

# Economic ethics, business ethics and the idea of mutual advantages

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## Economic ethics – introduction

In the global society, the *economy* plays a dominant role. After the downfall of communism, a globalised market has emerged that extends across nearly all countries and regions. But, in theoretical discussions as well as in public opinion, the role of the economy is often in doubt. This is especially the case in ethics.<sup>1</sup> On the one hand, there are those who see the capitalist market economy as the key to the promotion of ethical ideals like peace and prosperity. On the other hand, there are many others who believe this market economy to be a major threat to national and international solidarity, to cultural pluralism, and to a sense of community. Who is right?

This problem might be discussed in different ways. The task of a *philosopher*, I think, lies in questioning whether the *categories and arguments* used in this discussion are adequate: we might be stuck with categories and arguments that were fit to answer the problems of a different time or era or of a different problem situation. And if we are using inadequate, ill-adapted, categories, we cannot realistically hope to solve the problems at hand: we will run into insoluble dilemmas. And we have reason to believe that at least some questions of ethics belong to this group.

This is the main point I will argue for in this paper: the categories of traditional ethics, which

are still used to evaluate the structure of modern societies, were formed within pre-modern societies.<sup>2</sup> They are not fruitful for evaluating modern societies and their economies anymore. We need a conception of ethics that (a) goes beyond the traditional idea of a fundamental contradiction between ethics and economics, and (b) uses economics as a resource for re-thinking ethical concepts. Before elaborating on this thesis, let me give an example for illustration.

## The case for banning child labour

I will try to sustain my thesis with the discussion on banning child labour. Basu (1999) has provided a very thorough economic analysis of the problem of child labour which I think is a very good example of how economics can be used both to question common ethical judgements and also to justify alternative, counterintuitive approaches to ethical problems.<sup>3</sup>

The common intuitive (and well-meaning) ethical suggestion is to totally and unconditionally ban child labour. States that are unwilling to take action in this direction should, according to this view, be punished by international trade sanctions or similar measures. Bans on goods manufactured with child labour would be strongly supported.

However, Basu's analysis of the economic incentives relevant to the case of child labour shows several interesting points. Most important, it is vital to take into account the economic situation

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of the country in question. Here, two fundamentally different situations have to be distinguished: is the country relatively well off or is it *very* poor?

Basu assumes that parents will not send their children to work if this is not economically necessary to sustain the family. If parents do not earn enough or are unemployed, children are more likely to be sent to work. Now if the country is relatively well off, then a total ban on child labour can be effective without having any negative effects: adult wages rise and adult unemployment goes down. The economy which had been caught in what Basu calls a 'child labor trap' (Basu 1999: 1106) now shifts from one equilibrium to another. From an economic point of view, child labour had already been 'unnecessary', as companies could afford to substitute child with adult labour. Yet the economy could not move out of this trap on its own. Co-ordinated action through legal measures, however, made it possible for the economy to reach a different, equally feasible but ethically more acceptable point.

Things are very different in the case of very poor countries. Here, a total ban will not work, as companies cannot afford to entirely substitute child with adult labour. Respective legal action will most likely lead to counterproductive results: Basu stresses that worse things can happen to children than having to work. If children are not allowed to work and if companies cannot afford to employ enough adults, then families will be subject to hunger and starvation (Basu 1999: 1093). Thus, for very poor countries, Basu recommends compulsory schooling *combined* with (light) work. Schooling will enable children to earn higher incomes later, and so help the economy escape the child labour trap, in the long run at least.

What about imposing international sanctions on countries unwilling to take action against child labour? Should international labour standards be established? Basu maintains that such measures, as ethically desirable as they may seem, are more often than not subject to being 'hijacked' by lobbies and protectionist groups. Worse still, however, is the idea of a specific ban in the export sector: if the international community categorically decides not to import goods manufactured with the aid of child labour, this, instead of

attaining the original moral intention, may result in child labour shifting into other, and more hazardous, areas of the economy.

So the economic analysis of advantages and incentives shows that a total ban on child labour is only appropriate under specific circumstances. Otherwise, as Basu (1999: 1084) himself explicitly states, well-meaning measures lead to counterproductive effects.

Basu's work is not just an economic analysis that stands for itself. It does not just tell us that consequences can be unanticipated by well-meaning people, but that there are consequences for our *normative evaluations* of ethical issues as well. Basu shows that mutual improvements can be made in the case of child labour, but in ways which run counter to our intuitive moral reasoning. This is exactly what institutional ethics as presented here claims: moral appeals – like calls for temperance, for sacrifice, for sharing – are not useful in modern societies. We need careful analysis of consequences. But this will often run counter to what many people would intuitively count as 'moral'.

So Basu's work illustrates how the structures of modern societies and global interdependence have consequences for economic ethics and business ethics. It points in the direction of having an ethical conception based on economic theory, and of abandoning completely the idea – held by quite a number of philosophers from John Rawls to Jürgen Habermas<sup>4</sup> – of a fundamental contradiction between ethics and economics. Rather, both aim at mutual advantages.

I will elaborate on the idea of mutual advantages as a central idea of ethical theory in the following section of my paper, proceeding in three steps: First, I would like to present some preliminaries of economic ethics. Second, I will present this conception as an *ethics of institutions*, its main claim being of a twofold normativity. Third, I will discuss the problem of implementation of norms within the context of institutional ethics. In the section 'Incomplete contracts as the starting point for business ethics', some theoretical elements are added to extend the conception of economic ethics to the domain of business ethics. Finally, in the section 'Advantages and benefits in the tradition of

ethics', some historical remarks on the history of ethics will lead to a revision of the role of self-interest within ethics.

## Economic ethics

### Economic ethics: preliminaries

The basic problem of economic ethics is this: under conditions of competition, individuals cannot comply with moral norms in case this leads to higher costs which in turn leave them worse off than their competitors. Situations like this systematically lead to an erosion of compliance with moral norms. Via evolution, individuals behaving 'morally' will be singled out.<sup>5</sup> Karl Marx and Max Weber saw this problem clearly. Both pointed out that the competitive market makes it impossible for single individuals to follow the calls of morality and self-interest at the same time.

This problem is the starting point of the conception of economic ethics I would like to present here. This is the conception of an *institutional ethics* or *order ethics* within economic ethics and business ethics (cf. Homann 2002, Homann & Luetge 2004). As I pointed out in the introduction, the basic concepts of ethics were developed with reference to the conditions of pre-modern societies. These conditions included most notably zero-sum games. Pre-modern societies played zero-sum games in which people could gain significantly only at the expense of others.<sup>6</sup> Within ethics, this problem resulted in an 'ethics of temperance', which demanded that people should not strive for excessive gains and advantages, but should remain within the limits of 'moderate' profits. This was a natural consequence of a situation in which the available resources could not be increased. In this way, the Christian canonical prohibition against lending money at interest and the ethical condemnation of accumulation of capital were justified. In a zero-sum society, ethics called for domesticating the striving for advantages.<sup>7</sup>

In modern times, however, the dominating model is a society differentiated in various functional systems (Luhmann 1997) and characterised by continuous growth. The modern market economy has led to an enormous rise in wealth.

The basis for this has been the modern competitive market economy which enables everyone to pursue his own interests *within a carefully devised institutional system*.<sup>8</sup> In this system, positive-sum games are played, which makes it in principle possible to improve the position of every individual at the same time.<sup>9</sup>

The structures of society have changed in modern times, but ethical concepts and categories have – at least to a large extent – *not* changed: many ethical concepts are still based on the conditions of the zero-sum games of the pre-moderns. Most conceptions of ethics still require us to be moderate, to share, to redistribute, to sacrifice. They call for altruism, for the priority of common good and the like. The pursuit of self-interest, of individual advantages, is often still ultimately seen as something like an evil drive that needs to be tamed. As human beings are weak and cannot tame themselves because of the demands of the competitive market, the state is – in these conceptions – regarded as the right institution to enforce morality by taming the market. In this line, for example, Hans Jonas, in his *Imperative of Responsibility*, has explicitly stated himself to be willing to accept an authoritarian regime for enforcing ecological goals against the market (Jonas 1979/1985: 262).

In this situation, ethical concepts lag behind. Those concepts that were developed within the framework of pre-modern society are inadequate for fruitfully connecting the ideas of ethics and economics. These concepts fail to see the idea that the individual pursuit of advantages *within an adequate institutional system* does not necessarily imply exploitation of others, but can lead to mutual improvements. Traditional ethics cannot understand that the individual pursuit of advantages can – very effectively – *promote* the traditional ideal of solidarity. It cannot understand that competition can become an efficient form of charity, whereby charity is distributed not via the benevolence of people, but via the usual processes of market exchange. It is visible in the form of innovative products at good value for money, of jobs, of income, or of taxes.

To draw an intermediate conclusion: within the positive-sum games of modern societies, the

individual pursuit of advantages is in principle compatible with traditional ethical ideas like the solidarity of all.

### An ethics of institutions: two-dimensional normativity in economic ethics

Before being able to pursue further the problem of implementation, we have to point to the distinction between *actions* and *conditions of actions*.<sup>10</sup> Traditional ethics concentrates on actions. Its norms require individuals to change those parameters they are able to control through their actions. The conditions of these actions, however, have been taken as 'given', as they have remained stable for centuries. These conditions include laws, constitutions, social structures, the market order, and also ethical norms.

Since the beginning of modern times, this situation has changed dramatically. *Homo sapiens* have increasingly become able to control and fine-tune the conditions of their actions, like constitutions, the market order, and others. A great deal of what Aristotle and many others thought to be the unchangeable *conditio humana* can now effectively be changed.

Adam Smith, the ancestor of economic ethics, recognised this: he was the first to introduce systematically the difference between actions and conditions of actions in order to link competition and morality together (Smith 1776/1982): Morality (incorporated in the idea of the solidarity of all, for example) can be found on the level of the conditions, the *rules*. Only then can competition be made productive by making individuals' moves moral-free *in principle*. With the aid of rules, of adequate conditions of actions, competition is directed at realising advantages for all people involved. In this way, the moral behaviour of individuals cannot be exploited by others, as rules are the same for everybody. In Basu's example, a total ban on child labour – in the case of relatively well-off countries – rules out exploitation of adults not sending their children to work by those who do.

We can draw at least two consequences for ethics:

(1) Under modern conditions, ethics has to be conceptualised on two different levels, as an

ethics of actions and as an ethics of conditions of actions, most notably of rules or institutions.<sup>11</sup> This latter is called institutional ethics or order ethics. It is most important not to let these two levels get in opposition to each other. In Basu's example, an institutionalised import ban on goods manufactured with child labour leads to such a situation: it is – in very poor countries – counteracted on the level of individuals' actions. We can expect ethical behaviour at the level of actions only if it is not punished at the level of institutions. The relevant model here is the prisoners' dilemma.<sup>12</sup> In their individual actions, the prisoners cannot compensate for the lack of a coordinating institution and thus end up with an inferior outcome.

(2) There remains an open question which was not relevant for ethics under pre-modern conditions: according to which criteria are rules evaluated and selected? This is especially important, insofar as we can no longer count on *common values* as a foundation for those criteria. In the age of globalisation, the pre-modern consensus on values has gone forever.

The only criterion left that does not rely on prior normativity in the form of common values and the like is the criterion of mutual advantages and benefits. This has been the core of social contract theory from Hobbes and Spinoza to Rawls. Interests and advantages are seen as prior to morality: ethical norms are established in order to fulfil the citizens' interests, indeed, the interests of each single citizen. This is the idea of Kantian autonomy under modern conditions: people constrain themselves – autonomously, but collectively – by rules, for the sake of greater benefits. The condition for this is the consent of all others.<sup>13</sup> They have to accept the rules as well and will do so only if they can themselves expect to profit from them.

To be sure, advantages are not meant simply as monetary, or financial, or even material advantages. Conforming with modern economics, advantages are characterised as everything that people take to be advantages (e.g. also health, reputation, or the good life).

But there is a caveat: ethics, according to traditional social contract theory, has often run into problems, as many of its proponents<sup>14</sup> have applied the idea of justification in terms of advantages to *single actions*, not to rules and institutions. But this does not yield sufficient social stability. If people are to calculate the consequences of their actions in every single case, others will have difficulties in sufficiently predicting their behaviour. Thus, in the conception of institutional ethics propagated here, it is *rules*, not single actions, that are to be justified as holding advantages for all. In this sense ethics is meant to promote individual and mutual advantages – in the long run.

### The problem of implementation in institutional ethics

The problem of justification can now be seen as justification in terms of (mutual) advantages. But the problem of implementation remains: why should people adhere to ethical norms if these norms require them – according, at least, to traditional Western ethics – to abstain from seeking advantages?

The conception of institutional ethics proposed here addresses this question by making a distinction between an individual action and a sequence of actions. People abstain from taking ‘immoral’ advantages only if adherence to ethical norms yields greater benefits over the planned *sequence* of actions than defection in the single case. Thus ‘abstaining’ is not abstaining in the long run, it is rather an investment in expectation of long-term benefits. By adhering to ethical norms, I become a reliable partner for interactions. The norms do indeed constrain my actions, but they simultaneously expand my options in *interactions*. It is certainly better not to make a deal with someone who wants to keep all options open for himself. Someone like this will soon find himself very alone.

Basu (1999), in his analysis of child labour, takes the same line, by saying that it is no contradiction to subscribe to the principle of free choice while at the same time being in favour of (mutual) limitations on everyone’s actions: in this case, a (limiting) rule is called for.

I would like to add some points for clarification:

- (1) Morality does not require us to abandon altogether the calculation of our (individual) advantages. It does, however, ask us to *improve* our calculations. We should, first, calculate in the long run rather than in the short run, and we should, second, take into account the interests of our fellows, as we depend on their acceptance for reaching an optimal level of well-being, especially in a globalised world full of interdependence.
- (2) The structures of the globalised economy are becoming increasingly vulnerable. This is the lesson of 11th September 2001, which has been known in theory for a long time. In the prisoners’ dilemma – one of the most important models for interactions in modern societies – there is an asymmetry in favour of defection. A single individual (or a small group of individuals) can create severe destruction to an extent that was not possible in the pre-modern world. This is because of the structures of modern society, because of global interdependence.<sup>15</sup> We have to recognise that it is in our interest to include in a global social contract the 4 billion people that are excluded today.
- (3) If only an ethics based on expectations of mutual advantages can solve the problem of implementation, likewise all conceptions of ethics are doomed to fail that cannot – for whatever reason – bring themselves to justify ethical norms in terms of (mutual) advantages or benefits. For these conceptions, there remain basically three options:
  - (a) one can try to suppress or forget the problem of implementation,
  - (b) one can call (like Hans Jonas) for a benevolent dictator, or
  - (c) one can openly admit not to know how to deal with this problem. For example, Jürgen Habermas admits that there is no direct linkage from ethical insight to action (‘von der diskursiv gewonnenen Einsicht gibt es keinen *gesicherten* Transfer zum Handeln’ – Habermas (1996: 51), his italics).

None of these options is particularly attractive. But they are a consequence of ethical conceptions

among whose, implicit, premises still rank the conditions of pre-modern societies. And under these conditions such conceptions would be fully workable. But they are not adequate for modern societies.

The problem of implementation can now be placed at the beginning of a conception of modern ethics, justified with reference to the conditions of modern societies I have sketched. Under the conditions of pre-modern societies an ethics of temperance had evolved that posed simultaneously the problems of implementation and justification. The implementation of well-justified norms or standards could then be regarded as unproblematic, because the social structures allowed for a direct face-to-face enforcement of norms. Pre-modern societies not only favoured an ethics of temperance, they also had the instrument of face-to-face sanctions within their smaller and non-anonymous communities.<sup>16</sup> This instrument is no longer functional in modern anonymous societies (cf. Luhmann 1989), and so we have to face up to the problem of implementation right at the start of our ethical conception.

To put it in another way, such an ethics might be called an 'ethics of advantages and incentives' (cf. Homann 2002). We must count on the fact that all actors look for their advantage (whereby the term 'advantage', of course, covers not only material advantages), and we have to set the right incentives in order to deal with this quest for advantages. An incentive ethics therefore relies on the implementation of sanctions for enforcing *incentive-compatible rules*. In modern societies, rules and institutions, to a large extent, must fulfil the tasks that were, in pre-modern times, fulfilled by moral standards. This means that rules occupy the centre of attention, supplying information about how others should behave and how they will – provided that the rules are sufficiently well enforced. Only if mutual expectations about behaviour develop and stabilise can prosperity and social progress be hoped for.

### **Incomplete contracts as the starting point for business ethics**

The question is: where does business ethics fit into economic ethics, into the picture I have just

drawn? Is there any room for business ethics at all, if morality is already implemented at the level of rules?<sup>17</sup>

Yes, there is. My remarks on economic ethics were based on the assumption that interactions (and their outcomes) are *completely determined* by rules and contracts. This would mean that all elements of contracts were completely fixed in terms of quality, date, or content, for any possible circumstances in the future, and despite any difficulties in enforcing these contracts. This is, of course, quite an unrealistic assumption, especially under conditions of globalisation.

This is where the economic theory of *incomplete contracts* comes in.<sup>18</sup> Incomplete contracts are contracts in which one or several of the following conditions apply:

- (1) The obligations of each party resulting from the contract are not specified exactly, in view of changing conditions such as flexible prices of raw materials.
- (2) It is difficult and/or expensive to determine whether the contracts have been fulfilled. External consultants have to be employed.
- (3) The enforcement of the contract is very difficult, very expensive, or even downright impossible, because of insufficient systems of law in certain countries.

This means that especially incomplete are those contracts which extend over a longer time, or which deal with complex issues. But these are the very contracts most prominent in the globalised economy, such as work contracts, long-run cooperation contracts, insurance contracts, and so on. Within these contracts, there is much room for interpretation. Rights and obligations resulting from such contracts must be continuously redefined.

The main problem regarding incomplete contracts is the kind of interdependence resulting from such contracts. Even if partner A is honest and completely fulfils his part of the contract, he cannot be sure whether partner B does the same. B may point to gaps within the contract, he may propose differing interpretations, and it may even be too expensive to enforce A's claims.

So in the face of incomplete contracts, what can a rational actor do? Basically, he could just not sign such contracts for fear of being exploited. But is there any other way?

One answer would be to make incomplete contracts complete. The obligations of each party would have to be specified exactly, for every single possible case, and enforcement would have to be guaranteed. For several reasons, this is not a sensible way to go. First, it is very expensive to make contracts 'watertight'. Second, listing all possible cases and all possible ways of exploitation might destroy the trust necessary for such contracts. Third, and probably most important, the incompleteness of contracts is not just a bad thing, but instead *necessary and productive*, as the partners can react quickly to new situations. We cannot know every possible situation in advance, and so we cannot know possible *chances and opportunities* in advance. Thus, it would not be rational to try to rule out incompleteness, as it enables partners to seize opportunities when they are there.

A second way, and this is my proposal for dealing with incomplete contracts, is to rely on ethics. We need trust, fairness, integrity, and good will for carrying out contracts in the globalised economy. If contracts are becoming increasingly incomplete, we need both an ethics for the interior relations of the company (workers and management) as well as an ethics for the exterior relations to customers, banks, suppliers, and the public. It is rational for a company to *invest* in these ethical categories, as it contributes to the company's success.

So this could be regarded as the justification for *business ethics*: if rules (in the sense of *formal* rules, cf. the section 'Economics ethics') are lacking or if they are incomplete – for good reasons! – then substitutes for formal rules can be provided by actors (in this case, companies) committing themselves to certain policies, to mechanisms of trust and fairness, for example. This commitment has to be made credible through organisational measures and must be signalled to others. In this way, actors create by themselves the very reliability that would normally be expected from formal rules. They create a *reputation*, which

especially under conditions of globalisation is a necessary pre-requisite for success in the long run.

So the idea here is that we may now systematically *combine* economic ethics and business ethics in the following way: the general problem is how to create reliability in the globalised economy. Reliability can be provided in two ways: first, by way of *collective self-constraint* (formal rules and legal enforcement), and second, by way of *individual self-constraint* of a company committing itself to specific values or ethical standards of behaviour. This commitment must be signalled, and thus becomes an asset for the company. Note: the company is not required to abandon its 'economic calculation', but rather to improve this calculation by taking into account long-term effects on its reputation. Business ethics is investment. A manager unable to employ ethics for the company's success is a bad manager.

To sum up: complete formal contracts and rules, with guaranteed enforcement, on the one hand, and incomplete contracts, with enforcement by soft factors like ethics and reputation, on the other hand, are both important. They depend on each other, but to some extent they can also be substituted by each other. At the moment, we probably face a situation in which we gradually shift to a greater role for incomplete contracts.

From a philosophical viewpoint, an important problem now remains: do companies not implement ethics by just acting from self-interest, from 'profit maximisation'? Yes, they do, but, as Smith (1776/1982) already observed, the immediate motive of self-interest does not preclude anything for the ethical judgement. Yes, companies act ethically, e.g. by not seizing advantages in singular cases, *from self-interest*. Thus, the pursuit of advantages remains their main motive. So what does this have to do with ethics? I will turn to this question now.

### **Advantages and benefits in the tradition of ethics**

As I have remarked, the conception laid out here makes changes in ethical categories necessary. Instead of calling for temperance and sacrificing,

ethics should promote investing. Instead of demanding redistribution, it should favour exchange. Self-interest should not be ‘domesticated’, but unleashed. What does this have to do with ethics?

Looking back at the (Western) ethical tradition, neither the Golden Rule, which has sometimes been regarded as the common core of all conceptions of ethics across cultures, nor Kant’s categorical imperative deny the legitimacy of the individual pursuit of advantages. They indeed take it for granted, and then aim at constraining it.<sup>19</sup> The new element within the conception of institutional ethics advocated here is just that these constraints are themselves justified by the expectation of greater benefits across a sequence of actions.

Many ethical conceptions do not recognise this, but rather derive the constraints from some form of ‘higher’ morality, from ‘reason’ or from the ‘human condition’. The most prominent one of these, Kantian ethics, is commonly seen as being directly opposed to an ethics based on the pursuit of individual advantages. But some elements of Kant’s original conception are commonly overlooked. In his ‘Groundwork of the Metaphysics of Morals’, Kant states: ‘... denn dieses Sollen ist eigentlich ein Wollen’ (‘... for this properly an ‘I ought’ is properly an ‘I would’’, Kant 1785/1974: BA 102). Even for Kant, the core of normativity is made of ‘wants’, of interests, namely the interests of perfectly rational beings. We – as beings that are not perfectly rational, but that are also affected by ‘springs’ (‘Triebfedern’) of a different kind – may sometimes go astray. But this ‘going astray’ can in my view only be interpreted as the impossibility for people to escape from social dilemma situations. In these situations, individual rationality indeed leads us to act against our own interests. Therefore, we have to establish rules for overcoming these situations. But these rules are themselves legitimated by our (long-term) interests.

Getting back to Kant, I maintain that, for Kant, interests are the legitimate basis of norms. But these interests must pass two filters – according to the categorical imperative: (a) they have to be pursued within a *long-run* perspective (based on a ‘maxim’ (Maxime), not on a single

opinion), and (b) we have to take into account the vital interests of others, as we need their (at least implicit) agreement or toleration (maxim as a basis for a general law: ‘Maxime des Willen zugleich als Prinzip einer allgemeinen Gesetzgebung’). So even for Kant, ethics does not require us to abstain from seeking advantages, but rather to improve our calculation of advantages by taking a long-run rather than a short-run perspective and by taking a social or cooperative rather than individual view. Again, abstaining is not really ‘abstaining’, but investment in the stability and further development of the social order.

In contemporary ethics, there is – to my knowledge – no alternative conception of ethics which could adequately deal with the problem of implementation. Just to mention two:

- (a) Jürgen Habermas openly admits having no systematic theory in this regard. Furthermore, he presupposes people being moved by a ‘rational motivation’ (Habermas 1981, Vol. 1: 50; cf. also Habermas 1992: 19; van Aaken *et al.* 2004), not just by self-interest. The question is: can such a rational motivation remain stable in the face of directly opposed incentives within the structures of modern society?
- (b) John Rawls (1971, 1993) presupposes citizens of a democracy being moved by a sense of justice. This sense of justice is characterised as the citizens’ capacity for complying with the principles of justice *for their own sake*, not for any external benefits. To my mind, the effectiveness, if not the entire existence, of this sense of justice is quite doubtful, at least under conditions of globalisation. In his more recent ‘Law of Peoples’ (Rawls 1999), Rawls consequently weakens his approach.

There are a lot of other conceptions of ethics worth mentioning, such as numerous variants of virtue ethics or of value ethics. Most of them still implicitly assume the conditions of pre-modern societies for their implementation. In the case of child labour, these conceptions would call for a total and unconditional ban. However, under modern conditions, these demands, if adopted as policies, would be counterproductive.



## Conclusion

I started by referring to an economic analysis of an ethical problem: child labour. From this point, I began to develop a conception of economic ethics as institutional ethics. The most important theoretical element of this conception is the two-dimensional normativity of actions and conditions of actions. Within this framework, business ethics fits in according to the theory of incomplete contracts. Incomplete contracts leave room for ethical behaviour of companies. Thus, pursuing self-interest is compatible with ethics, and it is even legitimate with regard to many (if not all) traditions of ethics. Finally, the idea of mutual advantages as a core principle of *both* ethics and economics may help to see more clearly the ethical value of economic analyses like the one of child labour mentioned here. So the conception of economic ethics laid out in this paper is also meant as a call for more interdisciplinarity in ethical discourse.

## Notes

1. Bowie (1999: 13) states that 'the general public judges business from a strict Kantian position' that categorically separates business from ethics.
2. The term 'pre-modern' is not meant as a historical concept. Rather, in the sense of Luhmann (1997) and Lerner (1958/1964), 'modern' and 'pre-modern' are used as *structural* terms: a modern society is an anonymous, pluralistic society, which – in game-theoretic terms – does not play zero-sum, but positive-sum, games.
3. For a similar approach, cf. Sen (1981).
4. While detailed analysis of this goes far beyond the scope of this article, I would like to give some examples: Rawls (1993, Lecture II, § 1: 'The Reasonable and the Rational') sharply distinguishes between the rational and the reasonable individual; the latter is to be motivated not just by self-interest. Habermas (1981) separates communicative from 'mere strategic' motivation. This continues well into the discussion of business ethics and can be found, for example, in the approaches of Solomon (1992) or Ulrich (2002), or in the stakeholder approach (cf. Donaldson & Preston 1995).
5. In situations like these, morality cannot require individuals to forget about their own self-interest. Cf. Hooker (1998: 38): '... there are limits to the amount of self-sacrifice morality can demand'.
6. Historical evidence can be found, for example, in the works of Meier (1998) on ancient Athens or in Jones' (1981) study of the causes of the 'European miracle'.
7. Many other conceptions of ethics – historical and contemporary – can be regarded as ethics of temperance: not only Kantian approaches (contemporary: discourse ethics, cf. Habermas (1981, 1992) and Aristotelian approaches (contemporary: virtue ethics, cf. Foot 1978) call – in one way or another – for *taming* the quest for advantages. But even David Gauthier as a Hobbesian assumes that people can adopt and *stick* to rigid dispositions in the face of opposing incentives (cf. Gauthier 1986, esp. Chapter 6).
8. On institutions and institutional design, cf. Williamson (1985), North (1990), Furubotn & Richter (1997) and Scott (2001).
9. Of course, distributive aspects have to be addressed here, too.
10. This mirrors James M. Buchanan's distinction between *choices within rules* and *choices of rules* (Buchanan 1975, Brennan & Buchanan 1985).
11. This is not self-evident. The vast majority of modern ethics literature – from Habermas to Analytic Ethics – either does not recognise this distinction or does not regard it as central (see Homann 2002).
12. Cf., for a wide range of literature, Axelrod (1984).
13. Herein lies an important difference between a contractarian and a rule-utilitarian approach: the contractarian rejects the idea of adopting a rule *because* it maximises some collective utility. Instead, in a contractarian setting, there has to be some level in the hierarchy of rules where every single individual must agree to a rule for it to be adopted. Thus, suppressing minorities becomes less probable than in a rule-utilitarian setting.
14. Cf., for example, Donaldson & Dunfee (1995).
15. Global interdependence certainly has other effects, as well, like the ability to recover more quickly. My focus here is on the *problems* interdependence creates.
16. See Meier (1998) for how this instrument was used in ancient Athens. Meier clearly shows that Athens was not a democratic state in the modern sense, mainly as public and political participation was

required *and enforced* in quite other ways than today.

17. Cf. Boatright (1999). For business ethics in general, see, e.g., Frederick (1999) and Crane & Matten (2003).
18. Cf. Hart (1987) and Hart & Holmström (1987).
19. Brad Hooker stresses the same point in his very lucid article (Hooker 1998): ‘... pursuing profits for oneself is not necessarily selfish or immoral’ (Hooker 1998: 35). However, it *is* indeed immoral, if in the course promises are broken, if stealing or lying occurs or if others are physically injured (Hooker 1998: 37).

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What qualifies as business ethics in history has changed over time and the different areas of ethics are important to every business.

1:29. Business Ethics. As with all business initiatives, the ethical operation of a company is directly related to profitability in both the short and long term. The reputation of a business in the surrounding community, other businesses, and individual investors is paramount in determining whether a company is a worthwhile investment. If a company is perceived to not operate ethically, investors are less inclined to buy stock or otherwise support its operations. Economic ethics combines economics and ethics, uniting value judgements from both disciplines in order to predict, analyse and model economic phenomena. It encompasses the theoretical ethical prerequisites and foundations of economic systems. The school of thought dates back to the Greek philosopher Aristotle, whose *Nicomachean Ethics* describes the connection between objective economic principle and the consideration of justice. The academic literature on economic ethics is extensive, citing such... Business Ethics is a collection of moral principles that act as guidelines to decide the ethical culture of a business or organization. From professional ethics to ethical ways of making goods and services to marketing ethics and organizations' ethical culture, all are the parts of ethical business practices. Business ethicists suggest the incorporation of ethical behavior for an organization because it not only enables a business to stay clean from legal issues but also constructively optimizes their social images, as business ethics is one of the key factors of trust and brand building.

Table of Contents. Business ethics in its current incarnation is a relatively new field, growing out of research by moral philosophers in the 1970s and 1980s. But scholars have been thinking about the ethical dimensions of commerce at least since the Code of Hammurabi (c. 1750 BC). This entry summarizes research on central questions in business ethics, including: What sorts of things can be sold? How can they be sold? In whose interests should firms be managed? In one article, Freeman and collaborators say that stakeholder theory is simply "the body of research" in which the idea of "stakeholders" plays a crucial role (Jones et al. 2002). In another, Freeman describes stakeholder theory as "a genre of stories about how we could live" (1994: 413). interdependence have consequences for economic ethics and business ethics. It points in the direction of having an ethical conception based on economic theory, and of abandoning completely the idea "held by quite a number of philosophers from John Rawls to Jürgen Habermas" of a fundamental contradiction between ethics and economics. Rather, both aim at mutual advantages. I will elaborate on the idea of mutual advantages as a central idea of ethical theory in the following section of my paper, proceeding in three steps: First, I would like to present some preliminaries of economic ethics.