

-Syllabus-

Market Ethics
The Vices, Virtues, and Values of Capitalism

Randall Holcombe

Spring 2010

COURSE OBJECTIVES: Critics of capitalism say it is an amoral system, or worse, that it encourages immoral behavior. Capitalism exploits people, it is unfair, and it values material things over more virtuous values. This course will examine the vices, virtues, and values of capitalism to evaluate its ethical properties. This will be done by having classroom discussions on a series of topics, listed below, through which the ethics of capitalism can be explored. The course is not designed to give you answers to these questions, but rather to raise questions and clearly-structured issues so that you can think through them and form your own ideas.

INSTRUCTORS: Randall Holcombe. Office hours: MWF 1:30-2:30, or by appointment. Office location: 162 Bellamy. e-mail: holcombe@fsu.edu. Web site: www.RandallHolcombe.com. Teaching assistant: Chris Boudreaux. e-mail: cjb09f@fsu.edu.

DAILY ASSIGNMENTS: Bring a blank piece of paper and something to write with to class every day. You will have a daily writing assignment which will require you to write a short response to a question or issue I raise in class. These assignments will be read by Mr. Boudreaux and evaluated on a pass-fail basis. You are required to attend class to hand in an assignment. If you miss three or fewer assignments, you will be exempt from the exam on the last class day. A failure on an assignment counts as a missed day.

GRADED ASSIGNMENTS:

20% First examination, February 19.

20% Second examination, March 26.

20% Paper.

20% Test on *The Ethics of Liberty* and *Atlas Shrugged*, given on the last class day. If you miss three or fewer daily assignments you can exempt this test and receive full credit (100%) for the test.

20% Final Examination, given on the regularly scheduled exam day for this period, Thursday, April 29, from 12:30-2:30.

PAPER ASSIGNMENT: Capitalism Brings Out the Best in People: Pro and Con. Write between five and ten pages making the argument that capitalism encourages people to act in a way that is best for them and for others. Then write between five and ten pages arguing that capitalism encourages people to act against their own interests and/or the interests of others. Does the market mechanism encourage anti-social behavior, immoral behavior, or place material rewards above the higher values of mankind? Or, does it encourage peaceful cooperation among individuals, and give them good reasons for working for the benefit of their fellow citizens? Then write a concluding section evaluating the values of capitalism. You can take one side or the other, or conclude that there is an element of truth in both sides.

Papers should be typed, double-spaced. You must hand in a "hard copy" of your paper, and may not hand in your paper via e-mail or in another electronic form. The paper is due at the end of the class period on April 9, and I will count off one letter grade for each day the paper is handed in late. Papers handed in after 3:20 will be counted as handed in the next day.

Students with disabilities should register with the Student Disability Resource Center, and provide documentation to me indicating any accommodations needed as a result of the disability.

Students are expected to abide by the FSU honor code. You may discuss the paper assignments with your classmates. You are expected to do all of your own work on the paper and examinations.

Readings:

Textbook: Murray N. Rothbard, *The Ethics of Liberty*. I picked this book because it's thought-provoking and takes an economic approach to ethical issues.

Essays: Ayn Rand, "Man's Rights" and "The Nature of Government." See the internet addresses below to access them. They are also available in Rand's books, *The Virtue of Selfishness*, and *Capitalism: The Unknown Ideal*. Friedrich Hayek, "The Use of Knowledge in Society." Citation below; also available in his book, *Individualism and Economic Order*.

Supplementary reading: Ayn Rand, *Atlas Shrugged*. This book is a novel, and presents a strong ethical argument in support of capitalism. The book has had a big impact, and drawn strong reactions, both positive and negative. What do you think?

Discussion Topics

1. The productivity of capitalism.
 - A. Economic growth since the industrial revolution.
 - B. Debate on the productivity of capitalism ended with the fall of the Berlin Wall.
 - C. Is there an "Invisible Hand?"
 - D. What role should government play in the economy?

2. The coordinating function of markets. (from the article by Friedrich Hayek, "The Use of Knowledge in Society," *American Economic Review* 35, no. 4 (September 1945): 519-530. Find it at www.jstor.org/stable/1809376 (may require an FSU computer for access).
 - A. Market equilibrium versus market clearing.
 - B. Equilibrium versus progress.
 - C. Markets enable the best use of the disbursed and tacit knowledge of everyone.
 - D. Markets necessary when conditions change.

3. Man's Rights. (from the essay by Ayn Rand)

Find it at www.aynrand.org/site/PageServer?pagename=ari_ayn_rand_man_rights
 Also read Rothbard, *The Ethics of Liberty*, PART I.

4. The Nature of Government. (from the essay by Ayn Rand)

Find it at www.aynrand.org/site/PageServer?pagename=ari_ayn_rand_the_nature_of_government
 Also read Rothbard, *The Ethics of Liberty*, Chapter 22.

5. More on rights.
 - A. Do people have a right to the status quo?
 - B. Do people have a right to their job?
 - C. Defending capitalism: rights versus utility.

6. Intellectual property rights
 - A. Do people have a right to property, or to the value of property?
 - B. If you use someone's idea, are you taking anything from that person?
 - C. Copyright, patent, and trademark rights.

7. Positive versus normative economics.
 - A. Facts versus values.
 - B. Values implied in prices.
 - C. Are prices determined by the purchasing power of different individuals?

8. The doctrine of "just price."
 - A. Price gouging.
 - B. Rent controls.
 - C. Minimum wage laws.
 - D. Regulated prices (insurance rates, utility rates, etc.).

9. The marginal productivity theory of wages.
 - A. Karl Marx: How capitalists exploit labor.
 - B. Do CEO's, sports stars, and entertainers deserve their huge incomes?
 - C. "Superstar" professions.
 - D. Market value versus intrinsic value.

10. Ethics versus social science.
 - A. Are there laws of social science? (Ludwig von Mises)
 - B. Should ethical principles override the laws of social science in policy matters?
 - C. The distinction between law and ethics.
 - D. Does human nature require a particular type of social organization?
(See familiar story at the end of the topics.)
 - E. Does economic education make people less public-spirited?

11. Society, Nation, and Government
 - A. Do societies have responsibilities to their members?
 - B. Nationalism.
 1. Tribalism?
 2. Why do national borders matter?
 - C. The distinction between a nation and the nation's government.

12. Markets and rights.
 - A. Why do people have rights?
 - B. Are property rights natural rights?
 - C. The contrasting views of Thomas Hobbes and John Locke (See excerpts below).
Rothbard, *The Ethics of Liberty*, PART II.

13. Is there a social contract?
 - A. Locke and Hobbes, again.
 - B. Rawls and Buchanan.

14. Markets and Exploitation
 - A. Do capitalists exploit labor?
 - B. International trade and exploitation.
 - C. Exploiting low-cost labor.
 - D. Are people forced into "desperate exchanges?"

15. Foreign aid.
 - A. Do wealthy societies have an obligation to help poorer ones? If so, how?
 - B. Does foreign aid help or harm recipients?

16. Markets and politics; conflict and cooperation.
 - A. Market cooperation; political conflict.
 - B. How much do we have in common with others in our economic/political arena?
 - C. Example: World-wide cooperation produces a computer for you.
 - D. International conflict: US and China; politics and markets.

17. Institutions and ethics.
 - A. Debtors' prisons.

- B. The corporate form.
 - C. Eminent domain.
 - D. How do institutions affect outcomes?
18. Is orderly anarchy feasible?
- A. How would it work?
 - B. Is anarchy better than bad government? The case of Somalia.
 - C. Is orderly anarchy stable?
 - D. Is orderly anarchy moral?
- Rothbard, *The Ethics of Liberty*, PART III.
19. Selling yourself.
- A. Labor contracts: Not binding on the employee.
 - B. Organ donation versus organ markets.
 - C. Should people be allowed to sell themselves into slavery?
- Rothbard, *The Ethics of Liberty*, Chapters 9 and 19.
20. Economic freedom and political freedom.
- A. Does one lead to the other?
 - B. Is democracy consistent with economic freedom?
 - C. Can we vote away our freedoms?
- Rothbard, *The Ethics of Liberty*, Part IV.
21. Taxation is theft.
- A. Taxes are the price we pay for government goods and services.
 - B. Ability to pay versus benefit principle.
 - C. Unethical for individuals; ethical for government?
22. Do people have a right to health care?
- A. Rights versus entitlements?
 - B. Who is obligated to pay for entitlements?
23. Inequality versus poverty.
- A. Why is equality desirable?
 - B. Sen: ability to function in a society.
 - C. Rawls: Maximize the well-being of the least-well-off.
 - D. Interpersonal utility comparisons and social welfare.
 - E. Why the focus on inequality within nations?
24. How can we help the less fortunate?
- A. Some people need permanent help; some don't.
 - B. Advantages of private charity.
 - C. Will private charity be sufficient?
 - D. Will people "free ride" and not contribute?
 - E. Does public charity create welfare dependency?
25. International issues.
- A. National policies and international welfare.
 - 1. Effects of tariffs, etc., on less developed nations.
 - 2. Why take a nationalistic perspective?
 - B. Do sweatshops exploit their workers?
 - C. Why are poor nations poor?
 - 1. Answer: Exploitative governments.
 - 2. But, what can "we" do to change that?
 - D. Should governments interfere in other countries?

26. Does capitalism make people materialistic?
- A. Conspicuous consumption, snob, and bandwagon effects (T. Veblen).
 - B. The dependence effect (J.K. Galbraith).
 - C. Luxury fever (Robert Frank).
27. Markets, government, and community.
- A. What is the value of community?
 - B. When your barn burns down, do you rely on your neighbors or your insurance company?
 - C. When you can't support yourself, do you rely on government transfers or family?
28. Altruism and markets.
- A. Are people really led by an invisible hand to do what's best for others?
 - B. What is the role of altruistic behavior in a society.
 - C. Do markets reward avarice and greed?
 - D. Do people have a moral obligation to help others?
 - E. Should people have a legal obligation to help others?
 - F. Conserving on altruism: Does market exchange create more altruistic behavior?
29. Can Money Buy Happiness?
- A. Evidence from research on happiness.
 - B. Relative vs. absolute well-being.
30. Externalities and public goods.
- A. Externalities and property rights.
 - B. Are free riders a problem?
31. Monopoly profits.
- A. Government regulation and monopoly profits.
 - B. Do businesses deserve to keep their monopoly profits?
 - C. The role of profits in the economy.
 - D. Entrepreneurship and profits.
32. The social responsibility of business.
- A. Can businesses do anything besides maximize profit?
 - B. Is being a good corporate citizen profit-maximizing strategy?
 - C. Institutions and social responsibility.
33. Does capitalism encourage ethical behavior?
- A. Trustworthiness pays off.
(Sincerity is the key. Once you can fake that, you've got it made.)
 - B. People benefit by providing benefits to others.
(We cheat the other guy and pass the savings on to you.)
 - C. The doctrine of continuous dealings: Escaping the prisoners' dilemma.
(Friends come and go, but enemies accumulate.)

From Thomas Hobbes, *Leviathan* (1651).

From Chapter XIII: Hereby it is manifest that during the time men live without a common power to keep them all in awe, they are in that condition which is called war; and such a war is of every man against every man. ... In such condition there is no place for industry, because the fruit thereof is uncertain: and consequently no culture of the earth; ... and which is worst of all, continual fear, and the danger of violent death; and the life of man, solitary, poor, nasty, brutish, and short.

To this war of every man against every man, this also is consequent; that nothing can be unjust. The notions of right and wrong, justice and injustice, have no place. Where there is no common power, there is no law; where no law, no injustice. Force and fraud are in war the two cardinal virtues.

From Chapter XVII: The only way to erect such a common power, as may be able to defend them from the invasion of foreigners, and the injuries of one another, and thereby to secure them in such sort as that by their own industry and by the fruits of the earth they may nourish themselves and live contentedly, is to confer all their power and strength upon one man, or upon one assembly of men, that they may reduce all their wills, by plurality of voices, unto one will: which is as much as to say, to appoint one man, or assembly of men, to bear their person; ... and therein to submit their wills, every one to his will, and their judgements to his judgement. ... every man should say to every man: I authorise and give up my right of governing myself to this man, or to this assembly of men, on this condition; that thou give up, thy right to him, and authorise all his actions in like manner. ... This is the generation of that great LEVIATHAN... to the end he may use the strength and means of them all as he shall think expedient for their peace and common defence.

From John Locke, *Second Treatise on Government* (1690), Chapter 5, "Of Property," Sec. 27: Though the earth, and all inferior creatures, be common to all men, yet every man has a property in his own person: this no body has any right to but himself. The labour of his body, and the work of his hands, we may say, are properly his. Whatsoever then he removes out of the state that nature hath provided, and left it in, he has mixed his labour with, and joined to it something that is his own, and thereby makes it his property. It being by him removed from the common state nature hath placed it in, it hath by this labour something annexed to it, that excludes the common right of other men: for this labour being the unquestionable property of the labourer, no man but he can have a right to what that is once joined to, at least where there is enough, and as good, left in common for others.

Story to accompany “Does human nature require a certain type of social organization?”

A young man, who had grown up in a beautiful valley, had eyed a tall, rugged, snow-capped mountain on the horizon for most of his life. One day he decided to challenge himself by climbing to the peak. After a hard climb he made it to the top, where he felt like he could see forever, and had a feeling of happiness and pride at his accomplishment.

Then he heard a rustle at his feet, and looking down, he saw a snake. Before he could move, the snake spoke: “I am about to die,” he said. “It is too cold for me up here and I am freezing. There is no food in these mountains and I am starving. Please put me under your coat and take me down to the valley.”

“No,” replied the young man. “I know your kind. You are a rattlesnake. If I pick you up, you will bite me, and your bite will kill me.”

“No, no,” said the snake. “If you help me, you will be my best friend. I will not harm you.”

The young man resisted for a while, but the snake was persuasive. The young man looked at the beautiful markings on the snake and had to admit that it was the most beautiful snake he had ever seen.

“I believe you,” he said. “I will save you. All living things deserve to be treated with kindness.” He put the snake gently under his coat and carried it to the valley, where he laid it gently on the grass.

Suddenly the snake coiled and leapt, biting him on the leg.

How could you do this to me?” cried the poor youth. “You promised that you would not bite me, and I trusted you!”

“You knew what I was when you picked me up,” hissed the snake as he slithered away.