



PHILOSOPHY OF ECONOMICS & POLITICS

LECTURE 15: THE BOURGEOIS VIRTUES

DATE **11 FEBRUARY 2019**

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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