

Handbook of Business Ethics
Ethics in the New Economy
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Chapter 2 (pp. 7-34)

Ethics and Economics

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Abstract

Business ethics is more than just ‘applied ethics.’ There is no domain which is ‘free’ from normative presuppositions, and mainstream economics is nothing more than a strongly normative ‘ideal theory’ of rational action. The primary task of ‘integrative business ethics’ is therefore to reflect on the form of economic reasoning, the critique of economic reason.

This chapter provides a specific perspective on the ‘emancipation’ of economic rationality from moral philosophy; a process mirroring the disembedding of the economy from society in what Karl Polanyi called the ‘great transformation.’ Today, there is a growing real-life experience of the problematic consequences of this disembedded, ‘ethics-free’ economic rationality. In this situation, integrative economic ethics asks for a new ethical foundation for economic reason itself.

The fundamental tasks of integrative economic ethics are to critique ‘economism,’ including economic determinism and economic reductionism, as well as to rethink basic ethical aspects of economic reason. Pertinent issues include the meaning of economic ‘rationalization’ with regard to the good human life and the legitimacy of the politico-economic order with regard to a just and well-ordered society of free and equal citizens. The fundamental difference between ‘market freedom’ and ‘citizens’ freedom’ has to be pointed out, which amounts to the difference between economic and republican liberalism.

In integrative economic ethics three loci of socioeconomic responsibility are distinguished: the citizens in their different roles (citizens’ ethics), the companies (corporate ethics), and the state in its function of defining the juridical and institutional framework of economic activities (regulatory ethics).

Keywords

economism, ethical reason vs. economic rationality; integrative business ethics; socio-economic rationality

2.1 Business Ethics is more than ‘Applied Ethics’

The development of practical problems does not generally take the established boundaries between the various academic disciplines into consideration. This is particularly true of those disciplines which, while concerned with human action, have become reduced to theoretical concepts free of value judgments, a process which has taken place under the influence of twentieth century positivism. The social sciences, thus attenuated, are at a loss to meet the growing human need for ethical orientation. On the other hand, academic philosophy sees its respective role in the domain of ‘applied ethics,’ i.e., of putting its practical relevance and currency to the test. There is no lack of interest on the part of society: These days, in nearly all areas of life in which – due to the insufficiency of traditional orientations for action – the existing circumstances have become the subject of public debate, the call for a field-specific ‘applied’ ethics is heard.

In principle, the same also applies in the case of business. An ever greater number of people are posing questions regarding the practical sense and value of the economisation process, which appears to many to be willful and governed by inherent constraints. And these questions are gaining in urgency, particularly in view of the daunting increase in questionable consequences to the natural, social and cultural environments and the corresponding side effects. The call for business ethics thus does not simply fall from the sky as a manifestation of some naïve idealism but is an expression of the rising awareness of the problems of very real socioeconomic development trends.

And yet the preconception of business ethics as an ‘application’ of general ethics to the ‘area’ of the economy does not suffice, for two reasons. For one thing, this area is to some extent already occupied by another discipline of normative content, a discipline which refers to itself traditionally – and not inappropriately – as Political Economy. The first and foremost task of economic ethics is therefore to concern itself critically with the normative foundations of supposedly value-free, ‘pure’ economic thought. For another thing, present-day ‘pure’ economics (Schumpeter, 1908) of neoclassical mintage no longer defines itself in an area-related manner – as a theory of the area of society designated ‘economy’ – but rather in an aspect-related manner as a general theory of human behavior and the development of societal institutions (Becker, 1976). It is

precisely in this sense that upholders of this approach attach a new positive association to the originally critical term ‘economic imperialism’ (Boulding, 1969) and view it as a methodological research program (Kirchgässner, 1988; Homann/Suchanek, 2000). The point of view from which they investigate societal phenomena is strictly economic rationality (efficiency).

Due to the fact that ‘rationality’ is invariably a regulative idea involving how one should act and organize institutions rationally, pure economics – thus understood – implies not merely an explanatory (theoretical) purpose, but an action-oriented (practical) one. The strict economic rationality perspective thus represents the identity-forming principle of a normative discipline, namely an ideal theory of rational action in a world of scarce resources. At its core, pure economics is normative economics! And that means that there is no economic theory which is untouched by normative points of view and could simply be supplemented by business ethics without further ado. The seat which might be occupied by business ethics as ‘applied ethics’ is virtually already taken.

The common two-world conception of ‘ethic-free’ economic theory on the one hand and ‘extra-economic’ business ethics on the other eludes these basic circumstances, which are characterized by two competing rationality perspectives. Contrary to popular belief, there is not a value-free ‘economic logic’ specifically inherent to the market on one side of the coin and ‘ethical reasoning’ on the other; rather, both sides can be described as patterns of normative reasoning. Naturally, this claim as such can only be contemplated and substantiated in ethical categories, whereas in economics it is simply axiomatically introduced with the aid of the rationality model designated ‘Homo oeconomicus.’ Normative economics thus represents a reductionist ‘ethics without morals’ (Cortina, 1992), and in this way – from the very outset – it evades the methodological claim of modern rational ethics to carry out its substantiations and criticisms from a moral point of view.

A principally critical conception of economic and business ethics accordingly suggests itself: Wherever universalistically conceived economic rationality claims to have a normative function, the very first concern of economic ethics is to shed light upon the implicit normative content of these claims. Thus an economic ethics which stays abreast of the real events of the present-day world cannot intellectually confine itself to an applied ethics for the area of business only. If today’s mainstream economics serves as the leading scientific approach to promoting the aspect of ‘pure’ economic rationality in nearly all

areas of life, the systematic response is to be seen in a likewise aspect-related conception of economic ethics. Its primary task is to carry out ethical-critical reflection on the form of economic reasoning. In Kantian terms, a business ethics which takes this approach is concerned primarily with the ethical-rational orientation of political-economic thought; i.e., with the ethical substantiation and/or criticism of all claims advanced in the name of economic rationality. As an integrative economic ethics (Ulrich, 2008) it thus explores the normative aspect within the economic thought pattern in order to be able to critically reflect upon the true meaning of the latter when it is applied to one practical context or another. To drive the point home, it could be said that the idea is to bring economic rationality – wherever its normative intention is emphasized – ‘to reason.’

2.2 A Brief Historical Survey and Current Approaches

The call for an ethically integrated manner of economic reasoning may appear to ‘pure’ economists as a provocation. During the span of more than 2,000 years from the Ancient Greeks to classical Political Economy, however, economic activity was always considered from ethical-practical points of view. The concern was with the instrumental role of the economy for a good life and the just coexistence of human beings. Conceptually, the economy remained embedded in superordinate models of the well-ordered society and derived its normative orientation from these models. An example is Aristotle’s well-known triad of ethics, politics and economics – lexically arranged in this sequence. The *Nicomachean Ethics* (Aristotle, 2000) thus leads in the end to the *Politics* (Aristotle, 1984), in which economic theory is found embedded. It is no coincidence that the founders of modern economic science – specifically Adam Smith – were also, and primarily, moral philosophers. Smith’s liberal economic theory (Smith 1776/1976) still utilized a political economy with a moral-philosophical intention (Meyer-Faje/Ulrich, 1991; Bürgin, 1996, p. 366ff). The same is true for John Stuart Mill’s (1836/1967) sophisticated approach to political economy as a methodically specialized branch of a more comprehensive social economy and political philosophy (Ulrich, 2006).

Beginning in ca. 1870, the age of the neoclassical revolution, everything changed. Most economists no longer desired to be moral philosophers or carry on with political

economy, but instead wanted to have a theory after the example of the natural sciences at their disposal: value-free, objective and as formalizable as possible. Present-day mainstream economics, which still bears the neoclassical stamp, conceives of itself as an autonomous, ‘value-free’ science – i.e., as ‘pure economics.’ Myrdal (1932/1953) and Albert (1972) already pointed out the impossibility of an economics that was independent with regard to the issue of ethics. And even though this criticism remained uncontested, it has been largely ignored by the mainstream of the field to the very present. Thus the current necessity of a special economic and business ethics is not as pressing an issue as the counter-question: how an economics that conceived of itself as ‘ethic-free’ and unpolitical could ever have developed. Only on that basis can the core problem of the systematic reconnection of ethics and economics be comprehended.

2.2.1 Pure Economics and the ‘Disembedding’ of the Economy

The development of economic theory – from the pre-classical and liberal classical period to neoclassical and pure economics – can be understood as a theoretical reflection of what has actually been occurring in society for over 200 years (Ulrich, 1993, p. 347ff), namely a progressive, institutionally ‘unleashed’ and normatively ‘disinhibited’ economization of all areas of life and even of thought (economic imperialism) throughout the world (‘globalisation,’ ‘deregulation’). According to Karl Polanyi (1944, p. 56f), at the end of this development society is nothing more than an ‘appendage to the market’: The economy is no longer embedded in social interrelationships but society is embedded in business relations. Specifically, that means that, according to the model of the ‘free’ market, the societal context will be increasingly subject to the logic of exchange between human beings who are ‘mutually unconcerned’ for one another (Gauthier, 1986, p. 87ff), each of whom pursuing his own advantage. Economic rationality thus ‘emancipates’ itself from nearly all traditional normative constraints and becomes the dominant societal norm.

The ‘great transformation’ from an embedded economy to a ‘disembedded’ one (Polanyi, 1944) is academically reflected in the emancipation of economics from its mother discipline – moral philosophy – i.e., in the gradual replacement of classical political economy with the self-contained neoclassical approach. The concern with ethical issues was accordingly dropped to an ever-increasing extent from the curricula of

economics and business administration departments. Since that time, ethics and economics have been cultivated in separate departments and have had little to say to one another. The occasional musings of high-ranking economists regarding the difficult relationship between the two disciplines have done little to change this circumstance. Even the cautious proposals by Sen (1987) and Hausman/McPherson (1996) to recognize an ‘ethics approach’ alongside the dominant ‘engineering approach’ and to relate the two perspectives to one another received practically no attention from mainstream economics.

Due to the fact that, in the age of positivism and scientism, philosophical ethics had difficulties of its own, even retreating for a time into the haven of meta-ethics, for a long time economic-ethical considerations were left to authors of theological provenance or ecclesiastical communiqués (the papal encyclicals of the Roman Catholic Church and the memoranda of the Reformed). And even theologians tended to view business ethics more as a form of ‘applied’ (social) ethics than as a fundamental ethical-critical reflection of economic reason. This would appear almost paradoxical inasmuch as the unleashing of economic rationalism and its process of gaining independence was itself originally borne to a decisive extent by fundamentally Christian-oriented convictions. In the final analysis, the entire neoclassical endeavor to reduce ethics to normative economics is founded on a Christian, natural law oriented market metaphysics, according to which the market gives economic subjects ‘signs’ pointing them toward actions that please God: ‘For if that God, whose hand the Puritan sees in all the occurrences of life, shows one of His elect a chance of profit, he must do it with a purpose. Hence the faithful Christian must follow the call by taking advantage of the opportunity’ (Weber, 1930, p. 162).

Within the framework of his famous studies of the economic ethics of the world religions, specifically ‘The Protestant Ethic and the Spirit of Capitalism,’ Max Weber defines this deeper inner relationship between the ‘modern economic ethos’ and the Occidental modernization and rationalization process. He recognized the true nature of ‘economic rationalism’ as the incarnation of that religious ethos. The emancipation of the early modern economy was made possible by the fact that – and this is the irony of history – the Protestant religion over-elevated the market to a sphere of higher morals.

2.2.2 Steps toward the Demystification of Market Metaphysics

The tradition of honoring the law of nature still exerts a considerable influence on present-day business ethics in the form of an underlying tendency to exaggerate the normative qualities of economic logic. The consequence is a strange construct that might be describable as a kind of internal justice to the concerns of the discipline – apparently not ascribable to justice between persons but based on an impersonal, inherent market morality. Koslowski (1998, p. 14f), for example, still expressly refers to an ‘economic law of nature,’ arguing ‘that the moral obligation emerges from the nature of things (...). Morality is fundamentally synonymous with doing justice to the nature of things and cannot consist in the abstract contrast between moral obligation and objective economic argumentation.’

But what is the ‘nature’ of the economic concern? It is the ‘willful’ functional logic of the market economy. If this is the answer, however, the ethical-critical questioning of the market economy – and with it the question as to whether the societal interests it serves can be legitimized – never even enters the scene! What remains is an analysis of the function of human morality for a market system that works ‘well’ according to its own inherent laws; i.e., one that functions efficiently. But efficient for whom and with regard to what? Questions such as these remain concealed behind a market-metaphysical fiction of common weal, a subject to which we will return in Part 2.3. The danger that, in the final analysis, this type of functionalist economic ethics – as championed most strongly by the moral economist Karl Homann of Munich – merely serves the ideological apologetics of powerful economic interests can hardly be brushed aside.

There is another, more popular approach: that of corrective business ethics. At first glance it appears diametrically opposed to functional business ethics because it regards ‘ethics as corrective for economic failure’ (Koslowski, 2001, p. 26ff). Now ethics functions as an ‘antidote’ against too much economic rationality, whereas in the functional approach it is regarded a ‘lubricant’ for more economic rationality or efficiency. A corrective, however, presupposes that the aspect which it merely sets out to keep within bounds is – once within its bounds – a normatively valid coordination principle! In other words it is assumed that the market principle of the mutually beneficial exchange between players each acting in his own interest will function ethically well

within certain normative bounds. The normative content of the market economy's 'inherent logic' and of the orientations for action which dominate it – particularly the entrepreneurial profit maximization principle – thus go for the most part unchallenged by corrective business ethics.

It was not until a decisive reorganization of the problematic relationship between economic and ethical rationalization approaches became necessary on the practical level that a renaissance of interest in these fundamental questions of economic and business ethics got underway in the 1980s – to a smaller extent in the Anglo-Saxon countries than in those of continental Europe. This new orientation conceives of economic and business ethics not merely as a symptom-correcting 'repair ethics' (Mittelstrass, 1990, p. 36), but as a philosophically founded ethics of economic reasoning.

An integrative business ethics which takes this approach does not merely present arguments – from the external perspective of applied ethics – in favor of ethical correctives against economic rationality, but instead does it – from the internal perspective of a self-reflective way of economic thinking – in favor of a well-understood economic reason, for which ethical reason serves as a sound basis. Here the idea of economic reason is a regulative one, an ethically integrated socioeconomic rationality. It does not simply comprise the technically rational (efficient) manner of coping with the scarcity of resources and goods, but also – and with precedence – the ethically rational manner of coping with the multifarious social (value and interest) conflicts over the fair distribution of the (internal and external) costs and benefits of the economization process (Figure 2.1).

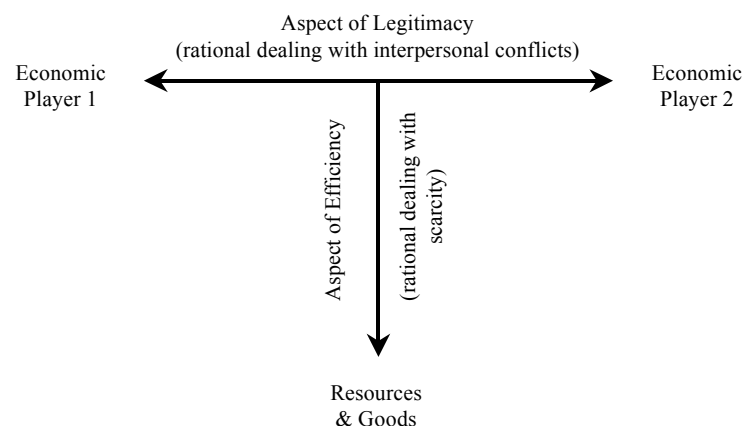


Figure 2.1

The Two-dimensional Concept of Socioeconomic Rationality

The concept of socioeconomic rationality can be defined as follows: Any action or institution is rational in a socioeconomic sense if free and mature citizens could have consensually justified it as a legitimate way of creating value in a rational process of deliberation. Pure economics cannot achieve this integration on its own steam, for categorically it is one-dimensional. The necessary deontological categories of an ethically rational manner of coping with socioeconomic issues (moral rights and duties, justice) cannot be reduced to the teleological categories of cost and benefit and are therefore axiomatically entirely alien to 'pure' economics.

Integrative economic ethics systematically fills the gap left by classical Political Economy still rooted in moral philosophy and its neoclassical reduction to 'pure' economics. From the point of view of the history of thought, modern business ethics thus has its place in the best of traditions. Today, however, it is concerned to a lesser extent than Smith's Political Economy of yore with justifying a disembedded market economy, and much more with the theoretical and practical re-embedding of the latter into the overall ethical and political context of a well-ordered society of free and equal citizens. In view of the increasingly questionable effects of the unleashed economic rationalization process on our life-world, it is precisely this characteristic which constitutes the current relevance of the new economic and business ethics.

Figure 2.2 shows the aforementioned three possible approaches to business ethics, namely functional business ethics, corrective business ethics and integrative business ethics.

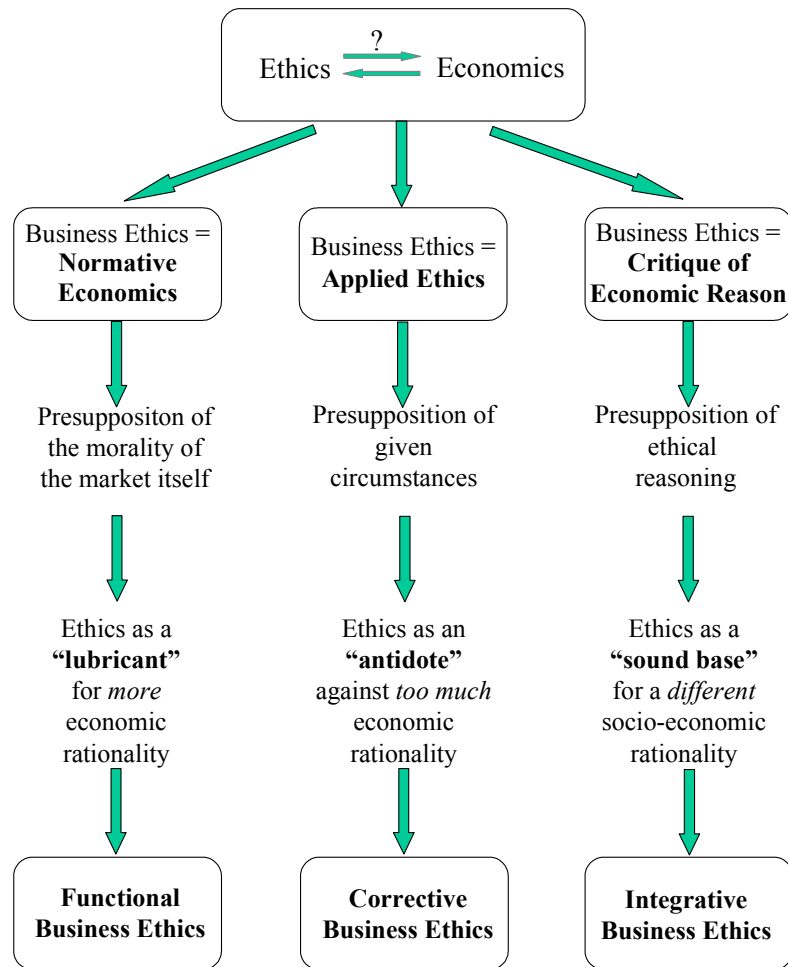


Figure 2.2

Three Approaches to Business Ethics

2.3 Integrative Business Ethics

Once the question of the moral point of view of integrative business ethics as a modern rational ethics has been fundamentally settled, the integrative approach differentiates between two systematic tasks: the critique of ‘pure’ economic reason and of the over-expansion of its normative function as economism; and the clarification of the ethical aspects of an economy that is rational in a socioeconomic, life-serving sense. A further task is to determine the ‘loci’ of socioeconomic responsibility. We will return to this in Part 2.4.

2.3.1. The Critique of Economic Reason and Economism

One core element of the neoclassical conception of economic rationality is that economic agents are concerned strictly with maximizing their own advantage and are indifferent to one another, so that no moral obligation influences their interactions. The clever, but one-sided, homunculus who corresponds to this assumption of rationality is called Homo oeconomicus. (See Chapter 3 for further discussion.) With perfect consistency, pure economics develops the general logic of the success-oriented rational action of individuals strictly concerned with their own interests. This logic – which springs from the market model – is generalized far beyond the sphere of the market: Every form of human interaction and cooperation is now interpreted as a variation of the exchange and mutual advantage. It is for this reason that pure economics can conceive of itself as a systematic rationalization perspective for all areas of life and action (economic imperialism).

In a similar manner, modern philosophical ethics develops its specific idea of reason – namely the universal ‘normative logic of interpersonal relations’ (Ulrich, 2008, p. 13ff); or, to phrase it differently: the grammar of inter-subjectivity. In contrast to the economic perspective of exclusively (benefit-oriented) conditional interaction and cooperation between players, deontological ethics or moral philosophy is concerned precisely with the substantiation of inter-subjective obligations associated with the unconditional mutual recognition of persons as beings of equal dignity and the resulting

reciprocal moral rights and duties. This inter-subjective demand structure is constitutive for all human morality and thus for the moral point of view (Tugendhat, 1994).

The difference between economic rationality and the ethical idea of reason is considerable (Table 2.1). In the first case, the ‘given’ interests of the individuals already form what is regarded to be a sufficient proviso for a rational ‘balancing of interests’ among the participants. In the second case, however, those interests are merely the object of ethical-critical examination from the point of view of their legitimacy under the terms of the moral rights of all affected and the protection of those rights. In short: economic rationality is power-based while ethical reason is justice-based. The market principle of mutual advantage can thus in no way be equated with the moral principle (Thielemann, 1996). This results in the fundamental economic-ethical realization of the primacy of (political) ethics over the logic of the market.

Table 2.1

Ethical Reason vs. Economic Rationality

<i>Economic rationality: normative logic of mutual advantage</i> power-based (what can be asserted is what counts) interest in maximization of private success benefit-oriented <i>conditional</i> cooperation between self-interested, mutually unconcerned individuals market principle	<i>Ethical reason: normative logic of interpersonal relations</i> justice-based (what is legitimate is what counts) inter-subjective obligations <i>unconditional</i> reciprocal respect and recognition of persons as beings of equal dignity moral principle
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The relationship between ethical and economic rationality is ignored by all who assert that the ‘morality of the market’ is an ethically adequate social organization principle. This approach amounts to a normative superelevation of the logic of the market, which – whether intentionally or unintentionally – works in favor of the ideology of a total market society. With the aid of Weisser (1934, p. 49ff; 1954/1978, p. 574), one can speak in this context of *economism*. This phenomenon occurs in two elementary forms: (i) as an assertion of factual constraints (‘The market forces us...’) and (ii) as a market-metaphysical common weal fiction (‘... but in the end it serves the general well-being’). In the first, empiricist version, the consideration of ethical principles is labeled ‘impossible’ under the conditions of market competition (economic determinism); in the second, normativist version, they are rejected as ‘unnecessary’ (economic reductionism).

(i) *Economic determinism* rejects ethical claims on economic agents, arguing that it is entirely ‘impossible’ to take such claims into account under the conditions of market competition. These days this ‘factual-constraint’ argument is particularly popular in the form of reference to global competition. To a certain extent, of course, the world market is a compulsory element for business – but only to the extent to which the market participants want to be successful as competitors. Only under the norm of strict profit maximization is it entirely ‘impossible’ for the economic players to take into consideration other valuation criteria. It is not difficult to discern here the ‘bourgeois’ image of mankind and society elucidated by Macpherson (1962) in his famous study on the political theory of possessive individualism.

The economic ‘factual-constraint’ mentality is thus based on an interruption of the reflection process in the face of normative goal determination by the economic players. ‘Not wanting to’ is ideologically reinterpreted as ‘not being able to.’ Whenever market participants are willing to waive their claim to the maximization of their profit, they emancipate themselves to some extent from the inherent constraints. But should they waive their claim? Or more precisely: To what extent can it be legitimately expected of an economic player to renounce his own claim to individual success in order to be able to take the claims of others into account? A substantial answer must take the legitimate claims (i.e., moral rights) of all persons involved into consideration: On the one hand, the economic player’s action should be responsible with regard to the legitimate claims of the persons involved; but on the other hand, the claims of the persons involved on the

economic player should also be reasonable. For the player also has certain legitimate claims to self-assertion in the market; to expect him to abandon them completely would be asking too much. The principle should therefore be a fair symmetry of reciprocal consideration.

The extent to which the ethically justified self-limitation in striving for economic advantage can be reasonably expected of the market participants depends on the quality of the political framework of the market. These market regulations determine which aspects enjoy legal precedence over the striving for success, and a good market framework thus, at the very least, relieves the economic subjects of extreme moral dilemmas. For that reason, economic-ethically enlightened persons of good will welcome the role of a good regulatory framework as a normative basis for fair competition.

(ii) *Economic reductionism* declares the inherent ‘morality of the market’ ethically adequate. The ‘market principle’ itself is said to be the impersonal guarantor of the general welfare. As mentioned above, this idea has its roots in the Christian and natural law belief in the ‘invisible hand’ of God, which is given full play to do its salutary work in free market competition. In neoclassical Welfare Economics this market-metaphysical conviction was rationalized with the aid of utilitarian ethics (Bohnen, 1964). It thus adopted the calculative form of the utilitarian concept of social benefit on which the belief in economic growth as a patent recipe for the solution of nearly all socioeconomic problems still feeds to the present day.

Once Myrdal (1932/1953) and Rawls (1971) had proven that this was an untenable ‘communist fiction’ which ignored the liberal principle of inviolable individual rights, however, the younger generation of neo-classicists reoriented itself towards the axiomatic basis of methodological individualism. Here social circumstances based on the individual consent of all involved are considered to be ‘tolerable to the public weal.’ Every change that improves the position of at least one individual without worsening the life conditions of another is thus considered an improvement in the well-being of the society. This normative criterion is known as the Pareto efficiency. It is Buchanan (1975) who developed what is probably the most consistent and differentiated version of this contractualist concept of economic rationality.

This individualist refinement of neoclassical economics does nothing, however, to change the fact that every concept of rational action essentially possesses normative

significance. Buchanan expressly regards himself as a political philosopher with economic means and emphasizes that ‘the Pareto rule is itself an ethical proposition’ (Buchanan 1987, p. 4). Methodological individualism thus functions as normative individualism. Arrow (1994, p. 1) knew very well what he was talking about when he conceded that ‘this distinction is not easy to keep clear, and the temptation to join methodology and ideology is strong.’

But what, precisely, is the ‘ideological temptation’ of methodological and normative individualism? Economics neglects the fundamental difference between efficiency and justice. Because methodological individualism recognizes the empirically expressed preferences of individuals as the final normative instance, it first negates the ethical necessity of everybody’s moral self-limitation to pursuing only those personal interests which could be generally pursued (principle of universalization). Second, it disregards the social circumstances and with them the balance of power under which the contract partners encounter one another. The ‘pure’ economists thus routinely overlook the structural partiality of the market for the powerful capitalist interests in profitable investments and the antipathy against all claims opposing these interests, regardless of how legitimate they may be from an ethical point of view. This also explains why ‘factual-constraint’ arguments used in support of those system-conformist interests are so conspicuously popular.

2.3.2. The Ethical Aspects of a Socio-economic Rationality

As elucidated above, the ideological function of economism consists in double-padlocking the realm of economic-ethical reflection by means of the ‘factual-constraint’ mentality and the reduction of the moral principle to the market principle. The critique of economism is therefore the systematic prerequisite for what would then be the next step: to consider the normative orientation aspects of a rational economy, as regarded within the context of the life-world. Here, one can differentiate between two fundamental questions in the development of a life-serving economy: (i) the question of underlying purpose and (ii) the question of legitimacy.

(i) *The question of underlying purpose* is directed against the ‘self-purpose’ of the factual-constraint logic of market competition. All economic activities should be judged by the yardstick of their contribution to the good life, thus providing insight into the cultural motives and ideas which give meaning to the economic ‘value-creation’ – motives and ideas which economism simply reduces to benefit or profit maximization. Under which model of the good life is the form of our economic activities supposed to make sense? Modern conceptions which are appropriate to an open society will favor personal life-plans made by free individuals in the framework of a philosophical concept of political liberalism.

Without going into the difficulties inherent in a modern philosophical ethics of the good life, we state the basic purpose of the economy is to secure the means of human subsistence. Provision with the fundamental means of life (food, clothing, shelter, health care, education) corresponds to man’s general nature as a being of need. The moral right of all human beings to the guarantee of what is necessary for life must be presupposed. Every economy based on the division of labor must therefore be understood as a context of solidarity.

At a more advanced stage, the purpose of economic activities might be to provide persons with diverse, autonomously chosen means to enhance the abundance of human life. Due to the above-sketched structural partiality of market logic, however, we are faced with the problem that in an entirely ‘free’ competition of lifestyles and cultures (!) there is never any question as to who will win: the ‘life entrepreneurs’ who invest more or less all of their energy into continually increasing their competitiveness and improving their market position (cf. Ulrich, 2008, p. 207ff). This is the primary reason why the real freedom of individuals to pursue other dimensions of the good life is available only within a political framework that sets limits on the factual-constraint character of the ‘free’ market. An economy aimed at the abundance of life will never automatically emerge from economic growth and the abundance of goods, but will only arise from the socio-political will to develop a different kind of economic culture, one directed at vital aspects of life quality.

(ii) *The question of legitimacy* is directed against the ‘morality’ of the market, which is clearly partial. It places the organization of the economy within the context of the rules of just human coexistence. In this way it calls attention to an aspect ignored by

economism: the social-conflict character of the economic process and the distribution of its results. What model of a well-ordered society of free citizens is to serve as an orientation for a legitimate politico-economic order (i.e., the framework of legitimate private striving for profit or other economic benefit)? This question reveals business ethics as an element of political philosophy and ethics. Here its fundamental and foremost task is to counteract the economist reduction of ethically reflected political liberalism (Rawls, 1993) to pure economic liberalism and to elucidate the fundamental difference between civic freedom and market freedom: Not the 'free' market but rather strong and general civil rights are the basis for the real freedom of all, regardless of their purchasing power and competitiveness on the market. As Dahrendorf (1995, p. 33) summed it up: 'Citizenship is a non-economic term. It defines the human status independently of the relative value of their contribution to the economic process.'

Seen from this point of view, the development of modern civic rights has by no means been concluded even in the advanced liberal-democratic societies. What is still missing are economic and social citizenship rights which really render the citizens free to lead their lives independently. Really free citizens need – and deserve – to be protected from the structurally imposed helplessness of being unable to secure their existence by means of their own performance because they might come up losers in the economic rat race. More and more people are being subjected to this humiliating circumstance – as a consequence of the nationally and internationally widening income and wealth gap and the tendency towards the social disintegration of society ('two-thirds society'). This state of affairs is incompatible with the ethical principles of a 'decent' society, as Margalit (1996) has shown, to say nothing of an even remotely just society. In view of the mighty socioeconomic upheavals presently in progress, the primary focus must be on the further development of the civil society and a market economy which is correspondingly 'civilized.'

2.4 The Loci of Socio-economic Responsibility

The act of designing conceptual models of a purposeful and legitimate market economy is one thing; identifying the entities which are to be made responsible for actively adhering

to these models is another. Unless we ascertain the ‘loci’ of moral reasoning and responsibility with respect to economic or politico-economic behavior, business-ethical postulates remain literally utopian; i.e., in the classical Greek sense: placeless. The task of economic-ethical topology is to make moral standards and responsibilities assignable to certain players and to make these players accountable to them.

In view of the inherent constraints of market competition, in which (nearly) all of us – as economic agents – are caught up, the central problem connected with this task is the interdependence between individual and institutional ethics. On the one hand it is important not to overtax the good will of individuals to act responsibly, but rather to support it with ‘institutional backing.’ On the other hand, without citizens who develop a certain degree of civic spirit and take a share of responsibility for the public cause, it is literally impossible to form a state. Without such civic virtue, the liberal-democratic society’s task of shaping an ethically sound economic order would remain unfulfilled.

It is essential that the ethical self-commitment of the economic players and the institutional rules be mutually supportive. Concepts which aim to relieve the economic agents more or less entirely from every moral burden and which postulate the political framework of the market as the only systematic locus of socioeconomic responsibility (Homann/Blome-Drees, 1992, p. 20ff) are as inadequate as the converse – purely individual-ethical concepts which count solely on the ethical self-limitation of the economic players in the ‘free’ market. Of primary significance from the point of view of integrative business ethics is the reciprocal enhancement of three systematic loci of socioeconomic responsibility: the economic players as individual citizens, the policies governing the public order and the business enterprises as ‘corporate citizens.’

2.4.1 Civic Ethics for Economic Players

The economic agents, in all of their roles, must first of all be approached as citizens who acknowledge certain moral duties: as reflective consumers and capital investors, as critically loyal ‘organization citizens’ in the working world, and as citizens of the state. As good citizens they should regard sound politics as making ‘public use of reason’ (Kant, 1783/1990; Rawls, 1993, p. 212ff), taking a share of responsibility for the ‘res publica,’ the public cause of the just coexistence of free and equal citizens. Understood in

this way, the republican ethos is indivisible. And it is also expressed in the fundamental willingness of the individual to pursue only those private goals which are compatible with the legitimacy conditions of a well-ordered society of free and equal citizens.

As leading historians (Pocock, 1975) and legal philosophers (Michelman, 1986) have shown, good liberal constitutions have always been borne by republican civic virtue. The significance of the civic-ethics element should also be recognized to a greater degree in connection with business ethics: Republican-minded citizens recognize and support the obligation of the state to integrate the forces of the market into the principles and rules of a well-ordered civil society. The consequence is the political philosophy of *republican liberalism*, which consistently links the principles of political liberalism with the republican ethos (Ulrich, 2008, p. 276ff; cf. also Ulrich, 2009a/b, and the debate on it). Quite obviously, republican liberalism of this kind is diametrically opposed to the old Hobbesian dream of radical market-liberalism according to which the liberal society is to be conceived of entirely as a ‘system of ordered egoism’ (Habermas, 1996, p. 90).

2.4.2 *Politico-economic Ethics*

From the perspective of republican liberalism it is essential to counteract the politico-economic order dictated by economism and reduced by that school of thought to policies of competition in the manner of the neo-liberal doctrine. Competition policies defined as policies intended to keep the market open and ensure workable competition are no doubt indispensable – but they are only one aspect of the politico-economic order. Market competition cannot ‘know’ of its own accord what it is supposed to be efficient for; it needs normative instructions of an extra-economic kind, concerned with the manner in which the competitive dynamic serves the necessities of life and society.

To this end, it is important to adopt an ordoliberal approach to develop the systematic precedence of ‘Vitalpolitik’ – i.e., policies aimed at ‘vital’ prerequisites for a good life – over competition policies. What is meant here is a politico-economic order which ‘takes into account all factors on which human happiness, well-being and contentment are really dependent’ (Rüstow, 1955, p. 74). In the words of Röpke (1958, p. 174; own transl.), the second herald of ordoliberalism, Vitalpolitik must guarantee ‘that

we do not make competition the predominant principle' but rather '(...) delimit and (...) moderate (...) competition and the market economy.'

From the ordoliberal point of view, Vitalpolitik and competition policies are by no means mutually exclusive, but rather to be understood as a two-level conception of the politico-economic order (Table 2.2). Vitalpolitik holds the systematic and normative primacy: it provides normative orientation and determines the boundaries of the market dynamic according to the relevant criteria of its expediency to human life. In principle, these normative prerequisites can consist of the civic rights of the economic agents and all those affected by their activities, the calculative norms applied to individual economic calculations and the marginal norms limiting the market (Ulrich, 2008, p. 352ff).

Table 2.2

The two-level conception of the politico-economic order

1.	'Vitalpolitik' (A. Rüstow)
=	The embedding of the market system 'into a higher overall order, which cannot be based on supply and demand, free prices and competition' (W. Röpke)
=	Orientation and limitation of 'blind' market forces according to ethical aspects of their expediency to life by means of · Civic rights (with regard to socio-economic living conditions) · Calculative norms (aimed at internalization of external effects) · Marginal norms (as limiting values or thresholds)
2.	Competition policies
=	The assertion of open markets and workable competition <i>within the framework</i> of the preconditions of <i>Vitalpolitik</i>
=	Efficient employment of market competition <i>with a view to</i> 'vital' purposes of good life and just coexistence

In a liberal-democratic society, the substantive development of the ‘vital order’ is not the task of economic experts but of the public discussion (deliberative politics). In this process we are challenged not only as citizens of a state but, increasingly, as world citizens: To the extent that the economy becomes globalized, the tasks required of the political order shift to a supranational level. There, however, the agencies of the systematic ‘vital-political’ integration of the global markets – as opposed to those of supranational competition policies (WTO) – have not yet been adequately institutionalized.

2.4.3 Corporate Ethics

The extent to which corporate ethics grows in significance corresponds to the extent to which above all the ‘global players’ among the business corporations are able to evade constitutional integration by the politico-economic regulations of individual states, as well as the extent to which no adequate supranational framework yet exists. Just as it is expected of every republican-minded citizen, the companies must also be required to act as ‘good corporate citizens.’ This includes the autonomous self-commitment to principles of business integrity in dealings with all stakeholders, as well as republican-ethical co-responsibility for the overall and industry-specific framework conditions of each company’s own business activities. Integrative corporate ethics is thus, in turn, also to be conceived of in two stages (Figure 2.3).

Effort is being applied increasingly to the development of entrepreneurial programs of integrity management (first level) both in theory and in practice (Maak/Ulrich, 2007). An intelligent form of constitutional integration, as exemplified specifically by the U.S. Federal Sentencing Guidelines, can contribute significantly to encouraging the willingness of the enterprises to adopt such programs into their corporate policies. But in order for such guidelines to become established, responsible management must learn to appreciate them as a support for the pursuit of their own well-understood interests and be prepared to demonstrate active political commitment to their establishment (second level). In this context it once again becomes clear how strongly practicable business ethics is dependent upon the mutual reinforcement of individual, corporate and regulatory measures.

Figure 2.3

Two-level Conception of Corporate Ethics



2.5 Conclusions

The deep-rooted attitude that Max Weber referred to as ‘economic rationalism’ is still the most decisive driving force of the mighty socioeconomic upheavals in which we are caught up. The normative logic of the market penetrates our daily lives to an ever more comprehensive extent, spreading across the entire surface of the world in the name of globalization and subjugating politics through the competitive struggle for favorable business locations all over the world. Even intellectual thought – into the remotest corners of the social sciences and social philosophy – is slowly but surely succumbing to the analytical charm of the economic approach and allowing itself to be colonized by it. The logical constraints of economism have taken hold of the ‘Zeitgeist’ at almost the same tempo as the factual constraints of market competition have taken hold of society.

Business ethics cannot merely postulate a little more ethical obligation within the already existing market economy. Rather, it should conceive of itself as a critical ethics of

economic reasoning as such. Its first task is therefore the belated enlightenment of economic rationalism (economism); ‘belated’ because of the fact that prevailing (‘neo-liberal’) economic thought – as opposed to politico-philosophical thought – never developed beyond the stage of a pre-modern metaphysic of the market. The ‘demystification of the world,’ as Weber (1920/1988) dubbed the process of culture’s and society’s modernization and rationalization, is just now getting underway in the area of economic thought. Great efforts will be required from a society to begin the process of civilizing the ‘demystified market’ (Ulrich, 2002). And that means: integrating it into the sensible cultural and political framework of a well-developed world citizens’ society.

A ‘civilized’ market economy; i.e., one embedded in a well-ordered society of free and equal citizens: This could be the sensible ideal for the future beyond the obsolete alternatives of market deification on the one hand and state deification on the other. It is the ideal of republican liberalism.

The best contribution which can be made by economic and business ethics to the realization of this ideal probably consists in its persistent work on a comprehensive perspective of a life-serving, socioeconomic rationality. What we are alluding to here is a fundamental transformation of economic reason (Ulrich, 1993) – away from the form of economic rationality which went off on a path of its own and which believes in nothing but itself, and towards an ethically integrated idea of economic reason. The Aristotelian triad of ethics, politics and economics – in this order – remains essential. On this basis, business ethics can fulfill its foremost task: to renew the ethical foundation of a modern political economy and to readjust the role of business in society.

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