

Peter Koslowski

Editor

Contemporary Economic Ethics and Business Ethics



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Peter Koslowski (Ed.)

Contemporary Economic Ethics and Business Ethics

With 14 Figures
and 1 Table



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Preface

In the discussion on economic ethics and business ethics, the Continental European scholars have mainly looked to the American approaches for inspiration. This volume attempts to introduce the German and European approaches to economic ethics and business ethics to the English-speaking scholars. The collection of original essays in this book demonstrates that the approaches to economic ethics and business ethics in Continental Europe and those in America differ considerably but that they also share the interest in turning business ethics into a subject relevant and useful for business practice as well as for the philosophical debate on ethics.

The volume at hand publishes the proceedings of the conference “Historism as a Challenge to Economic Ethics and Philosophy”, held at Marienrode near Hannover, Germany, on 2-4 November 1997. The conference formed Section II of Part C of the conferences “Economics and Ethics in the Historical School. Achievements and Present Relevance” organized by the Centre for Ethical Economy and Business Culture - Centrum für Ethische Ökonomie und Wirtschaftskultur, The Hannover Institute of Philosophical Research - Forschungsinstitut für Philosophie Hannover, Hannover, Germany, with the support of the Fritz Thyssen Stiftung Köln, Germany.

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Hannover, October 1999

Peter Koslowski

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Part A

Ethics and Economic Ethics

Chapter 1

The Theory of Ethical Economy as a Cultural, Ethical, and Historical Economics: Economic Ethics and the Historist Challenge

PETER KOSLOWSKI

- I. Economics as a Cultural Science and as Understanding Sociology
- II. Economics as a Historical Science
- III. The A Priori Character of the Rationality Principle
- IV. Beyond A Priori Rationality

The merger of two disciplines always implies that the synergetic effect works both ways. Both disciplines take over concepts of the other discipline and gain by the merger of their own concepts with those concepts they take over from the other side. In the case of the merger of ethics and economics the same process is effective. Ethical economy implies as well the use of ethical concepts in economic analysis as the use of economic tools or economic concepts in philosophical ethics. The second interdisciplinary transfer from economics into ethical theory has not attracted so much scholarly attention yet although there are still many synergetic effects to be won in this transfer. It will however not be in the centre of this paper.

The approach of ethical economy is an economic theory of ethics as well as an ethical theory of economics.¹ It is not only an ethical theory of economics, but it will have also effects on an economic theory of ethics. By these synergetic effects of economics on ethical theory is not meant that ethics can be reduced to economics, a position taken by some scholars. Karl

1 Cf. PETER KOSLOWSKI: *Prinzipien der Ethischen Ökonomie*, Tübingen (Mohr Siebeck) 2nd edition 1994.

Homann, e. g., seems to assume that economics becomes a kind of a super-theory of action that also takes over ethics completely.²

In the following paper, the ethical theory of the economy, of business ethics in the normative sense and the ethical analysis of economic action in the positive sense will be investigated. Ethical economy, or the ethical analysis of economics, has a twofold meaning and direction, a normative and a positive one, the normative direction of the theory of business ethics on the one hand and the positive or hermeneutical side of an analysis and understanding interpretation of the culture and the spirit of the economy. The spirit of the economy is here taken in the Hegelian sense of the objective self-description and institutional self-definition of the economic institutions.

Since historicism is first a theory of the culture and objective spirit of a society and of a historical epoch it can serve as an essential supplier of analytical tools and concepts for the positive cultural analysis of the economy, for a positive theory of ethical economy as the analysis of the given ethos and culture of an economy before any questions of normative ethics are considered.

I. Economics as a Cultural Science and as Understanding Sociology

Ludwig von Mises as one of the main thinkers of the Austrian School and Alfred Schütz, one of the main proponents of *Verstehende Soziologie*, understanding sociology, have called economics the most developed branch of understanding sociology.³ For them, economics is the most advanced branch of the understanding sociology. It is the principle of understanding

2 Cf. KARL HOMANN, FRANZ BLOME-DREES: *Wirtschafts- und Unternehmensethik*, Göttingen (Vandenhoeck & Ruprecht) 1992.

3 L. VON MISES: "Soziologie und Geschichte. Epilog zum Methodenstreit in der Nationalökonomie", *Archiv für Sozialwissenschaften und Sozialpolitik*, 61 (1929), pp. 465-512, and A. SCHÜTZ: *Der sinnhafte Aufbau der sozialen Welt. Eine Einleitung in die verstehende Soziologie* (1932), Frankfurt am Main (Suhrkamp) 1971, pp. 342ff.

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sociology to understand actions by the subsumption of a subjective context of purpose and meaning under an objective context of meaning and purpose.⁴

One of the central objective contexts of meaning in modern societies is the objective context of meaning formed by the economy. The definition of the social context of meaning and the definitions of the situations of choice and behaviour and of the behavioural expectations or role expectations are much better defined and more precise in the economy than in other systems or spheres of culture. The role expectations of the entrepreneurs and the consumers concerning the rationality of their behaviour in the system of culture of the economy are very well defined. Finding out about the success of behaviour and actions in this sphere of culture is easier than in other systems of culture since the economic calculation of the prices is better defined than other measures of success within institutions in the other spheres of culture.

Since it is rational to presuppose that in economic action economic and locally maximising rationality determines the pursuit of goals by the individuals, the pursuit of goals can be understood more easily and more univocally in the economy than other social action or other action in the other systems of culture of society. The thesis that economics is the most advanced branch of understanding sociology is justified by the fact that the understanding social science of the most calculable sphere of culture or subsystem of society, the economy, is also the most calculable and most univocal part of the social sciences. We can understand rational, economically self-interested action best of all kinds of action – better than for example action that is more diffuse in its rationality and its means-ends-relationships and that is directed not on by formal rationality and economic calculation according to market success but aims at the realisation of cultural and material goals, material here in the sense of Max Weber's and Max Scheler's theory of value rationality as opposed to *Zweckrationalität*.

It is obvious that the understanding of human action cannot be restricted to the understanding of economic motives and strategies of profit and utility maximisation although we would like it to be that way. Since economic goals and the actions stemming from the pursuit of these goals and motives are the easiest to understand the social sciences would like all human motives to be as easily understood as them. If we want to understand human

4 Cf. SCHÜTZ, *ibid.*, p. 340.

action more deeply we must, however, also understand the other goals and contexts of meaning that determine human action. We must understand determinants like the moral and cultural ones.

The difference between Neo-classical and Austrian economics on the one hand and Historist and cultural economics on the other hand is the difference in the scope of motives, the degree to which they include the extra-economic determinants within economic analysis. The Historical School of economics views economics not only as a logic of choice between means for given ends but also as an analysis to the ends and as a theory of the interdependence of ends and means.

Schmoller gives an instructive example for the extension of economic analysis into the explanation of those factors which Neo-classical and Austrian economics take for given, namely the formation of preferences and the elasticities of demand. He describes that the reactions to increases in the price of sugar were different in England and in Germany at his time. Whereas in England an increase in price leads to a drop of demand, in Germany this not does happen. Economics according to Schmoller has the task to explain and understand the different reactions to these fluctuations of prices. It has to give an explanation for the differences of price elasticities of demand. It can not take them as given.⁵

In contrast, Ludwig von Mises, the proponent of the Austrian School states that price elasticities are given. They are historical data, historical facts that are not to be further questioned and explained by economics. The economist must take the elasticities of demand as historical data.

II. Economics as a Historical Science

This example demonstrates the difference between the Historical School and the Neo-classical and Austrian School of economics. Neo-classical economics takes as data the features of the economy that have arisen historically - the institutional framework, the general attitudes and customs of

5 Cf. for Schmoller P. KOSLOWSKI: "Ethical Economy as Synthesis of Economic and Ethical Theory", in: P. KOSLOWSKI (Ed.): *Ethics in Economics, Business, and Economic Policy*, Berlin, Heidelberg, New York (Springer) 1992, pp. 15-56 (= Studies in Economic Ethics and Philosophy, Vol. 1).

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the consumers and the goals of economic actions. It confines itself to the logic of rational choice for the maximisation of profit or utility under the given historical circumstances.

The Historical School that discovered institutionalism, on the other hand, takes the institutional framework and the culture and ethics of the economy as historically formed and as culturally formable, as a variable that has to be explained by cultural analysis and cultural reasons.

The difference between the Austrian and the Historical School can be traced to the historical situation in which they were developed, not so much to political differences but to the historical situation. The Historical School intended economics and the human sciences not only to be a tool to realise rationality under a given cultural framework. Rather it thought economics to have the task to support the creation of an economic culture that furthers economic and social progress, the wealth of a nation and its social policy. For this reasons it supported the creation of a single market in 19th century Germany whereas the Austrian School being in a supra-national state did not consider it to be the task of economics to secure economic progress within the nation state.

It was intentional that, in the Historical School, the culture forming the environment of the economy was not taken as given but as a variable that should become also the object of economic policy as cultural policy. This is evident in the main theoretical work on the theory of the human sciences and, so to say, critique of historical reason in Wilhelm Dilthey's *Introduction into the Study of Society and History*. Dilthey demands interestingly enough and in contrast to the present hermeneutical theory that seems to have lost this perspective on economics that it is not only the task of the human sciences to understand cultures, to enter by empathy (*Einfühlung*) into different cultures, but that the human sciences also have the task to shape culture, to render culture the object of politics and policy. The human sciences are at the same time a theory of culture and a theory of cultural policy. Dilthey explicitly acclaims Schmoller's attempt to merge the endeavours of the cultural sciences and those of the economic sciences. This merger is the scholarly achievement of Schmoller's approach. It is also clear that the development of the human sciences (*Geisteswissenschaften*) and of the historical, ethical and cultural approach to economics is closely connected.

The Historical School is a theory of economics that aims at a more extensive control of the economy and of economic development than the Aus-

trian and Neo-classical theory of economics because it aims also at a theory and politics of culture and of the ethics of the economy. It attempts to render the cultural habits and the ethical beliefs and norms to be able of being shaped by discourse and reflection. It is a very modern concept of the Historical School that it renders something controllable that hitherto had been considered as given.

The Historical School aims as a cultural foundation of economic policy, it aims at the cultural presuppositions of economic policy and of the policy of the economic order (*Ordnungspolitik*). One can see the influence of this idea of the cultural foundations of the economic order in the theory of the social market economy of Alfred Müller-Armack⁶ and Ludwig Erhard, particularly in Erhard's idea of a *formierte Gesellschaft*, an integrated society where the theory of the economic order and economic policy is in harmony with its culture and its cultural policy, social policy and other fields of policy.

On the other hand, the Austrian and Neo-classical theories of economics take the cultural and historical "environment" as given. This cultural environment is not the object of economic science. It is not a clear and easy task to translate these differences in economic theory into political categories. The Austrian School is in some sense much more conservative than the Historical School, because it takes the whole cultural and social framework as given. After the dominant presentation of this debate between the Austrian and the Historical School in economics since the 1950es and due to Hayek's influence to many economists it seems the other way around. The Austrian School appears to be liberal and the Historical School to be reactionary. This qualification does not correspond to the actual situation in the 19th century. The Historical School supported the German economic unification under Prussian leadership in contrast to the Austrian School that did not share the emphasis on the national single market. One may dislike Prussia, but it is a matter of fact that Prussia was rather the revolutionary power

6 Cf. P. KOSLOWSKI: "The Social Market Economy: Social Equilibrium of Capitalism and Consideration of the Totality of the Economic Order. Notes on Müller-Armack", in: P. KOSLOWSKI (Ed.): *The Social Market Economy. Theory and Ethics of the Economic Order*, Berlin, Heidelberg, New York (Springer) 1998, pp. 73-95 (= *Studies in Economic Ethics and Philosophy*, Vol. 17).