

# The Ordonomic Approach to Order Ethics

Ingo Pies

**Abstract** The ordonomic approach to order ethics contains four elements: (a) a diagnosis of modernity, which identifies the core problems and directs the research strategy to solving them; (b) a rational-choice analysis of social dilemmas, i.e., positive theorizing which informs about the un-intended consequences of intentional inter-action; (c) the idea of orthogonal positions, i.e., normative theorizing that aims at providing reform orientation while at the same time systematically avoiding controversial value statements; (d) a scheme of three social arenas that helps to understand the interplay between institutions and ideas in societal learning processes.

**Keywords** Ordonomics • Order ethics • Institutional ethics • Individual ethics • Orthogonal position • Social dilemma • Modern society • Growth

**Schlüsselwörter** Ordonomik • Ordnungsethik • Individualethik • Institutionenethik • Orthogonale Positionierung • Soziale Dilemmata • Moderne Gesellschaft • Wachstum

The first section explains why the dominant form of traditional ethics with its focus on individual motives of action needs to be complemented by an ethics of institutional order—in short: order ethics—that concentrates moral analysis on the framework of rules and their incentive properties. The second section introduces a special version of order ethics: the ordonomic approach. It consists of four analytical elements and their systematic interplay. The third section discusses several applications of the ordonomic approach to order ethics and thus illustrates its heuristic power and problem-solving capacity.

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# 1 The Need for an Ethics of Institutional Order

(1) The Western tradition of Ethics, conceived of as moral theory (=theory of morality), has a long history that dates back to antiquity. There are both religious as well as secular sources that have stimulated this tradition. Among the former are the monotheistic religions—Judaism, Christianity, and Islam. Among the latter are the philosophical schools of thought in ancient Greece and Rome. Taken together, the former constitute a spiritual version, the latter a civic version of ethical reflection on morality.

Both versions have in common that they focus their ethical perspective on the behavior and character of individual persons, whether they use the idea of god and the according divine rules or the idea of a good life and the according virtues. Both versions aim at helping the individual person to reflect her moral standards and to improve her moral practice, and they do so by drawing attention to one's good or bad intentions: they focus on individual action and the underlying motivational structure.

Despite their pre-modern origin, both sources of the tradition of ethics are still influential in modern society. On the one hand, this is quite understandable since all human beings who (want to) develop a moral integrity of their own, i.e., become persons, have to solve problems for which time-proven answers might provide valuable orientation, especially if they advise to have consideration for neighbors or to consider the future consequences of today's action on oneself. In general, many of such moral recommendations can be reconstructed as prudent advice: they enlarge the horizon of self-interested behavior in both the social as well as the time dimension.

(2) On the other hand, this influence is somewhat surprising because in a modern society there is an abundance of moral problems that cannot be adequately addressed by focusing on the good or bad intentions of individual actors. This is especially true with regard to the results of competitive processes. Markets are a case in point.

To illustrate: demanders in markets have an interest in low prices. They want to buy cheap. Suppliers have the opposite intention. They prefer to sell at high prices. Now assume an increase in demand. What will happen to the initial equilibrium? For sure, the price will go up. But it will not rise because the suppliers *want* it to rise. Instead, it will rise although the demanders do *not* want it to rise. Indeed, it is the demanders who cause this price rise through their very own behavior. That demand pressure raises prices is a phenomenon which is un-intentionally and even counter-intentionally produced by actors who are interested in low prices. In this sense, competitive markets are subversive to the intentions of market actors.

Against this background, it is an intellectual mistake—an “intentionalistic fallacy”—to conclude good market results from good intentions or to conclude bad market results from bad intentions. Market results are primarily driven not by individual motives but by institutional incentives, which canalize and coordinate the un-intended social consequences of intentional action. If one is interested in

understanding—and, where appropriate, in improving—market results, it is of vital importance to draw attention to the institutional order. Hence, there is a need for order ethics, i.e., a theory of morality whose perspective is focused on the moral quality of the formal and informal rules that guide the competitive interplay of actors.

Order ethics is needed not to replace but to complement traditional ethics. The underlying reason is that different contexts cause different problems, which require different perspectives in order to find adequate solutions. While traditional ethics concentrates on individual *action*—especially on the motive structure of individual action—, order ethics concentrates on individual *inter-action*—especially on the incentive structure that canalizes how different actors work together or against each other. The perspective of traditional ethics is focused on (im-)moral motives, while the perspective of order ethics is focused on (im-)moral phenomena that are primarily driven by incentives. Traditional ethics is concerned with—and concerned about—determinants of action that are inside the individual, while order ethics concentrates on determinants of (inter-)action that are outside the individual. Hence, the psycho-logical focus of traditional ethics is different from, but in general complementary to, the socio-logical focus of order ethics.

The seminal author on order ethics is Karl Homann, a German scholar who was reared in the tradition of (a liberal understanding of) the Hegelian philosophy of right. Later he became an economist (heavily influenced by the works of Walter Eucken and James Buchanan). After two dissertations and his habilitation, like much of his later work addressing the borderline of philosophy and economics, he was appointed in 1990 to hold the first chair in Economic Ethics and Business Ethics in Germany. Among his numerous disciples, similar but still distinctively different strands of thought have developed. The following analysis sketches the ordonomic approach to order ethics.

## 2 The Ordonomic Approach to Order Ethics

The ordonomic approach contains four elements: (a) a diagnosis of modernity, which identifies the core problems and directs the research strategy to solving them; (b) a rational-choice analysis of social dilemmas, i.e., positive theorizing which informs about the un-intended consequences of intentional inter-action; (c) the idea of orthogonal positions, i.e., normative theorizing that aims at providing reform orientation while at the same time systematically avoiding controversial value statements; (d) a scheme of three social arenas that helps to understand the interplay between institutions and ideas, which is of vital importance for the (mal-)functioning of societal self-governance, i.e., the diverse processes of self-enlightenment and self-rule in modern society.

## 2.1 *A Diagnosis of Modernity*

(1) From the ordonomic point of view, the defining criterion of a modern society is its continuous economic growth, which leads to rising per capita incomes. In historical perspective, sustained growth is a relatively new phenomenon that simply did not exist before 1800. The underlying reason is that, for several thousand years before 1800, humanity experienced a Malthusian trap. This means that economic progress led to population growth but not to higher living standards for the population at large (cf., Clark 2007; Galor 2011).

The escape from the Malthusian trap—and thus, from the ordonomic point of view, the entry into modernity—was brought about by innovation. It was the “invention of invention”, to use a term coined by Lippmann (1929, 2009; p. 235), which made, and continues to make, the traditional factors of production—land, labor, capital—more and more productive. In this sense, the modern society is a knowledge society: its innovation process rests on the continuous generation and improvement of knowledge.

It is misleading to call this fundamental transformation from pre-modern to modern society “industrial revolution”. On the one hand, the whole society is transformed, not just the business sector. On the other hand, it was not the invention of the steam engine or some other machines which revolutionized the economy. Rather, it was the other way around: the modern state and its rule of law, modern science and its processes of creative criticism, the modern business firm and its indefinite time horizon all played an important role in the invention of invention. The early Schumpeter (1911, 2006; p. 479, translated by I.P.) got it astonishingly right: “It is wrong to think that inventions created capitalism; rather, capitalism created the inventions necessary for its existence”.

(2) This engine of modernity, the invention of invention, has set up a dynamic transformation process that historically started in Europe and by now has reached all continents. Judged from the European experience during the last two hundred years, this transformation process changes, in the course of time, nearly every characteristic of a pre-modern society. The constitutionalized state has become secularized, democratized, and pacified. It engages primarily in public education, social security, and public infrastructure. Nobility privileges have been removed. Non-discrimination is the rule. Citizens enjoy freedom of speech as well as freedom of contract. Modern society offers both organized pluralism and a pluralism of organizations. Due to free markets, citizens have access to goods and services, including credit and insurance. People decide in mutual consent whether they want to live with each other. They are free to choose their residence and vocation as well as their lifestyles. The social pressure to conform with traditions has been considerably reduced, while at the same time a private sphere has been created, which offers ample room for individual choice. Formerly rigid family structures have changed, and so have the social relations between old and young as well as between men and women. Last but not least, people live longer and healthier lives.

In contrast to this institutional revolution, most normative terms and concepts are rather old. With the notable exception of “sustainability”, normative ideas like “liberty”, “equality”, or “justice” were already familiar two thousand years ago. They originate in pre-modern social structures. That is why many traditional concepts of morality stress the control (and even sacrifice) of one’s aspirations. In a society without growth, many conflicts cannot be solved by unleashing win-win activities. Instead, they can only be solved by taming win-lose activities, which explains why traditional ethics lays such a strong emphasis on exercising moral restraint. However, ancient ideas about the good life in a good society do not conform well with—and indeed may be partially inadequate for—the radically new options of productive social cooperation that are available (only) in modern growth societies. Perhaps this is why the loss of tradition led to a loss of orientation that made—and still makes—many people feel estranged from modern society. And it explains why already Hegel—who developed the first philosophy of modern society—aimed at contributing to reconciliation (Hardimon 1994).

Summing up, modern society is a growth society and as such is characterized by a systematic mismatch between institutions and ideas. Therefore, the research perspective of ordonomics is focused on a specific governance problem: it addresses the diverse learning processes in which the mismatch between institutions and ideas is overcome via mutual adaptation, i.e., via institutional change that mirrors the evolution of normative ideas or by re-conceptualizing normative ideas to better fit the evolution of institutional realities. The gradual improvement, during the twentieth century, in the legal status of women is an example of the former, while the attempts by Rawls (1971, 1993, 2001) to re-think “justice” are an example of the latter.

## 2.2 *Rational-Choice Analysis of Social Dilemma Situations*

In philosophical discourse, the term “moral dilemma” is often used to describe a decision situation that confronts an individual (singular!) with difficult tradeoffs, e.g., with a tragic choice between self-sacrifice or ruining other people’s lives or a tragic choice between two groups, a small one and a large one, when only one of them can be saved from certain death. In contrast, a “social dilemma” denotes a situation in which several actors (plural!) inter-act and the outcome is rational inefficiency (cf., Petrick and Pies 2007; Buttkereit and Pies 2008). The prisoners’ dilemma, familiar from mathematical game theory, is a case in point (Bowles 2004; pp. 23–55).

If people find themselves in a social dilemma, they are confronted with disincentives which hinder them from pursuing a common goal. Therefore, they reach a result which they themselves find disagreeable—in technical parlance, they reach a Pareto-inferior Nash equilibrium. Due to the rules of the game they play, i.e., the specific institutional framework, each player has an incentive to behave in exactly the way he fears from others. The result is collective self-damage.

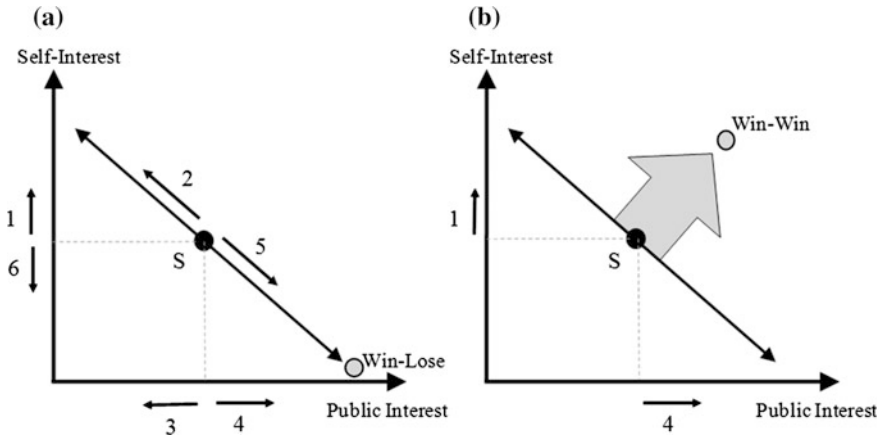
The situational logic of a social dilemma has several characteristics: (a) Players try to reach their own goals. In order to do so, they choose their individual moves in the game. (b) Players act in a social process, the outcome of which cannot be chosen. In fact, the outcome results from the interplay between different actors: it results from *inter*-action. (c) The outcome of the game is the *un*-intended consequence of an interplay of individual actions and their underlying individual intentions. (d) The moves in the game are canalized by the rules of the game, i.e., by the institutional framework that sets the *incentives* for individual actions. (e) In a social dilemma, the rules of the game exert pressure on each individual actor to behave in a way that is detrimental to the players' common interest. Thus, they end up with a result they collectively regret.

Modeling situations along these lines improves our understanding of phenomena such as mass unemployment, environmental pollution, the degradation of common pool resources, the pervasiveness of corruption, or the general underprovision of public goods. In such social dilemmas, it is not bad intentions but bad institutions which cause a systemic malfunctioning that gives rise to moral concerns.

The following example may help to illustrate the specific situational logic of a social dilemma as well as its ethical importance. Assume that for centuries people who settle along a lakefront have made their living by fishing. Due to recently improved fishing techniques, their increased productivity has decreased the available fish population. People start to realize that they run the danger of overfishing. However, this is a problem no single fisher can solve on his own. If he exhibits self-restraint, other fishers are likely to catch more. Taken as a group, the fishers find themselves in a situation where it is individually costly to behave in a way that conforms with their collective interest in preserving a natural resource. To escape from this social trap, they need an institutional reform: a collective rule-arrangement that realigns individual incentives, e.g., by introducing quotas, or by regulating the time input appropriate for fishing, or by allocation rules that specify where individual fishers are allowed to harvest (Ostrom 2012; p. 80). Taken as a group, the fishers need a collective arrangement that helps the fish population to recover.

### 2.3 Normative Orientation via Orthogonal Positions

Confronted with a systemic malfunctioning, moral discourse often perceives the problem as a tradeoff between the self-interest of certain actors on the one hand and the public interest on the other hand (Fig. 1a). The underlying mind-set is characterized by a tradeoff: Taking the status quo *S* as a starting point, the typical perception is that the pursuit of private self-interest (arrow 1) leads to a move along the tradeoff line (arrow 2) which is detrimental to public interest (arrow 3). This diagnosis naturally entails as therapy a demand—often articulated as a moral postulate—to respect public interest (arrow 4), even if this means to move along the tradeoff line in the other direction (arrow 5), which means to sacrifice private self-interest (arrow 6).



**Fig. 1** Orthogonal position: a paradigm shift from win-lose to win-win

It is important to understand that this win-lose paradigm, which is so dominant in moral discourse, ultimately stems from perceiving the situation at hand as a zero-sum game. Therefore, in many cases one can shift paradigm from a win-lose perception to a win-win perception if it is possible to reconstruct the underlying situation as a social dilemma, i.e., as a non-zero-sum game (Fig. 1b). Such a paradigm change is called “orthogonal position” (Pies 2000; p. 34) because it changes the perspective by 90°. It literally changes the direction of thought and transcends the tradeoff line by drawing attention to the possibility of bringing, via institutional reform, private self-interest (arrow 1) into harmony with public interest (arrow 4). Put differently, in so far as the point denoted “win-lose” in Fig. 1a represents the “negation” of self-interest, the orthogonal position with its focus on a “win-win” solution in Fig. 1b marks a “negation of this negation”. It reconciles self-interest and public interest.

In order to illustrate the crucial point, it may be helpful to return to the example discussed in the last sub-section. Assume the following situation. Before a quota is introduced—or before a functional equivalent is established, i.e., a collectively binding rule that aligns individual incentives—a single fisher is asked why he contributes to overfishing. He would probably answer that he cannot afford to catch less fish. For an outside observer this might indeed look like a clash of interest between profit-seeking and the common good, as represented by arrows 1, 2, and 3 in Fig. 1a. However, the problem is not as simple as that, and for sure it cannot be solved by a moral appeal, directed at the individual fisher, to change his behavior, as represented by arrows 4, 5, and 6 in Fig. 1a. In fact, the fisher is in a situation, together with all other fishers, where they collectively damage themselves and where at the same time an individual attempt to solve the collective problem is both costly and of no avail. However, if the fishermen succeed in establishing an institutional order that redirects their activities in such a way that the fish population can recover, their self-restraint from overfishing can be perceived as an investment

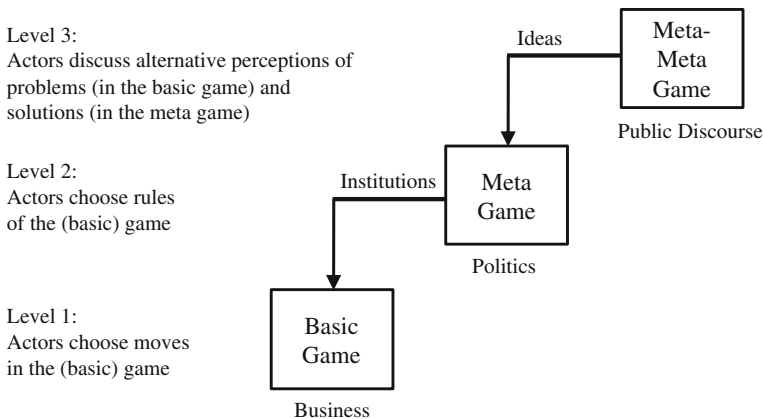
and can meet their consensus. The orthogonal position in Fig. 1b reflects that it is in the long-run self-interest of fishermen to observe the public interest in a sustainable fish population.

## 2.4 The Interplay of Three Social Arenas: Business, Politics, and Public Discourse

Figure 2 helps to distinguish three social arenas. For expositional purposes, one can call them business, politics, and public discourse, although one should keep in mind that this ordonomic distinction of three arenas is not an ontological but a methodological scheme—a “relatively absolute absolute” (Buchanan 1989)—and hence can be applied to many cases, e.g., to learning processes within organizations.

The crucial point is that level one constitutes a basic game, while level two constitutes the according meta game, which defines the rules that channel behavior in the basic game. Level three marks the discussion about possible problems in the basic game and possible solutions to these problems that can be found in the meta game.

The following example helps to illustrate the scheme. Assume a shortage in the housing market, i.e., the basic game. As prices are high, people have difficulty in finding apartments they can afford. Assume further that in the meta-meta game of public discourse most citizens believe—or are made believe by media reports—that the source of the problem is a conflict of interest (=tradeoff) between tenants and landlords and that therefore social protection of the former requires to curb profit-seeking by the latter. Under these conditions, it might be possible that politicians in the meta game cannot help introducing price ceilings even if they know better.



**Fig. 2** The ordonomic three-level scheme to distinguish different social arenas



This, of course, has negative effects on the basic game. Since the administrative price is set to a low level, demand goes up while supply goes down. In particular, landlords lack the incentive to build new houses. Therefore, the market gets even tighter. Scarcity grows. As a consequence, more and more people have difficulty in finding an apartment. Especially people with small budgets, young children or domestic animals feel disadvantaged. Furthermore, many of them—desperate for accommodation—would be willing to pay a higher price than allowed by law, thus giving rise to all sorts of illegal behavior in order to circumvent regulation.

It is easy to imagine how these daily experiences of housing market failure might set in motion a vicious circle of political interference: strict laws prohibiting discrimination, high penalties for illegal lease agreements, public housing for the poor, etc. Such a spiral of market intervention—causing market failure, which entails more intervention that in fact aggravates the problems—explains the housing market history in many countries during the twentieth century.

It is very difficult to escape this vicious circle unless an orthogonal position in the meta-meta game makes clear that the root of the problem is the misguided perception of a tradeoff. The public interest in a functioning housing market that provides affordable accommodation is poorly served by command and control policies which partly expropriate landlords. The proper task of politics is not to tame but to institutionally (re-)direct the landlords' self-interest such that their competitive profit-seeking *serves* the public interest. This requires that politicians in the meta game resist the temptation of administering prices, thus distorting incentives. Where necessary, poor people should be given additional income so they can afford market prices that truly inform about real scarcity. In order to avoid collective self-damage, it is of crucial importance that public discourse learns and communicates the lesson that politics should improve—and not impair—the institutional working conditions of markets.

### 3 Ordonomics at Work: Several Illustrations

In order to show how these analytical elements fit together, this section discusses several illustrations. It starts with a historical reconstruction of an event that paved the way towards modernity. Here, the basic game is not a market failure but a religious conflict, thus providing insight in the general applicability of the ordonomic three-level scheme to distinguish social arenas.

### ***3.1 A Conceptual Reconstruction of the Peace of Westphalia Which Ended the Thirty Years' Religious War (1618–1648)***

(1) After the reformation, Protestants and Catholics found themselves in a situation akin to the prisoners' dilemma: neither side wanted to give into the other side's attempt to dominate. The result was a series of religious conflicts, culminating in the extremely bloody Thirty Years' War on the European continent, starting in 1618.

Despite enormous damages to life and limb on both sides, political negotiations to overcome the military conflict continuously failed. For thirty years, it was impossible to find a solution in the meta game that would put an end to the basic game of religious war.

Seen from the ordonomic perspective, the final reason for this failure can be located in the meta-meta game. The root of the problem was the religious mind-set which dominated both public discourse and private reasoning. As long as the central question of the dispute was to ask who has the right religion, no side was able to compromise, since this would have meant to sin and thus sacrifice one's eternal life. Therefore, people were trapped in this tradeoff thinking, the result of which was that the social dilemma in the basic game was duplicated by a social dilemma in the meta game. Peace negotiations failed, and the religious war went on.

(2) It was the invention of the idea of tolerance that finally allowed a solution to the problem (Zagorin 2003). People learned to ask the new question how they can live together peacefully and productively even if they have different confessions. The idea of religious tolerance paved the way for realizing that Catholics and Protestants—although in military conflict with each other—still had some interests in common.

This orthogonal position in the meta-meta game brought about a change in the meta game, too. With the help of conditional strategies—one's willingness to end war was tied to the counterpart's willingness to end war—the meta game was transformed from a social dilemma to a coordination game in which the joint interest in peaceful coexistence became dominant.

Once the peace treaty was negotiated, the basic game could change from religious war to mutual acceptance: conflict was substituted by cooperation.

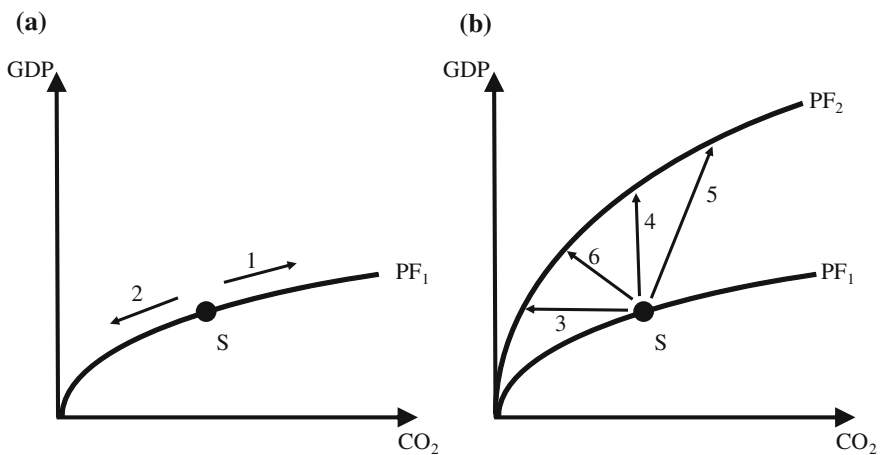
(3) Summing up this ordonomic sketch of conceptual history, a paradigm shift in ideas led to an institutional reform, which then changed behavior. This learning process took decades, but finally it was successful because in order to end war, both parties had to agree to end war. However, as long as people had perceived that such an agreement required a compromise on behalf of one's true belief, the meta game was blocked. In order to overcome this blockade, it was necessary to transcend the tradeoff in the meta-meta game and to open one's eyes with the help of an orthogonal position.

### 3.2 Growth Policy and the Ordonomics of Climate Change

Faced with the prospect of climate change, countries around the world are searching for solutions to the problem of providing a truly global public good. During the last twenty years, several steps were taken—including the UN Framework Convention on Climate Change as well as the Kyoto Protocol. However, one cannot ignore the fact that in recent years the whole process of constructing a post-Kyoto process has not been exceedingly successful. The ordonomic approach can point to some conceptual mistakes that help explain—and hopefully even overcome—some of the recent difficulties.

Figure 3a interprets carbon dioxide emissions—an important greenhouse gas that is a by-product of fossil-fuel based energy consumption—as a factor of production. Take point S as the status quo. Moving to the right along the “growth path” represented by arrow 1 increases gross domestic product and at the same time exacerbates the problem of global warming. Therefore it might seem that to protect ourselves against the potential hazards of climate change requires a movement in the opposite direction along arrow 2, even if this involves reductions in GDP.

In contrast to this popular perception, Fig. 3b represents quite a different mind-set which offers an orthogonal position to the tradeoff thinking inherent in Fig. 3a. Instead of moving along a given production function  $PF_1$ , the orthogonal position emphasizes the possibility to set in motion innovative processes that effectively change the production function from  $PF_1$  to  $PF_2$ . This is a fundamentally different understanding of “growth”: generating new knowledge means that it is possible to produce the same output with less input (horizontal arrow 3), or alternatively to use the same input to produce more output (vertical arrow 4). Another possibility offered by innovative-driven growth is marked by arrow 5, which represents the so-called “rebound” effect: although innovation makes it possible to



**Fig. 3** Two alternative paradigms: limits to growth versus growth of limits

produce the same output with less input, output increases so much that in fact more input is needed. However, whether this rebound effect materializes is a matter of price. In the case at hand, it is politicians who finally decide on the price of carbon dioxide and therefore can make sure that the future development will be characterized by arrow 6, which represents a growth path that combines effective climate protection with further increases in GDP.

To illustrate, Germany provides a very interesting example. In recent years, a huge amount of money has been spent for carbon dioxide mitigation along arrow 2 in Fig. 3a, e.g., by subsidizing solar panels on German house roofs. Such measures are extremely expensive and at the same time very inefficient. Therefore, it is only a question of time that such policies reveal their true cost to the public and hence become increasingly unpopular. What is required here is a learning process, as a result of which the democratic public grasps the superior alternative. This consists of political measures which encourage carbon dioxide mitigation along arrow 6 in Fig. 3b, e.g., by subsidizing research and development.

### 3.3 *Further Ordonomic Insights*

(1) The above list of ordonomic applications is of course not exhaustive. For a critical examination of the semantics of responsibility and sustainability, respectively, cf., Beckmann and Pies (2008a, b); for an ordonomic analysis of moral criticisms of agricultural speculation—and a criticism of such criticisms on moral grounds—cf., Pies et al. (2013b, c); for an ordonomic approach to Business Ethics cf., Pies et al. (2009, 2010, 2011, 2013a); for an ordonomic approach to sustainability management cf., Beckmann et al. (2012a, b). Further publications on applications of the ordonomic approach comprise Pies and Schott (2001) and Pies and Hielscher (2009a, b) as well as Hielscher et al. (2012).

(2) However, instead of adding further examples, the following insights help to evaluate the heuristic power of the ordonomic approach in guiding fruitful (re-) conceptualizations of institutions and ideas:

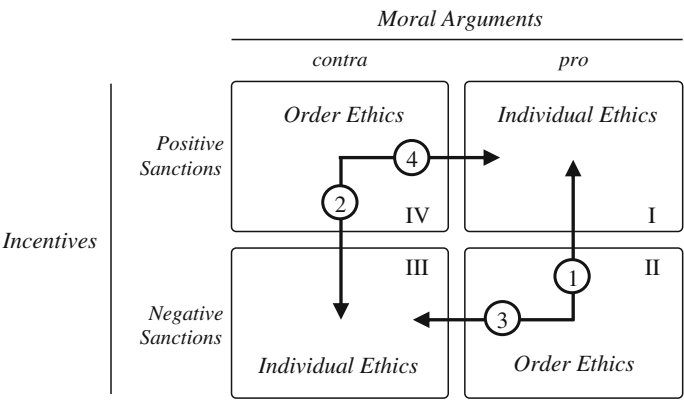
- From an ordonomic point of view, it is a fundamental misunderstanding to perceive “market” and “state” as opposites because in fact they are complements.
- Free exchange across borders transforms international relations. Countries that were used to perceiving each other as rivals learn to regard each other as partners engaged in mutually beneficial cooperation.
- Furthermore, coercion and liberty need not contradict each other. The state power to coerce can be used in a way that does not diminish but enlarge individual freedom. This is quite generally the case if coercion is employed to sanction rules that overcome social dilemmas, e.g., by protecting property rights. In this sense, democratic consensus rests on “mutual coercion, mutually agreed upon” (Hardin 1968).

- A social market economy is not social because of its social policy but because it makes use of competition as an instrument for fostering social cooperation. It is social because it institutionally directs self-interest to serve public interest.
- Judged by its consequences—as opposed to its motivational structure—behavior in functioning markets can be understood as a form of institutionalized solidarity. In cases of emergency, market prices direct the forces of supply and demand such that people in effect help each other, even if they do not explicitly intend to do so. In fact, it is an important property of markets—often overlooked by opponents and proponents of markets alike—that they allow to extend solidarity beyond face-to-face interactions in small groups: markets facilitate solidarity among strangers.
- Many social policy arrangements are ill understood if perceived as redistribution. What at first sight seems to be a coercive win-lose activity by the social state—harming the rich, benefiting the poor—can often be reconstructed as a win-win activity that overcomes the malfunctioning of credit or insurance markets, e.g., in financing human capital investment or in covering fundamental risks of life.
- The much celebrated equity-efficiency tradeoff is often misleading because a functional social policy addresses inefficiencies and enhances the productivity of markets.
- Another dualism that is highly misleading is that between “economy” and “ecology”. While it is true that markets lead to environmental pollution as long as natural resources lack property rights, it is also true that via institutional reforms markets can be re-directed to foster environmental protection.
- Pricing natural resources—and thus transforming what formerly was a free good into a private good—is very often the best way to overcome a social dilemma. There are two reasons for this. On the one hand, pricing frees market actors from the illusion that they use a costless resource. It thus sets an incentive for environmental-friendly behavior. On the other hand, this static effect is supplemented by an extremely important dynamic effect. Since pricing natural resources makes it costly to use what was once a costless factor of production, this sets in motion a knowledge-generating process in which economic actors compete for innovation. This search for new solutions is incentivized by market prices that allow successful inventors to reap pioneer profits.
- Therefore, it is generally wrong to criticize the practice of pricing natural resources as introducing indulgence for environmental sins. Such moral criticisms can be criticized on moral grounds because they neglect the static as well as dynamic effects of pricing on the behavior of both individuals and organizations. Hence they neglect that these behavioral changes brought about by markets forces are very often the most effective way to protect the environment.

(3) Fig. 4 provides a more systematic way of illustrating the ordonomic research strategy and its heuristic power (Pies and Hielscher 2012). Moral arguments may speak in favor of or against a certain behavioral pattern, while at the same time this pattern may be encouraged or discouraged by incentives. In cell I, moral behavior is rewarded. In cell III, immoral behavior is punished. These two quadrants mark a sphere of operation where Individual Ethics has an important role to play: by reflecting and communicating arguments pro virtue (cell I) as well as arguments contra vice (cell III), thus helping individuals to develop a moral character.

From an ordonomic point of view, cells II and IV are even more interesting. The defining characteristic is a clash between moral arguments and institutional incentives. It is important to note that Order Ethics can pursue two rather different strategies for solving the relevant problems.

- On the one hand, Order Ethics can contribute to an institutional reform that aligns incentives to arguments. Graphically, the direction of impact is vertical, as represented by arrows 1 and 2. For example, if environmental-friendly behavior is prohibitively costly in the status quo, the introduction of property rights might help to move a morally desired behavior from cell II to cell I (arrow 1). In likewise fashion, anti-cartel laws are instrumental in fighting collusive behavior, i.e., a form of cooperation that is morally undesired, thus moving it from cell IV to cell III (arrow 2).
- On the other hand, Order Ethics can contribute to a moral revaluation that aligns ideas to institutions. Graphically, the direction of impact is horizontal, as represented by arrows 3 and 4. For example, after prohibiting by law the age-old practice of duelling, the underlying idea of “honor” needed a fundamentally new interpretation in order to stop aristocrats from killing each other. They had to learn that what was perceived as a virtue in pre-modern society had turned into a vice in modern society (arrow 3). In likewise fashion, today many people have to learn that a whistle-blower must not be perceived as a traitor and that in a



**Fig. 4** The ordonomic division of labor between individual ethics and order ethics

loyalty conflict one's loyalty towards a colleague or other person might not be as important (and morally justified) as one's loyalty towards the organization, especially if these persons are involved in corruption and if whistle-blowing helps to (re-)establish the organization's moral integrity (arrow 4).

From an ordonomic point of view, Individual Ethics and Order Ethics do not contradict each other. Properly understood, they are complementary and thus can work hand in hand. Order Ethics contributes to fulfilling the social preconditions required by Individual Ethics, namely the situational fit between moral arguments and incentives.

(4) Summing up, the ordonomic approach is interested in—and tries to contribute to—societal learning processes that consist in a mutual adaption of institutions and ideas: the formal and informal rules which guide our behavior, and the language concepts which guide our thinking. That institutions and ideas do not necessarily fit together is a *signum* of modernity. Sometimes, our normative terms and concepts are not well suited for understanding the modern world. In this case, conceptual clarification may help to avoid the danger that public discourse overlooks and thereby misses the opportunity of employing institutionalized market arrangements for reaching moral goals. Sometimes, however, our modern world does not meet our normative standards. In this case, moral idea(l)s can stimulate institutional reforms which may help to correct systemic malfunctions.

Ordonomics addresses both cases: it analyzes social dilemmas, scrutinizes orthogonal positions and employs a three-level scheme to systematically distinguish the social arenas which have to be brought together in order to facilitate the mutual adaptation of institutions and ideas, which has been—and continues to be—the central characteristic of those learning processes that propel modern growth society.

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