

- **Consequentialism**: an action is right if it is the best available action in terms of its consequences
  - Welfarism: consequences for welfare
  - Capabilities Approach (in some readings): consequences for capabilities
Virtue Ethics: A Primer

- Virtue ethicists do not focus on acts but on agents’ characters; virtues are simply excellent traits of character.

- Apart from virtue, further important concepts are: *phronesis* (‘practical wisdom’, which enables its possessor to identify the thing to do in any given situation) and *eudaimonia* (‘human flourishing’ or the ‘well-lived life’: the state reached by practicing the virtues).

- Goes back to Plato, Aristotle, Stoics.

- Rediscovery in 1958 by Elizabeth Anscombe (‘Modern Moral Philosophy’).
Adam Smith, Capitalism, and Ethics

- Adam Smith is better known as the author of the **Wealth of Nations**, supporter of free trade, and one of the originators of the **invisible-hand hypothesis**

- But he was first and foremost a moral philosopher and developed a system of **virtue ethics** that was not unlike Aristotle’s in his *Theory of Moral Sentiments*

- Part VII of TMS offers a short **history of moral philosophy**, which stresses the contributions of Plato, Aristotle, and the Stoics and hopes for a revival of ancient Greek ethics
Adam Smith, Capitalism, and Ethics

- Smith was therefore particularly interested the effects of social processes on the development individuals’ characters and, in particular, their virtues.

- There are many different virtues, and Smith held that the commercial society cultivates some virtues but not others.

- For example, because commerce creates wealth, it enables people to act with benevolence towards others (or display the Christian virtue of charity).

- The development of regular and frequent market relations, Smith thought, tends to lead to honesty, or what he called probity.

- The market tends to lead toward self-control through the pursuit of self-interest in the market.
Adam Smith, Capitalism, and Ethics

• On the other hand, Smith thought that society also needed people with certain ‘higher virtues’ such as bravery and fortitude, without which it could not defend itself (cf. Schumpeter’s ‘feudal shackles’ thesis)

• One purpose of TMS was to encourage these greater virtues that were not provided by the market itself

• Smith also observed that the positive effects could only be expected under certain conditions such as the rule of law and competition

• His overall assessment of the moral effects of capitalism was therefore mixed
Bourgeois Virtues

- McCloskey (*1942) is an economist, economic historian and methodologist
- The main contribution of her book on the bourgeois virtues is an ethical defence of capitalism — or ‘bourgeois society’
- She argues that those who portray the economic agent as someone who acts on (the virtue of) prudence alone (max U!) are mistaken; economic action needs and nourishes other important virtues too
- Along the way she offers a systematisation of all traits into seven main virtues
- Any ethical system that emphasises one or a small set of virtues over the others is faulty (utilitarianism: prudence; Kant: justice with temperance; romanticism: love and courage)
Capitalism makes us better people

- McCloskey argues that capitalism both was brought about by and promotes and nourishes the bourgeois values

- First, there is the issue of ability: in abject poverty it is difficult to work on oneself to develop a virtuous personality

- Second, wealthier people tend to be less attached to their material possessions — as they are more used to them — as well as less violent — as they have more to lose

- Third, commercial transactions are a great source of self-respect
Love

- McCloskey in fact argues that capitalism encourages all seven ‘bourgeois virtues’
- Take Love as an example (she really means Solidarity)
- We’ve already seen that an economic exchanges require some degree of solidarity or altruism in order to take place at all
- But through market exchange altruistic behaviour is also encouraged:
  - e.g., through foreign trade with strangers
  - we carry our social norms with us, independently of the ability for anyone to punish us (tipping a cabbie I’ll probably never see again, or when travelling)
- There is much evidence that such mechanisms are, at least sometimes, operative; for instance:
  - In cross-country studies of the dictator game, mean offers rise in proportion to the degree of market integration in that society
**Faith**

- By **Faith** McCloskey means behaviour that honours an identity such as that to one’s family or town or nation (aka loyalty)

- In a study of the Sydney hotel industry, it was found that friendships among competing hotel managers generate about $2.25m more of gross revenues per year per hotel: for example, through recommendations of the competing hotel when fully booked

- Importantly: **the instrumental benefits of friendships are inextricably linked to the affective element** (false friends get found out!)

- Sociologist Ray Pahl has argued that, ‘Counter to what the classical sociological tradition appears to suggest, Aristotelian styles of friendship re-emerged with the coming of commercial-industrial society in the eighteenth century… Counter to what is assumed in much modern social theory, it was precisely the spread of market exchange in the eighteenth century that led to the development of new benevolent bonds’

- Why? Though earlier societies knew bonds, these were to a large part **not voluntary**
Hope

* **Hope** (the secular version of which is, according to McCloskey, magnanimity) is, of course, necessary for any business enterprise – hope that one’s inventions pan out, that products find customers, that ideas for improvements will flow also in the future, that one’s employees don’t steal, shirk, or run away…

* There is a fundamental hope that can only arise under capitalism: that of **social betterment**

* This can arise in two forms:
  * As **social mobility**, upwards within society
  * As **economic progress**, upwards as the whole society
Justice

- Capitalism requires and encourages:
  - insistence on **private property** honestly acquired;
  - the **rule of law**;
  - to pay willingly for good work and to **honour labour**;
  - to **break down privilege**: to value people for what they can do rather than for who they are,
  - to view **success without envy**
- To discuss one mechanism, market exchange, in particular, competitive market exchange, **encourages non-discriminatory behaviour**:
  - As business owner I discriminated against members of other groups — both as customers as well as as employees — at my own peril
  - There is experimental evidence from experiments with trust games to the effect that markets encourage the equal treatment of individuals in ways that undermine discriminatory practices
Courage, with Temperance

- Capitalism, finally, requires and encourages:
  - **Courage**
    - to venture on new ways of business;
    - to overcome the fear of change;
    - to bear defeat unto bankruptcy;
    - to be courteous to new ideas.
  - **Temperance**
    - to save and accumulate;
    - to educate oneself in business and in life;
    - to listen to the customer;
    - to resist the temptations to cheat;
    - to ask quietly whether there might be a compromise here
Capitalism and Democracy

- Capitalism has not just caused a great enrichment, but through it also a great **expansion of life expectancy**
- It is only through this that many people have the capability of developing **political interests** and a **desire to voice them**
- Moreover, by encouraging the development of virtue, capitalism supports democracy through, for instance, the **advancement of public spiritedness** (cf. Tocqueville), **courage** (to run for office etc.), faith/identity and **hope**
A brief discussion

- Mechanisms are **easy to imagine** in the social sciences.

- Even **very good evidence of the existence of some mechanism** does not in any way rule out another mechanism to the **opposite effect**.

- As we’ll see next week, **markets also have corrupting effects**.

- The question is: **which mechanisms have a quantitatively stronger effect?**

- In her defence, **McCloskey makes many claims about averages** – but these are difficult to support.