Morality, Ethics and Markets

Association of School Economics Teachers
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Overview

- Why is ethics important?
- Economics and ethics
- Morality and the absence of markets
- What values do markets encourage?
- Why can’t markets get any respect?
Why Ethics Is Important in Economics
Unethical Behavior = Bad News
Unethical Practices in Business

- Enron?
- Adelphia?
- AIG Bonuses
- Bernie Madoff
Unethical Behavior in Government

• Arrests in New Jersey, Milwaukee, Chicago...
• Disappearance of South Carolina Governor Mark Sanford
• Prosecution of Duke University students
Earmarks Anyone?

• In 2010, Congress has proposed 10,160 earmarks worth $19.6 billion.
The King
E = GB?
The Economic Way of Thinking

• All social phenomena emerge from the choices that individuals make in response to expected costs and benefits to themselves.
  — Paul Heyne
Altruistic Behavior? Self-Interested Behavior?

- Why do people commit acts of heroism?
- Why do people volunteer to help others?
- Why do people return lost wallets to strangers?
- Why do teachers teach in poor private schools? Inner-city schools?
- Why do people fight for their country?
Do Markets Encourage Only Greed and Selfishness?

- Selfishness is not the same as self-interest.
- Self-interested behavior is selfish only if one’s interests are selfish.
  - From what do teachers or other professionals derive their greatest satisfaction?
Do People Do Everything for Money?

• Only a miser wants money for itself.
  – Liz works extra hours to earn money to send her son to a math tutor.
  – Jennifer worked extra hours so that she can go to Las Vegas with her friends over spring break.

• Who is least selfish?
Scarcity Is Real

• Wants > Resources
• Life is finite.
• Things must be rationed.
• Competition cannot be avoided -- even saints face competition.
• Competition balances self-interest.
What Form Will Competition Take?

- Royal family decisions?
- Street brawls?
- Dictator decisions?
- Legislative decisions?
- Markets?
Money Is a Powerful Incentive

- Money offers us a means to an end.
- Money allows us to obtain voluntarily the cooperation of strangers.
  - Suppose we need more engineers and fewer accountants?
  - How do we voluntarily influence the choices of individuals?
Markets Foster Cooperation

• Markets foster vast amounts of voluntary cooperation.
• Everyone stands at all times in need of the cooperation and assistance of great multitudes.

Adam Smith WN
How will John Stossel get a steak from people he doesn’t know like Virgil?
How will John Stossel get a steak from people he doesn’t know like Virgil?
Teaching Tools for Micro and Macro Economics from John Stossel

- **High School Edition DVD**
- This program includes 31 clips designed for use in a high school economics course.
- Most clips run about four minutes.
- The DVDs are available in both high school and college versions from ABC News for $29.95 each or the set of two for $49.95. They may be ordered at:
Is Morality Part of Mainstream Economics?
Adam Smith on Morality
Adam Smith on Morality

• What was Smith’s most important book?
• *Wealth of Nations*, 1776?
• *Theory of the Moral Sentiments*, 1759?
• *TMS*:
  – A work on ethics and human nature.
  – It was the sensation at the time.
Adam Smith on Morality

• Economics is a moral discipline founded by Adam Smith who was a moral philosopher, and much that is important about economics cannot be fully understood or appreciated without considering its moral dimensions.
Adam Smith on Morality

• Smith argued that people are born with a moral sense, just as they have inborn ideas of beauty or harmony.

• Our conscience tells us what is right and wrong.

• We have what Smith calls "sympathy."
Adam Smith on Morality

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Adam Smith on Morality in *TMS*

- “How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it.
- Of this kind is pity or compassion, the emotion which we feel for the misery of others, when we either see it, or are made to conceive it in a very lively manner.
Adam Smith on Morality

• That we often derive sorrow from the sorrow of others, is a matter of fact too obvious to require any instances to prove it; for this sentiment, like all the other original passions of human nature, is by no means confined to the virtuous and humane, though they perhaps may feel it with the most exquisite sensibility.

• The greatest ruffian, the most hardened violator of the laws of society, is not altogether without it.”
Morality in the Absence of Markets
The Battle for the Overhead Bins

- Air travelers kiss their loved ones goodbye...
- And then transform into baggage warriors stuffing all sorts to oversized bags rudely into overhead bins.
- Why do they do that?
- **Bonus Question:** How could a change in the rule of the game influence their behavior?
Who Desegregated Major League Baseball: Jackie Robinson or Adam Smith?

• Branch Rickey, President of the Brooklyn Dodgers, signed Jackie Robinson in 1947 to be the first African American player in the major leagues.

• It took courage to make the offer and to sign.

• Racial segregation in 1947 was widespread.
Racial Discrimination

- Jim Crow laws were enacted by several state and local governments as a way to keep segregate African Americans segregated.

- In the south, nearly every aspect of life was separate including public schools, buses, railroad passenger cars, restrooms, swimming pools, pool halls, and restaurants.
Racial Discrimination

• The U.S. armed forces were segregated.
• In the 1920s, an African American man could not enlist in the U.S. Navy.
• While northern states did not pass Jim Crow laws, the same types of racial segregation existed by custom or de facto social arrangements.
Could Markets Help?

- In 1954, the U.S. Supreme Court declared state sponsored school segregation to be unconstitutional -- but little changed immediately.
- It would take years and additional court decisions before schools and other institutions would take actions regarding desegregation.
Why Some and Not Others?

• Yet, some sectors abandoned racial segregation well before the Civil Rights Act of 1964 and the Voting Rights Act of 1965.

• Why might some markets – like major league baseball – respond more quickly to reduce racial segregation than others?
Cutty’s Pretty Good Lawn Service

- Cutty Coleman owns Cutty’s Pretty Good Lawn Service
- Cutty has decided to expand -- hire one new employee.
Employee A

- Can cut and trim two average size lawns between 8:00 am and 12:00 noon using the company’s standard riding mower, the standard walking power mower and the gas powered trimmer.

- Wishes to be paid $10.00 per hour.
Employee B

• Can cut and trim **three** average size lawns between 8:00 am and 12:00 noon using the company’s standard riding mower, the standard walking power mower and the gas powered trimmer.

• Wishes to be paid $10.00 per hour.
Employee C

• Can cut and trim four average size lawns between 8:00 am and 12:00 noon using the company’s standard riding mower, the standard walking power mower and the gas powered trimmer.

• This employee wishes to be paid $10.00 per hour.
Who Should Cutty Hire?

• Employee C of course.
• Now, imagine that employee C is a member of a group (age, race, gender, religion, or sexual orientation) towards which Cutty holds bigoted views.
• Might he hire employee C anyway?
Who Should Cutty Hire?

• Now imagine that employee C would be willing to work for less than $10.00 an hour?

• Now the pressure is really on...
Who Should Cutty Hire?

- Competitive labor markets make it costly for a business owner to fail to hire the best worker.
- Racial discrimination required a lot of effort — such as the force of local, state law — to make it work because the profit motive continually worked against it.
Southern Street Car Owners

- There were many examples of white-owned businesses in the south which tried to hire African American employees or serve African American customers.
Street Car Owners Wanted to Earn Profits

- Southern street car owners early in the 20th century refused to discriminate against African Americans because discrimination reduced their profits.
Hauling Around Empty Space

• One manager complained that Jim Crow segregation laws increased costs because the laws required the company to “haul around a good deal of empty space that is assigned to colored people and not available to both races.”
  – African Americans boycotted streetcar lines that obeyed the law and discriminated against them.
  – Some African Americans formed competing horse-drawn carriage companies.

• In Augusta, Savannah, Atlanta, Mobile, and Jacksonville, streetcar companies refused to enforce segregation laws for as long as 15 years after their passage.
But They Gave Up

• But one by one, the companies succumbed as pressure from the government for segregation grew and began to outweigh the costs imposed by the penalty on profits.
Our Baseball Draft
Our Baseball Draft

Mark Schug

Right field
Bats .120
40 time: 8.0
Fan appeal __?
<table>
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<tr>
<th>Mark Schug</th>
<th>Volunteer 1</th>
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## Our Baseball Draft

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Which Player Would You Draft?

• The most productive player!
• So, some club owners wanted to hire the best players regardless of race but...
• They had an agreement to only sign white players.
Competition in Baseball: One of a Kind

- Baseball club owners are exempted from federal anti-trust laws.
- This was the result of a 1922 Supreme Court ruling in the case of the Federal Baseball Club of Baltimore, Inc. v. National League of Professional Baseball Clubs.
Incentives to “Cheat”

• Despite the fact that major league baseball clubs operated a legal cartel, club owners still faced competition.
• Competition erodes the ability of a cartel to enforce the agreements among its members.
Competition from the Negro Leagues

- Dozens of African American professional and semi-professional baseball teams played from 1887 to 1950.
- The most successful was the Negro National League founded in 1920 by Rube Foster, who was eventually elected to the Baseball Hall of Fame.
Competition from the Negro Leagues

• During the 1930s and 1940s a new Negro National League was established; it was regarded as having the most talented players.
• In 1946 the West Coast Professional Baseball League was formed in California.
• The West Coast league only lasted one season.
Competition from Barnstormers

• Then there were the barnstorming African American teams like the Omaha Tigers and the Miami Giants.

• Barnstorming teams traveled circuits in the south or Midwest, for example.
Competition: Paige and Dean

• The most famous barnstormers were the Satchel Paige All Stars (all African American players) and the Dizzy Dean All Stars (all white players).

• They toured the nation every October from 1934 to 1945 and were watched by thousands of fans.
Competition to Win In NYC

• Competition in big baseball markets like New York City was more intense than it was in smaller baseball markets.

• After World War II, for example, New York City had three professional baseball teams -- the Brooklyn Dodgers, the New York Yankees and the New York Giants.
Competition to Win in NYC

- Fans love to follow winning teams.
- Mass transit allowed fans to shift loyalties easily from one club to another.
- Having a winning team was one way to attract fans.
- Having spectacular players was another.
Robinson Signs

- In 1946, Rickey signed Robinson who played that year in the Montreal Royals.
- In 1946, the Brooklyn Dodgers finished two games behind the Cardinals.
- 1947 was the rookie year for Jackie Robinson with the Dodgers.
Why Some and Not Others?

- Overnight, Robinson became the largest attraction in baseball.
- Huge crowds turned out to see him play.
- In 1947, the Dodgers won the National League pennant.
- The Dodgers won the World Series in 1955.
More Players Are Signed

- Rickey was aware of his overnight success.
- He quickly signed more African American players such as Roy Campanella and Don Newcombe.
American League

- Bill Veeck, the owner of the Cleveland Indians, signed outfielder Larry Doby who started playing weeks after Robinson in July of 1947.
- Veeck also signed the oldest rookie ever signed – Satchel Paige in 1948.
- Paige was 42 years old.
Bill Veeck

- Wanted to buy the Philadelphia Phillies in 1944 and hire African American players.
- Veeck is most remembered for sending Eddie Gaedel to the plate when he owned the Browns.
Wins

- James Gwartney and Charles Haworth found that the number of African American players was a significant factor in determining the number of games won.
- For the period from 1950-1955, they found that the inclusion of an African American player on a major league team, on average, resulted in an additional 3.75 wins per year.
Revenues

- Before 1947, worried about fans staying away when they signed African American players?
- Gwartney and Haworth found that on average, each additional African American player on a team was associated with between 55,000 and 60,000 additional annual home-team admissions during the 1950s.
Only the Beginning

• There are numerous examples of how the absence of markets has had immoral outcomes.
• Communist nations - - Cuba
• Dictatorships, near communist: Venezuela
• Other dictatorships
• These tend to be the economically least fee nations of the world, thus the poorest.
Command Systems Are Hazardous to Your Health

The *Wall Street Journal* (2007) reports:

• Mao Zedong was responsible for 70 million peacetime deaths.

• Stalin killed about 40 million in the Soviet Union (middle estimate).

• Pol Pot and the Khmer Rouge killed 3 million — Cambodians — more than 1/3 of the population between 1975-1979.
What about Kim Il Jong?
North Korean at Night
Can Markets Instill Positive Values?
What Values Might Markets Encourage?

**Market: Cooperation**
- By stressing self-interested behavior, markets encourage cooperation among strangers.
- How do those people at Costco know what I want?

**Non-Market Cooperation**
- Non-market systems depend on tradition or force to encourage people to work together.
- Joe Stalin deliberately placed manufacturing and agricultural enterprises across the Soviet Union to force people from diverse backgrounds to work together. When coercion was no longer used, it all fell apart.
What Values Might Markets Encourage?

**Market: Honesty**
- While markets are susceptible to scams and schemes, most business people recognize that being honest and trustworthy with their customers will benefit their businesses over the long term.
- People won’t buy from cheaters.

**Non-Market: Honesty**
- Non-markets systems rely on tradition or force to encourage people to be honest.
- Tradition and force often fail.
- People only trust people they know — family or friends.
- It is hard to maintain business relationships when customers cannot influence the behavior of the business.
What Values Might Markets Encourage?

Market: Discipline
- By stressing self-interested behavior, encourage individuals to discipline themselves to produce goods and services wanted by others.
- Serving others is rewarded.

Non-Market Discipline
- Non-market systems depend on tradition or force to encourage individuals to produce goods and services for each other.
- Failure to produce can lead to loss of respect or worse.
What Values Might Markets Encourage?

Market: Tolerance
Market: Courtesy
Market: Responsibility
Market: Accountability
Market: Enterprise

Non-Market: Tolerance
Non-Market: Courtesy
Non-Market: Responsibility
Non-Market: Accountability
Non-Market: Enterprise
The Value of Enterprise
Why Can’t the Idea that Markets Instill Morality Get any Respect?
No Respect?

Magnanimous Morality

- Moral behavior is provided intentionally.
- Moral behavior is provided at some personal sacrifice.
- Moral behavior is designed to serve some specific group.

Mundane Morality

- Economics stresses that good things can be achieved unintentionally.
- Economics stresses that all parties involved in an exchange can gain.
- Economics stresses that good things even without knowing who might benefit -- cooperation among strangers.
Table of Contents

Teaching the Ethical Foundations of Economics

Council on Economic Education
Table of Contents

1. Does Science Need Ethics?
2. What Is the Difference Between Self-Interest and Greed?
3. Do Markets Need Ethical Standards?
4. Do Markets Make Us Moral?
5. What Are the Moral Limits of Markets?
Table of Contents

6. What Should We Do About Sweatshops?
7. Should We Allow a Market for Transplant Organs?
8. Is Efficiency an Ethical Concept?
9. Do Businesses Have a Social Responsibility?
10. What Is Economic Justice?
Welcome

Dr. Mark C. Schug is Professor Emeritus at the University of Wisconsin-Milwaukee. Dr. Schug taught for over 36 years at the middle school, high school, and university levels. He served as Senior Fellow with the National Council on Economic Education from 2002-2005. He works as a national consultant on economic and financial education and urban education policy.

Professor Schug often speaks and writes about economic and financial education, market-based reforms in education, and issues in urban school districts. He serves on the boards of the (national) Association of Private Enterprise, Business and Economics Academy of Milwaukee, Economics Wisconsin, University School of Milwaukee and the Governor’s Council on Financial Literacy.

Presentations
Mark offers speeches and workshops on several economic education topics. His speeches and workshops are both engaging and entertaining for a wide range of audiences.

Curriculum
Mark offers expertise in developing, implementing and assessing economic and financial education curriculum. He has co-authored and directed several national curriculum projects.

Research
Mark often speaks and writes about economic and financial education, market-based reforms in education, and issues in urban school districts. He has conducted policy studies for state and national organizations.
Art History Research
The Van Gogh Family

- Obnoxious brother
- Dizzy Aunt
- Brother who ate prunes
- Brother who worked at a convenience store
- Grandfather from Yugoslavia

- Please Gogh
- Verti Gogh
- Gotta Gogh
- Stop N Gogh
- U Gogh
Art History Research
The Van Gogh Family

- Cousin from Illinois
- Magician uncle
- Mexican cousin’s half-brother
- Constipated uncle
- Ballroom dancing aunt

- Chica Gogh
- Wherediddy Gogh
- Amee Gogh
- Cant Gogh
- Tan Gogh
Art History Research
The Van Gogh Family

• Bird lover uncle
• Nephew psychoanalyst
• Brother who was a Beatle

• Flamin Gogh
• E Gogh
• Rin Gogh