

Public Virtue



Neil E. Weiser
Collegiate School
Richmond Virginia

Neil Weiser teaches ap history and ap government at the Collegiate School in Richmond Virginia.

The founders of American national institutions, and the framers of the United States Constitution in particular, held as axiomatic the belief that republicanism and libertarian society must ultimately rest upon the foundation of individual and collective virtue. Beginning with classical philosophy antedating Aristotle, virtue was a specific concept, defined precisely as the willingness of individuals and social groups to sacrifice their particular self-interest to the welfare and stability of the larger community; to serve the greater good and forgo power and riches of a personal or parochial nature. “To suppose that any form of government will secure liberty or happiness without any virtue in the people,” wrote James Madison in 1788, “is a chimerical idea.”

Despite reliance on countervailing power in the Constitution in anticipation of periodic lapses of virtue, even the father of that document insisted on the primacy of virtuous behavior in a republican society.

Coincidentally, at the precise moment that American independence was being enunciated on the principles of res publica and public virtue in 1776, Adam Smith published his *Inquiry into the Nature and Causes of the Wealth of Nations*, a comprehensive treatise on the mechanics of free markets and capitalism. Smith argued that the engine of self-interest practiced by relatively equal producers and consumers in an environment of laissez faire would maximize the production and distribution of goods and services at the lowest possible prices and provide the greatest economic good for the greatest number of people. Guided by this “invisible hand,” he implied, self-interest and public virtue were essentially one and the same.

Smith, of course, was writing before the forces of modernization and industrialization radically altered the social and economic environment, creating inequalities among both consumers and producers, and greatly complicating the assumption that virtue and self-interest would serve the same beneficent ends. Under contemporary conditions, the legitimate extent of the exercise of self-interest in both economic and political realms is more ambiguous than it seemed in the pre-modern world, and the classical notion of virtue is largely misunderstood, misinterpreted, or simply considered anachronistic. Nevertheless, the traditional notion of public virtue largely has been transmuted into the modern notion of the “public interest.”

While this reality greatly complicates the issue of ethical conduct in the arena of political economy and has led to extensive ideological debate today, teachers of economics, government, and history must confront issues related to self-interest and the public interest, whether or not they want to. Issues associated with those concepts arise constantly in the lesson content of their disciplines and, most importantly, in the questions and comments of their students. Where the boundaries of each concept lie will not be settled to everybody’s satisfaction, but the debate may in itself provide one of the most important lessons we can impart in the social sciences.



objectives

- [] Students examine the classical and modern concepts of civic virtue.
- [] Students examine classical premises and doctrines of capitalism enunciated in Adam Smith's *Wealth of Nations*.
- [] Students learn how the processes of industrialization altered the classical marketplace, focusing on vertical and horizontal integration, the evolution of business organization, the growth of economies of scale, and the rise of government regulation.
- [] Students discuss and debate the relevance and applicability of "public virtue" in the modern marketplace, including the question of where to find the proper balance between legitimate self-interest and the public welfare.
- [] Students cite and discuss three specific contemporary examples illustrating a conflict between self-interest and the public interest, and make conclusions concerning what constitutes ethical conduct in each case.



time required

Six days

materials

- [] Handout 1: Brief Excerpts from Aristotle's *The Politics*, Madison's Tenth Federalist Paper, and selected quotations from various historical figures relative to the concept of public virtue.
- [] Excerpts from Smith's *Wealth of Nations*
- [] Lecture Outline: "How Industrialization Altered the Classical Marketplace"
- [] Computer with Internet Access (*optional*)
- [] Current and past newspaper editions: Stories and reports illustrative of conflicts between private and public interest in the marketplace
- [] Student-generated visual aids: Encourage the students to support their arguments and conclusions with visual aids such as overheads, historical data, and charts



teaching activity

day 1

The students read excerpts from classical texts defining public virtue and discuss these traditional definitions, guided by questions and commentary from the teacher. To facilitate this activity, the students should study the relevant excerpts the night before class as a homework assignment. The goal of this exercise is to clarify the classical definition of virtue as the willingness and ability of social and economic groups – as well as individuals – to sacrifice personal and parochial gain for the sake of a generalized community interest. A final question given to the students for consideration at this point is, "Are private gain and the public interest inherently in conflict, or are there conditions under which they are compatible?"

day 2

Students read excerpts from Adam Smith's *Wealth of Nations*; then they discuss and debate Smith's assumption that unfettered self-interest in economic affairs will necessarily promote the public good. The discussion and debate should center on the following specific question:

Which of the following policy alternatives would be best in promoting the greatest prosperity for the greatest number of people?

1. laissez faire;
2. deregulation of most businesses; or
3. regulation of most businesses.

The handouts for this lesson plan can be found in the supplemental items section at the back of this book.

day 3

Students hear a lecture (*How Industrialization Altered the Classical Marketplace*) that emphasizes how vertical and horizontal integration of industry, the evolution of business organization, and the evolution of economies of scale created concentrations of power and inequities among various economic groups that stimulated governmental regulation aimed at protecting the public interest. After the lecture, the students discuss the following question: “To what extent is regulation in the name of protecting the public interest a legitimate function of government in a capitalist economy?”

day 4

In class, and continuing as an out-of-class assignment in preparation for the activities of day five, students use relevant internet Web sites, current and past newspaper articles, and library resources to select and research a case study relevant to the question of where to establish the line between the legitimate expression of self-interest and governmental protection of the public interest through appropriate regulatory legislation. Examples may be historical or contemporary in nature; they may be pre-selected by the teacher or chosen individually by the students with guidance and approval from the teacher.

days 5 and 6

Using at least three case studies prepared by the students, the class is to debate and discuss regulatory policy options given the two-part goal of maximizing economic benefit to the community and ensuring the optimum fairness and equity for its constituents. Policy options are regulation, deregulation, or no regulation.

conclusion

No presumption of unanimity among students is necessarily expected, the goal being to promote a greater understanding and appreciation for the complexities inherent in policy-making when striving to optimize both economic gain and fairness on behalf of the public interest. The exercise is designed to expose and explore the different and conflicting economic and ideological assumptions brought to bear on our definitions of the public interest and the legitimate exercise of economic activity.

economic concepts

Conflicts of Interest. Political and economic disputes among the many groups comprising society; as discussed by James Madison in The Tenth Federalist Paper, conflicts of interest are an inevitable and constant feature of libertarian society and free markets, where people may freely organize with others to magnify their power to achieve their freely-defined objectives.

Deregulation. Efforts to reduce or eliminate governmental controls, rules, or regulation of economic activity, implying a greater “market” approach.

Economies of Scale. Decreases in the total cost of production, created by specialization and efficiencies, made possible by increases in the size of the firm’s operations.

Invisible Hand. Adam Smith’s explanation of the market, which, as if it were guided by an invisible hand, guides firms that seek only to satisfy their own self-interest by producing precisely those goods that consumers want.

Laissez faire. The marketplace condition characterized by a complete absence of governmental regulation, and based on the assumption that the unrestrained self-interest of producers and consumers will maximize the production and distribution of goods and services at the lowest possible prices, thereby establishing the greatest economic benefit for the greatest number of people.

Public Interest. The overarching welfare of the whole community or society; the aggregate needs of all groups comprising society, whose claims stand above or superior to the interests of individuals and groups.

Regulation. Governmental orders having the force of law and designed to control or govern the behavior of businesses, unions, or of similar organizations and individuals, in order to protect the public interest.

Self-interest. The perceived needs and wants of an individual or group.

Vertical and Horizontal Integration. The acquisition of additional business activities at the same level of value is referred to as horizontal integration (*Exxon takes over Mobil, for example*). Vertical integration is where firms expand into upstream or downstream activities (*an automobile manufacturer buys rubber plantations in order to produce its own tires, for example*).

Virtue. The classical political and economic concept dating from Hellenic and Hellenistic civilization emphasizing the positive obligation of free citizens to restrain or forgo their individual self-interest for the sake of promoting or preserving the stability and welfare of the larger community.

Handout: Wealth of Nations

excerpts from wealth of nations by adam smith

Chapter 2

But the annual revenue of every society is always precisely equal to the exchangeable value of the whole annual produce of its industry, or rather is precisely the same thing with that exchangeable value. As every individual, therefore, endeavours as much as he can, both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain; and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest, he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.

Chapter 3

But though the profusion of government must undoubtedly have retarded the natural progress of England towards wealth and improvement, it has not been able to stop it. The annual produce of its land and labour is undoubtedly much greater at present than it was either at the Restoration or at the Revolution. The capital, therefore, annually employed in cultivating this land, and in maintaining this labour, must likewise be much greater. In the midst of all the exactions of government, this capital has been silently and gradually accumulated by the private frugality and good conduct of individuals, by their universal, continual, and uninterrupted effort to better their own condition. It is this effort, protected by law, and allowed by liberty to exert itself in the manner that is most advantageous, which has maintained the progress of England towards opulence and improvement in almost all former times, and which, it is to be hoped, will do so in all future times. England, however, as it has never been blessed with a very parsimonious government, so parsimony has at no time been the characteristic virtue of its inhabitants. It is the highest impertinence and presumption, therefore, in kings and ministers to pretend to watch over the economy of private people, and to restrain their expense, either by sumptuary laws, or by prohibiting the importation of foreign luxuries. They are themselves always, and without any exception, the greatest spendthrifts in the society. Let them look well after their own expense, and they may safely trust private people with theirs. If their own extravagance does not ruin the state, that of the subject never will.

Handout: Excerpts from Historical Figures

selected quotations and text

Aristotle:

“Man is by nature a political animal.”
“The best political community is formed by citizens of the middle class.”
“Therefore, the good of man must be the end [*i.e., objective*] of the science of politics.”
“He who is unable to live in society, or who has no need because he is sufficient for himself, must be either a beast or a god.”
“Where some people are very wealthy and others have nothing, the result with either be extreme democracy or absolute oligarchy, or despotism will come from either of those excesses.”

James Madison, Federalist No. Ten

“There are again two methods of removing the causes of faction; the one, by destroying the liberty which is essential to its existence; the other, by giving to every citizen the same opinions, the same passions, and the same interests.”

“But the most common and durable source of factions, has been the various and unequal distribution of property. Those who hold, and those who are without property, have ever formed distinct interests in society. Those who are creditors, and those who are debtors, fall under a like discrimination. A landed interest, a manufacturing interest, a mercantile interest, a monied interest, with many lesser interests, grow up of necessity in civilized nations, and divide them into different classes, actuated by different sentiments and views. The regulation of these various and interfering [conflicting] interests forms the principal task of modern legislation, and involves the spirit of party and faction in the necessary and ordinary operations of government.”

Thomas Jefferson:

“When virtue is banished, ambition invades the minds of those who are disposed to receive it, and avarice possesses the whole community.”
“A nation forms a moral person, and every member of it is personally responsible for his society.”

internet sources

<http://www.econlib.org/library/smith>
For accessing Adam Smith's Inquiry into the Causes and Nature of the Wealth of Nations, 1776
<http://econpapers.hhs.se>
For accessing the article "Regulation, Deregulation, and Economic Efficiency"

Handout: Industrialization

lecture outline

how industrialization altered the classical marketplace

Wealth of Nations outlines the benefits of free market economies:

1. Maximize the production of goods and services
 2. Distribution of goods and services at the lowest possible prices
 3. Creating the greatest economic good for the greatest number of citizens
- Above was built on basic underpinning of equality between producers and consumers.

Post-Bellum Conditions that undermined Smith's premises:

1. Industrialization helped encourage great concentrations of wealth and power in a relatively small number of companies and "captains of industry," and left many other individuals and groups feeling relatively powerless.
2. Deflation of prices of agricultural goods accompanied industrialization.

Causes of Inequality between producers and consumers:

1. Horizontal Integration of industries
2. Vertical integration of industries
3. Evolution of business organization with management structure
4. Full emergence of economies of scale
5. Emergence of monopolies in certain industries

Benefits of Industrialization:

1. Greater efficiency
2. Lower costs of production
3. The ability of users of technology to offer similar goods at lower prices than less efficient competitors

Evolution of Business Organization:

1. Creation of the modern corporation, characterized by separation of ownership and management, with governance by a professional managerial class.
2. Evolution responded to two major needs:
 - a. Significant price competition
 - b. Avoidance of antiquated anti-trust laws
3. Emergence of Finance Capitalism, which consolidated whole industries

Final Result:

1. The Good: Great Efficiency, low costs of production, low prices for goods and services, tremendous volume of product
2. The Bad: More economic inequality
3. The Result: Calls for greater regulation and the rise of governmental regulation and the Progressive Era, the New Deal, and beyond.

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Powell Center for Economic Literacy

Collegiate School

North Mooreland Road

Richmond Virginia 23229

v 804 741 2806

f 804 740 6701

powell@collegiate-va.org

powellendowment.org