



# MARTIN-LUTHER-UNIVERSITY HALLE-WITTENBERG

Faculty of Law and Economic Sciences  
Chair of Economic Ethics  
Prof. Dr. Ingo Pies

## Ethics and Economics of Institutional Governance

*Lecture 2  
Winter Term 2025/26*

# What have we learned?

*The most important lessons of the first lecture are:*

- Science is a social process that rests on the productive interplay of conjectures and refutations. It aims at criticizing ideas, not persons.
- Theories can serve positive and normative functions: (a) they improve our understanding of the world and (b) help us to overcome mutual misunderstandings and conflicts.
- In economics, we should apply the same behavioral assumptions to all fields of explanation: not only economic actors, but also bureaucrats and politicians (and journalists) act in their own (subjectively perceived) self-interest.
- Economics can help in re-framing the perception of (moral) problems.



# Ethics and Economics of Institutional Governance (EEIG)

*On Terminology:*



Ethics = Theory of morality

Economics = Rational-choice-based social science

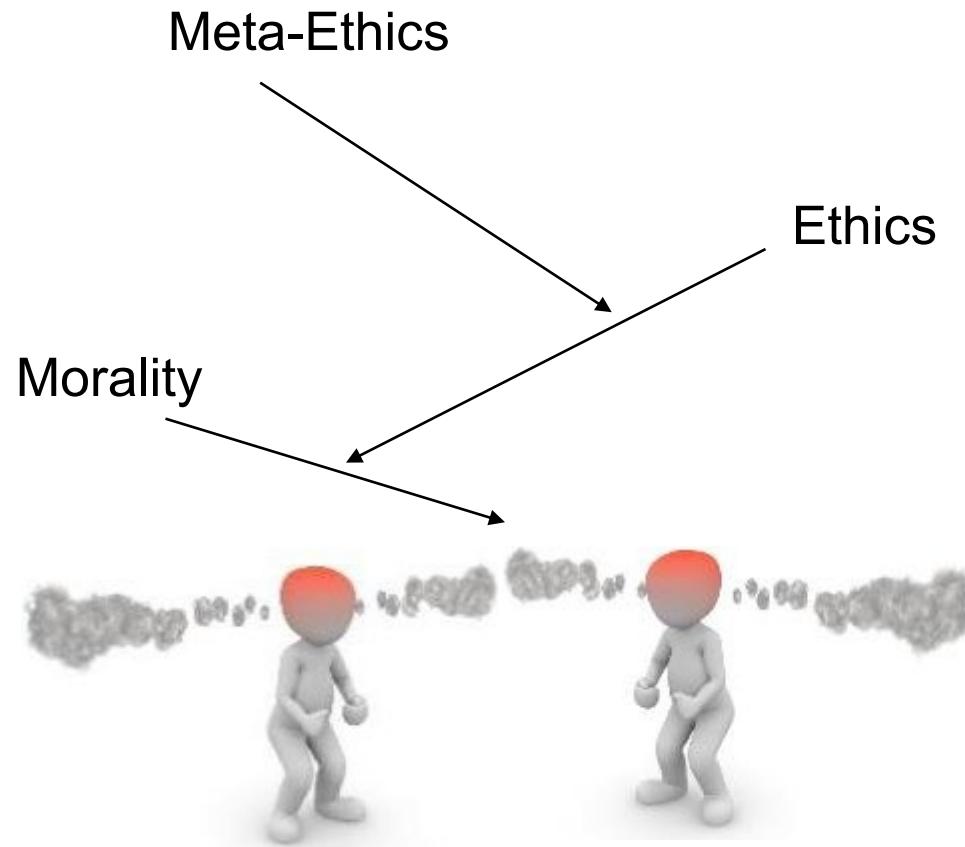
Institutions = The rules of the games of social coexistence

Governance = The conscious design of institutions (incentive effects)



# Morality, Ethics, Meta-Ethics

*Morality evaluates actions (often in conflict situations). Ethics observes morality and systematizes, rationalizes and corrects moral judgments. Meta-ethics observes ethics and reflects on the justifiability of morality.*



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# Oliver E. Williamson, Nobel Price in Economics 2009

*Orconomics employs the governance concept of institutional economics.*



<http://nimg.sulekha.com/others/original700/oliver-williamson-2009-10-12-17-40-12.jpg>

The governance concept systematically combines 3 heuristic guiding ideas:

- (a) Order,
- (b) Conflict resolution and
- (c) Mutual improvement

**"[G]overnance is the means by which to infuse order, thereby to mitigate conflict and realize mutual gain."**

Oliver E. Williamson (2010): Transaction Cost Economics: The natural Progression, in: American Economic Review, vol. 100, p.674, H.i.O. (Nobel Lecture)



# Overview

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## *Ethics and Economics of Institutional Governance: 14 Lectures (L)*

Introduction (L 1)

1. The Ordonomic Approach (L 2 + 3)
2. The Social Structure of Modern Society (L 4 + 5)
3. The Semantics of Modern Society (L 6)
4. Social Learning Processes for the Reciprocal Adaptation of Social Structure and Semantics (L 7 + 8 + 9)
5. Case Study on Climate Policy (L 10 + 11)
6. Applications: The Ordonomic Line of Argumentation (L 12 + 13)

Summary and Outlook (L 14)



# Structure of Today's Lecture

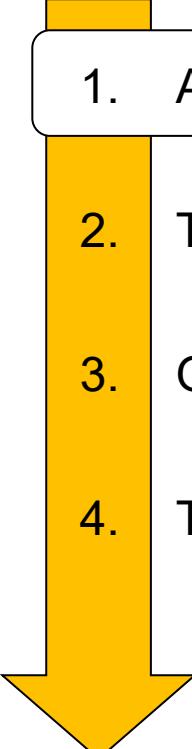
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1. Ordonomics: an Overview
2. Diagnosis of Modernity
3. Analysis of Social Structure
4. Analysis of Semantics



# Structure of Next Lecture

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1. Analysis of Social Structure and Semantics
  2. Two Illustrations
  3. On the Shoulders of Giants
  4. The Ordonomic Research Program



# Structure of Today's Lecture

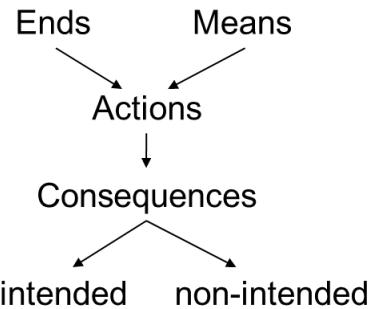
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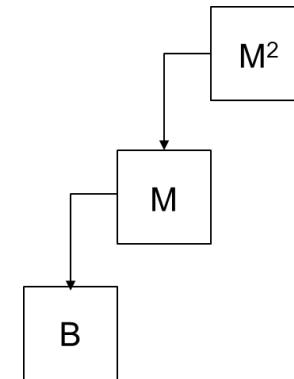
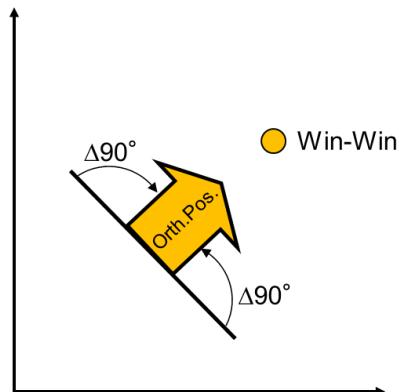
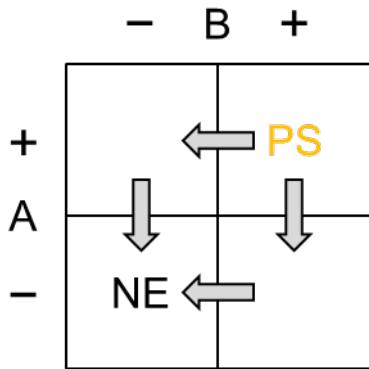
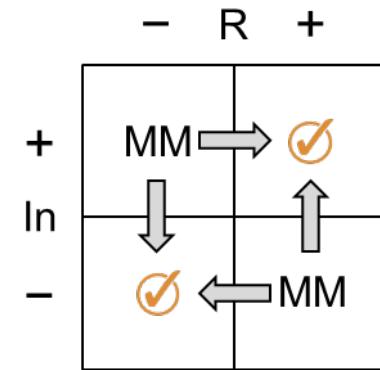


# The Ordonomic Research Program at a Glance

## Diagnosis of Modernity



1. normative  
+ 2. positive  
= 3. Conclusio

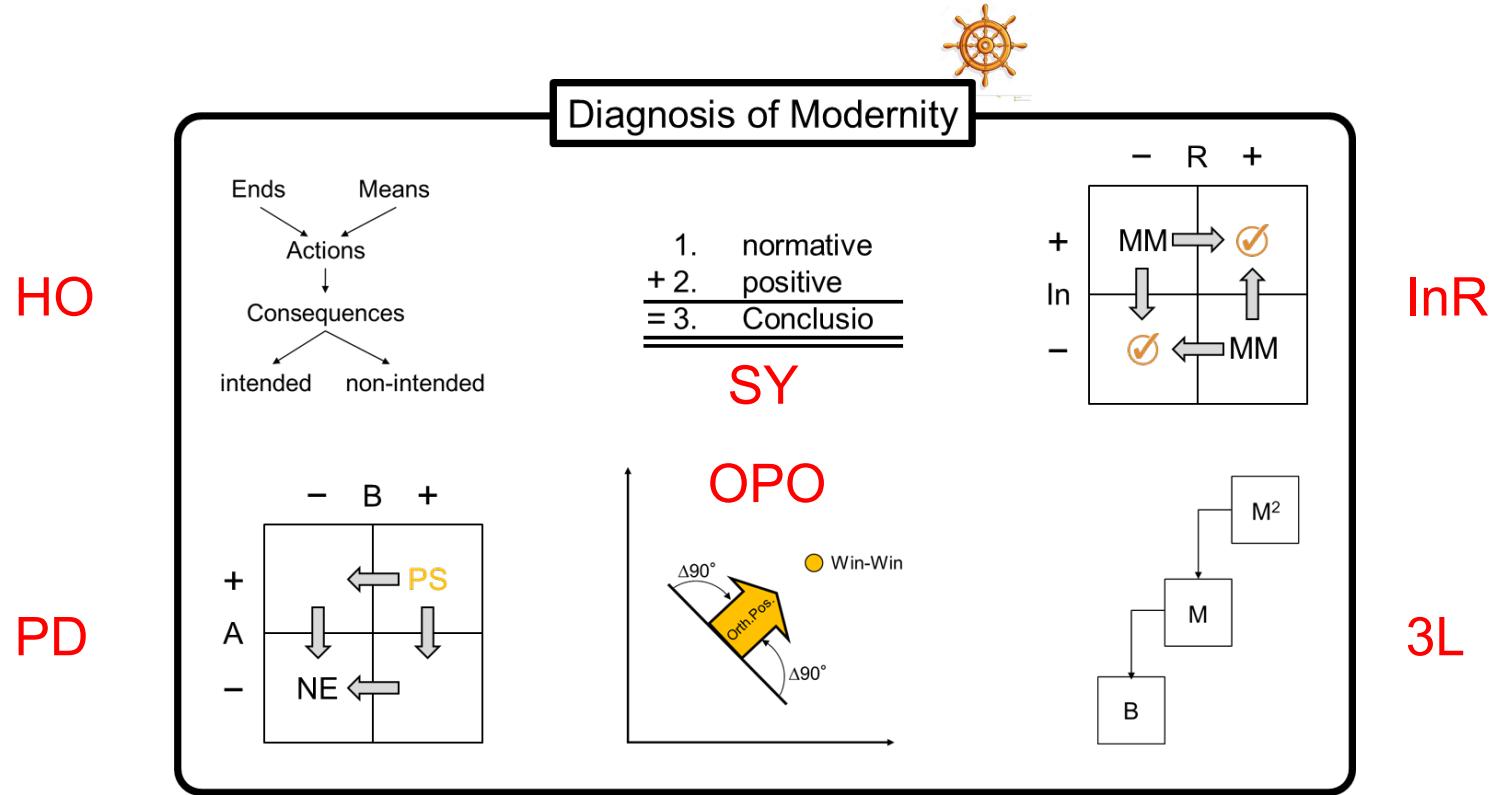


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# The Ordonomic Research Program: Overview

Ordonomics is heuristically guided by a diagnosis of modernity and combines six analytical instruments: (1) the Homo-Oeconomicus scheme (HO), (2) the practical syllogism (SY), (3) a scheme of incentives and reasons (InR), (4) the prisoners' dilemma (PD), (5) the thought figure of an "orthogonal positioning" (OPO) and finally (6) a three-level scheme (3L). We now go through the individual elements step by step and begin with the diagnosis of modernity.



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# Structure of Today's Lecture

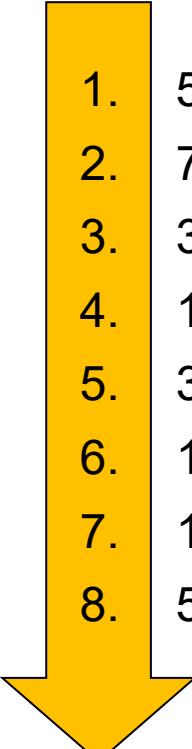
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1. Ordonomics: an Overview
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# The Ordonomic Diagnosis of Modernity (I)

*From a very long-term evolutionary perspective, human history can be characterized as follows. Source: David Reich (2018): Who We Are and How We Got Here, p. 2, 24, 76.*

- 
1. 5-7 million years ago: last common ancestors with chimpanzees
  2. 770-550 Thousand Years ago: split between Humans and Neanderthals
  3. 320,000 years ago lived the oldest ancestor of all modern humans
  4. 130-100 thousand years ago, humans settle in the Middle East
  5. 39,000 years ago, Neanderthals died out in Europe
  6. 19,000 years ago, the last ice age ended; Europe is being repopulated
  7. 10-5 thousand years ago: co-existence of foragers and farmers in Europe
  8. 5,000 years ago: settled agriculture prevails in Europe

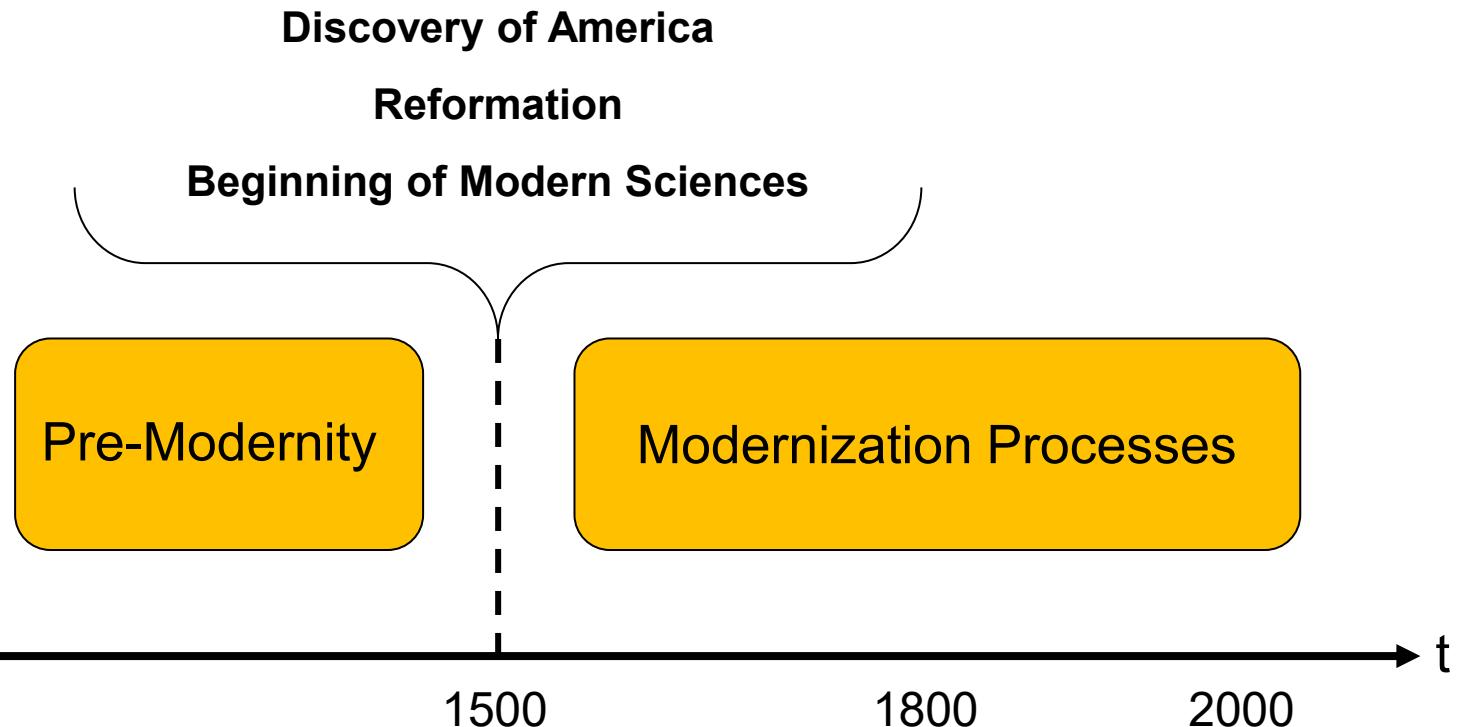
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# The Ordonomic Diagnosis of Modernity (II)

*Turning the tide: Three major events around the year 1500 mark the break between pre-modernity and beginning modernity. From 1800 onwards, strong income growth per capita sets in. Modern society emerges as a growth society.*



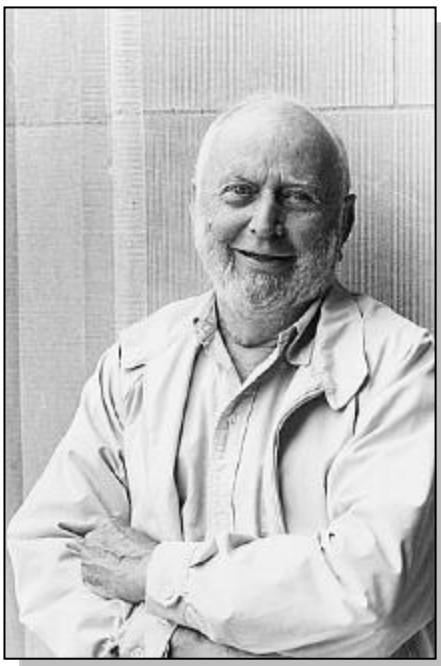
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# The Problem of Social Order: Three Historic Solutions

North et al. (2006): *Violence and Social Orders*. Historically, there are (only) three social formations: hunter-gatherers, settled agriculture, industry. They all ultimately solve the same problem of social order – but in significantly different ways.

Douglass Cecil North



<https://goo.gl/XhXE5l>

The (Hobbesian) problem of cooperation:  
„Every society has to solve the fundamental  
problem of providing social order.“  
(North et al. 2006; S. 4)

I. Primitive Social Order

II. Limited Access Order

III. Open Access Order



# „Primitive Social Order“: Hunters and Gatherers

*This first societal formation dominated globally until about 10,000 years ago.*



<http://www.absolutiv.de/2017/03/wildbeuter/>

Characteristics: homogeneous small groups; no differentiation of economy and politics, strongly egalitarian



# „Limited Access Order“: Sedentary agriculture (with urbanization)

*This second societal formation dominated globally until about 200 years ago.*



[http://commons.wikimedia.org/wiki/File:All\\_Gizah\\_Pyramids.jpg](http://commons.wikimedia.org/wiki/File:All_Gizah_Pyramids.jpg)

- Stratification (hierarchy, nobility, religion)
- Stabilization through restriction of competition in politics and business
- Formation logic: Privileges in politics and the economy produce rents for elites and thus incentives to maintain order



# „Open Access Order“: The Modern (Growth) Society

*This third societal formation has been spreading globally for 200 years.*



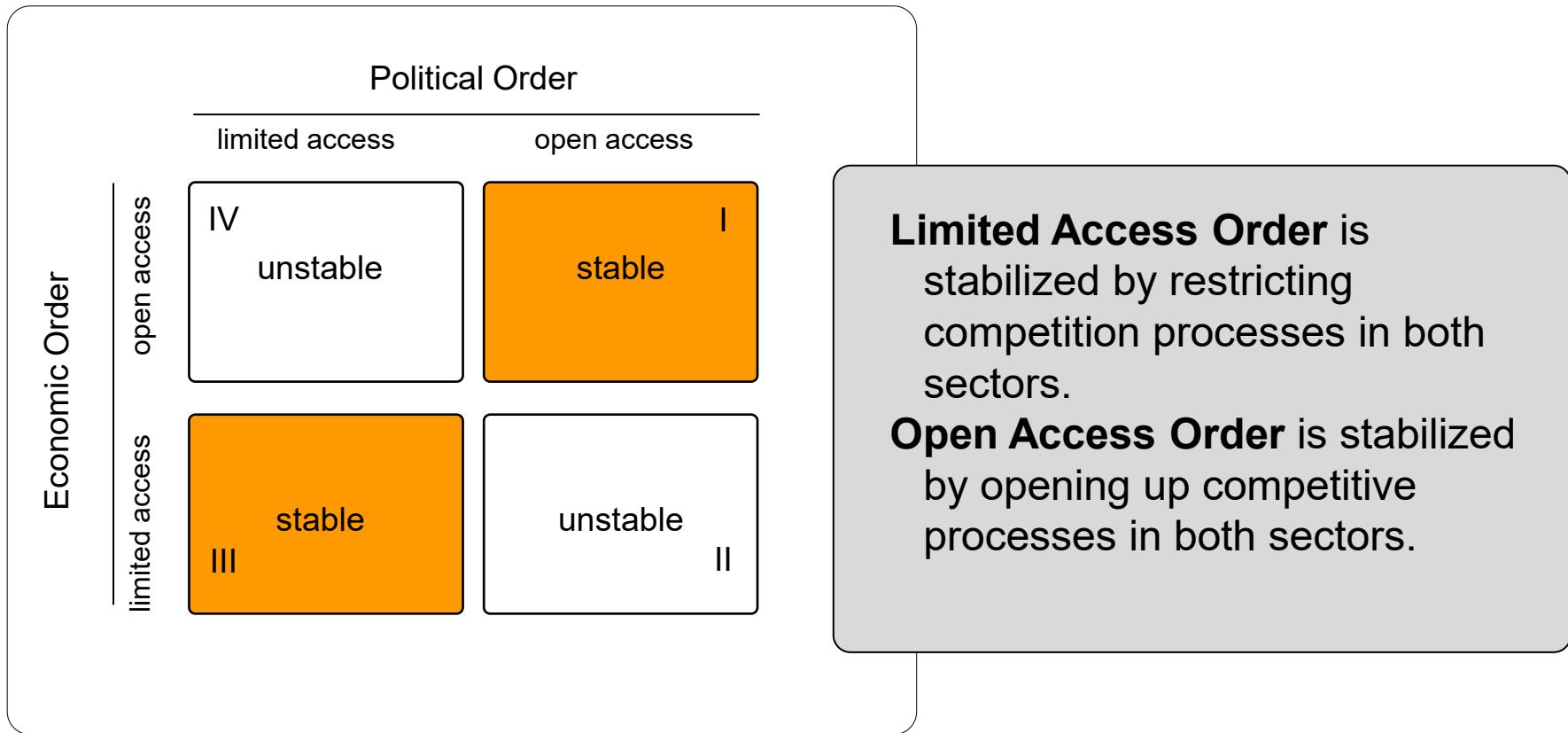
<http://commons.wikimedia.org/wiki/File:NYC-Skyline-1.jpg>

- Stabilization through increased competition in politics and business.
- Formation logic: competition between organizations creates incentives to keep politics and business open and dynamically stable.



# On the Interdependence of the Political and Economic Order

*The "double-balance" thesis of North et al. (2006): Of four possible combinations of economic and political order, only two are stable.*

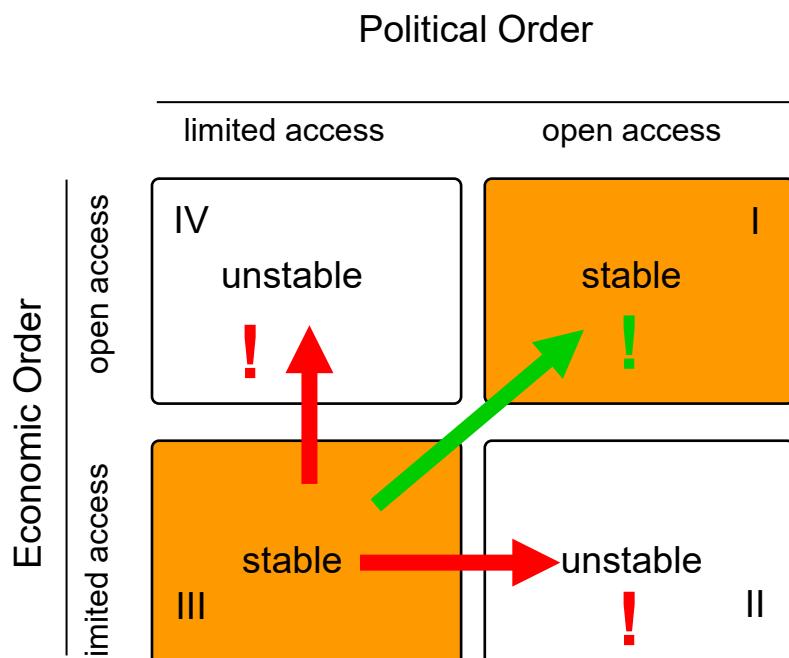


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# Consequences for Development Strategies

The "double-action" thesis: measures of unilateral democratization, as well as measures of unilateral market reforms, lead to destabilization!



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## Transformation from Limited Access

Order to Open Access Order is brought about by open competition:

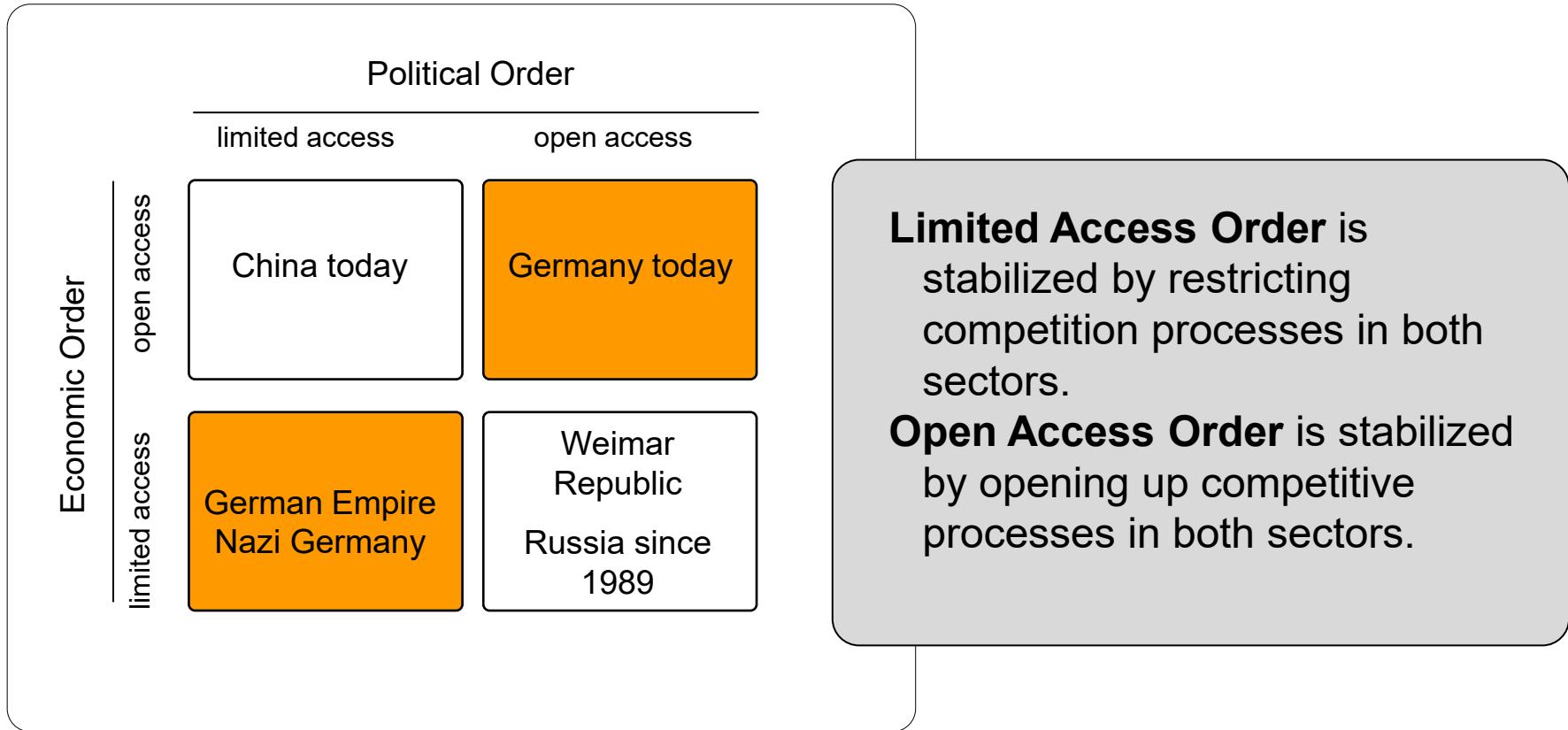
- Political order: through democratisation
- Economic order: through market liberalisation

- Unilateral promotion of competition (democratization alone, liberalization alone) leads to destabilization!
- Successful transformation requires the simultaneous openness of opening up to competitive processes in politics *and* business!



# Historical Examples

*Of four possible combinations of economic and political order, only two are stable.*



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# Ordonomic Interim Conclusion

*The formation of pre-modern society ("Limited Access Order") is geared towards rent extraction: the artificial shortage of supply to absorb consumer rent – ultimately: to pacify competing elites. On the other hand, the formation of modern society ("Open Access Order") is geared towards rent creation: towards generating value through innovation and towards the diffusion of innovation rents through competition.*

William J. Baumol

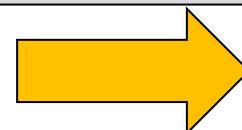


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&FORM=IRPRST&ajaxhist=0

Modernization is the transition from unproductive win-lose entrepreneurship to productive win-win entrepreneurship.

„Entrepreneurship is a resource that is subject to reallocation between productive and unproductive activities. The supply of **productive** entrepreneurs is heavily influenced by the institutional arrangements that determine the relative payoffs to these two types of activities.“

Baumol (2010): The Microtheory of Innovative Entrepreneurship, Princeton University Press, p. 55, emphasis in original

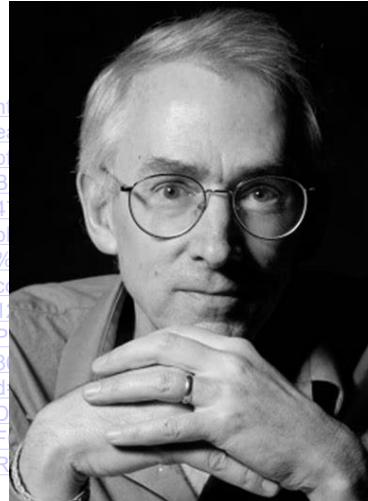


Institutions matter!

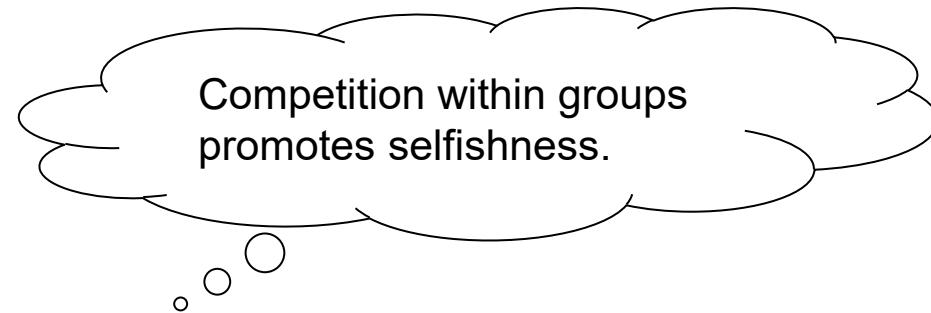


# Evolutionary Biological Insights

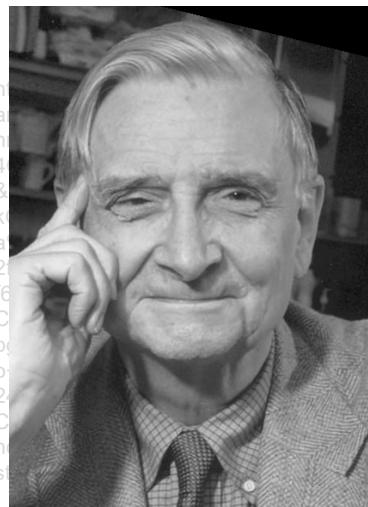
*The genesis of good and evil can be explained in terms of evolutionary biology.*



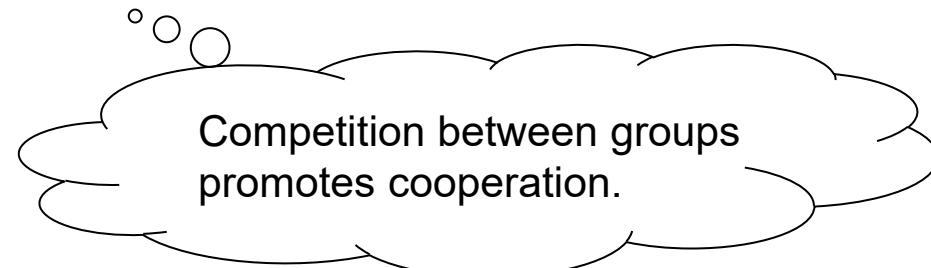
D. S. Wilson



„Selfishness beats altruism within groups. Altruistic groups beat selfish groups. Everything else is commentary.“

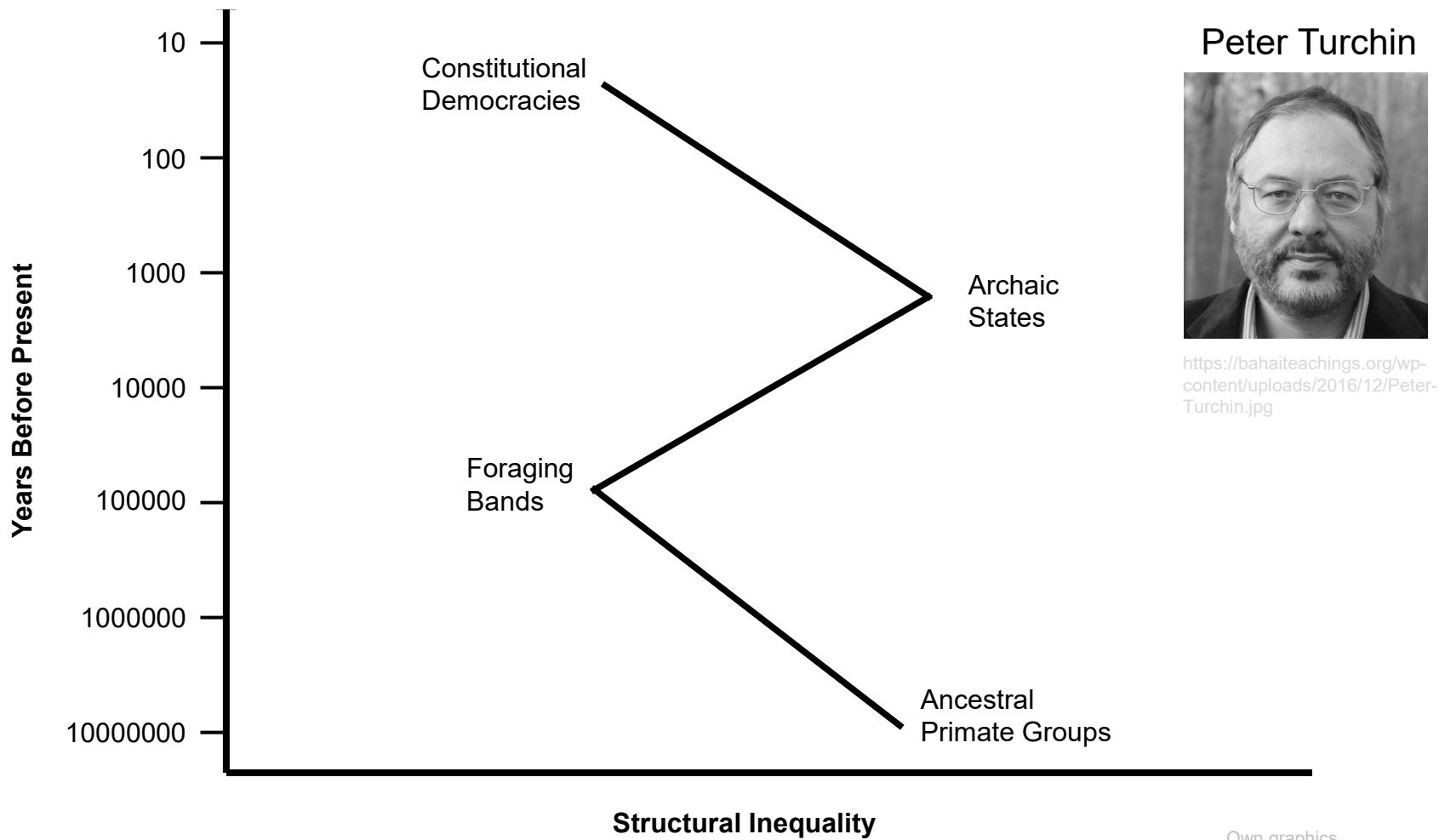


E. O. Wilson



# Evolutionary Perspective: Turchin's Z

*Historical patterns of inequality – Quelle: Turchin (2016; S. 212): Ultrasociality.*



# The three societal formations in comparison

*The available energy differs approximately by a factor of 10: (a) food, (b) food and animal power, (c) food and fossil fuels. Source: Morris (2015): Foragers, Farmers, and Fossil Fuels.*

	Foragers	Farmers	Moderns
kcal/person/day	< 2.500	< 30.000	< 250.000

Ian Morris



„When we look at the entire planet across the last twenty thousand years, ... we see three broadly successive systems of human values. Each is associated with a particular way of organizing society, and each form of organization is dictated by a particular way of capturing energy from the world around us.“

Morris (2015; p. 4).

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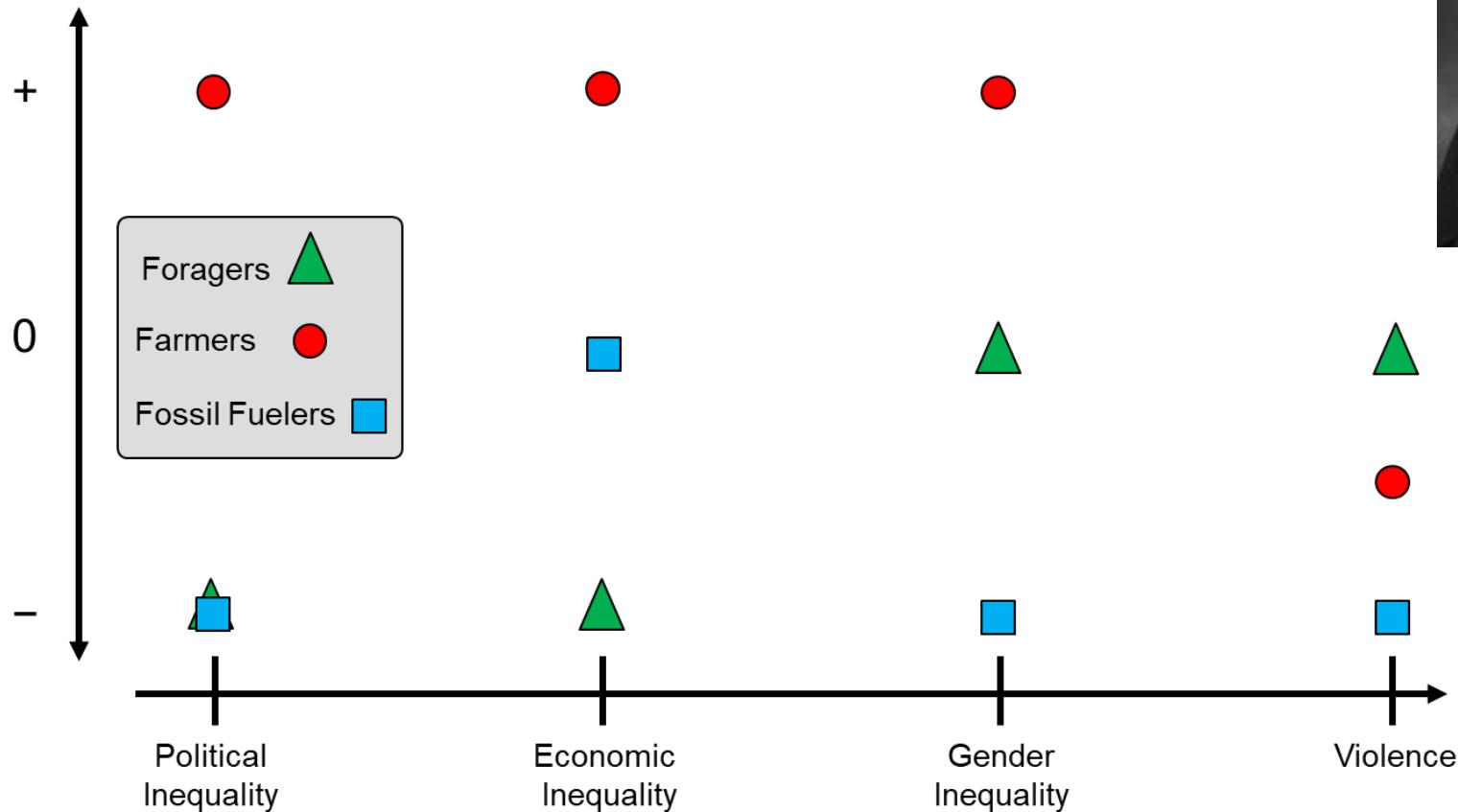
# Evolutionary Perspective: Norms of Inequality

Historical Profiles of Morality – Source: Morris (2015; Fig. 4.1.2., p. 135): Foragers, Farmers, ...

Ian Morris



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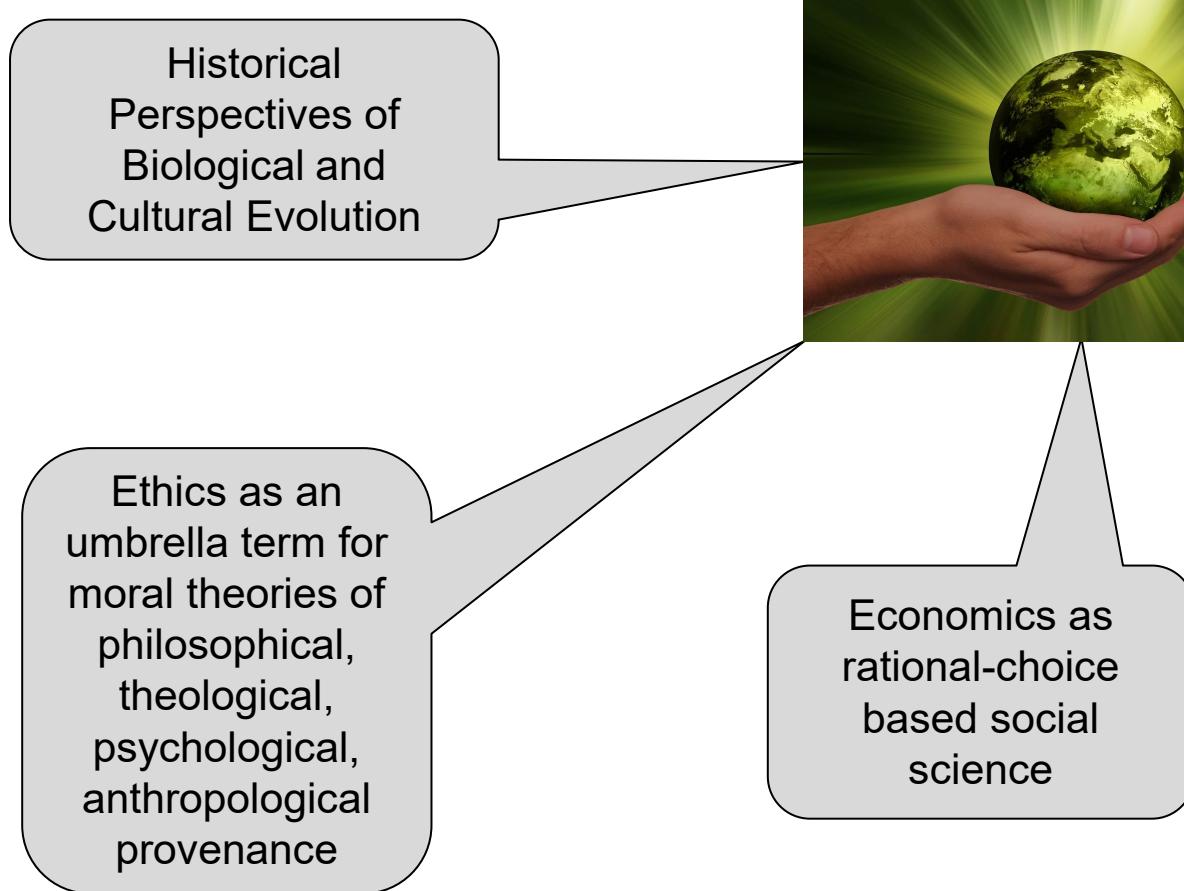


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# Consilience

*Ordonomics integrates various scientific perspectives for positive and normative research.  
It thus contributes to consilience.*



# Important Facts About Modernity

*If one is interested in the present and the future, a look into the past helps to better understand the proportions of the problems of interest to us today. However, it is advisable not to rely on one's own gut feeling or sporadic media information, but to obtain a solid overview on the basis of statistical data. We want to focus on five indicators. But please get a more comprehensive overview for yourself!*

**Here are five key facts that are documented in the following:**

1. The world's population is growing exponentially
2. The global economy is growing exponentially
3. The modern growth economy is making per capita incomes grow exponentially
4. Life expectancy has increased dramatically over the last 200 years
5. Other welfare indicators have also radically improved.



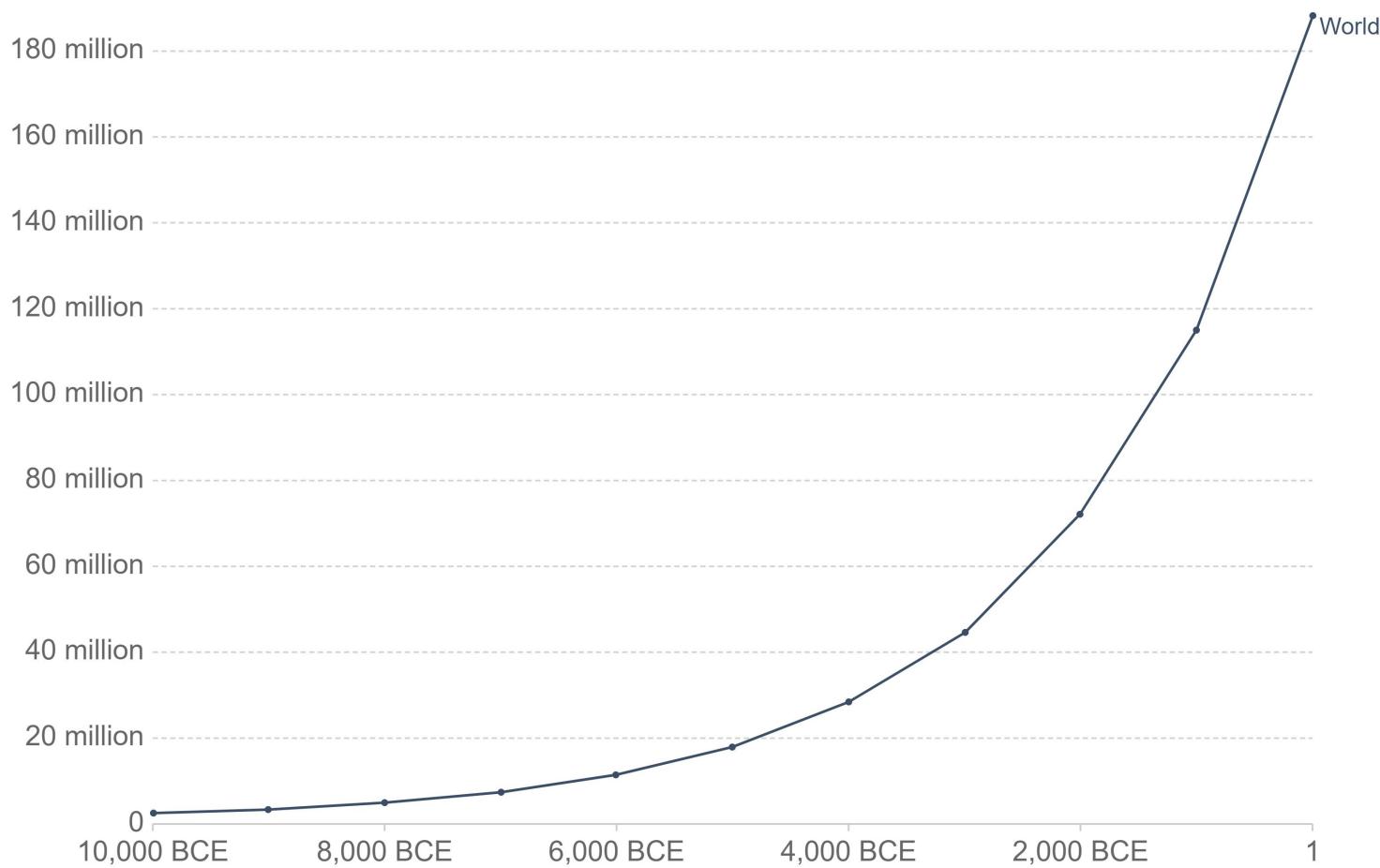
<https://pixabay.com/de/erde-erdkugel-schutz-weltkugel-1020214/>



# Global population grows from 2.4 million to 188.2 million people

Population, 10,000 BCE to 1

Our World  
in Data



Source: Gapminder; HYDE & UN Population Division (2019)

[OurWorldInData.org/world-population-growth](http://OurWorldInData.org/world-population-growth) • CC BY

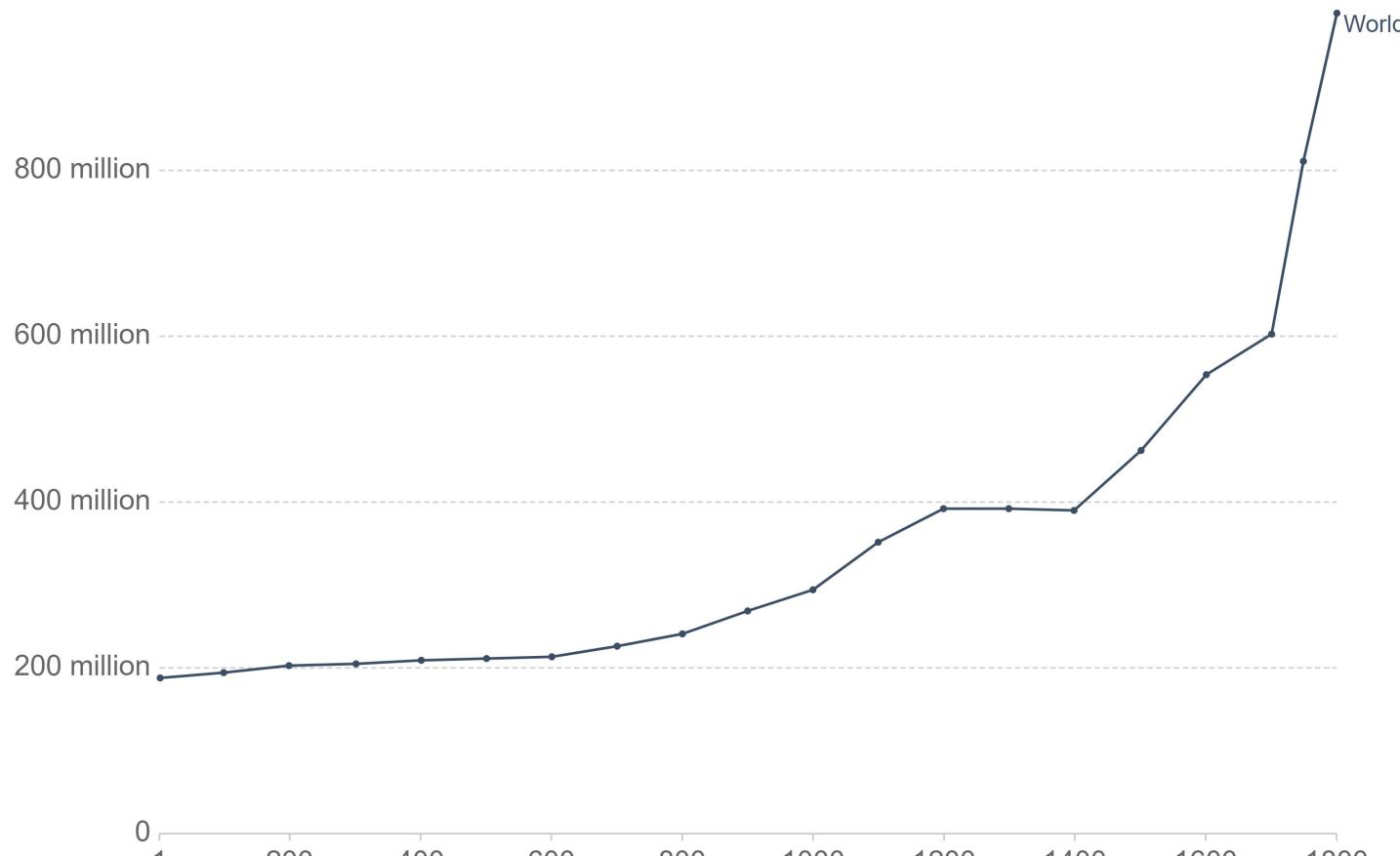


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# Global population grows from 188.2 million to 989.8 million people

Population, 1 to 1800

Our World  
in Data



Source: Gapminder; HYDE & UN Population Division (2019)

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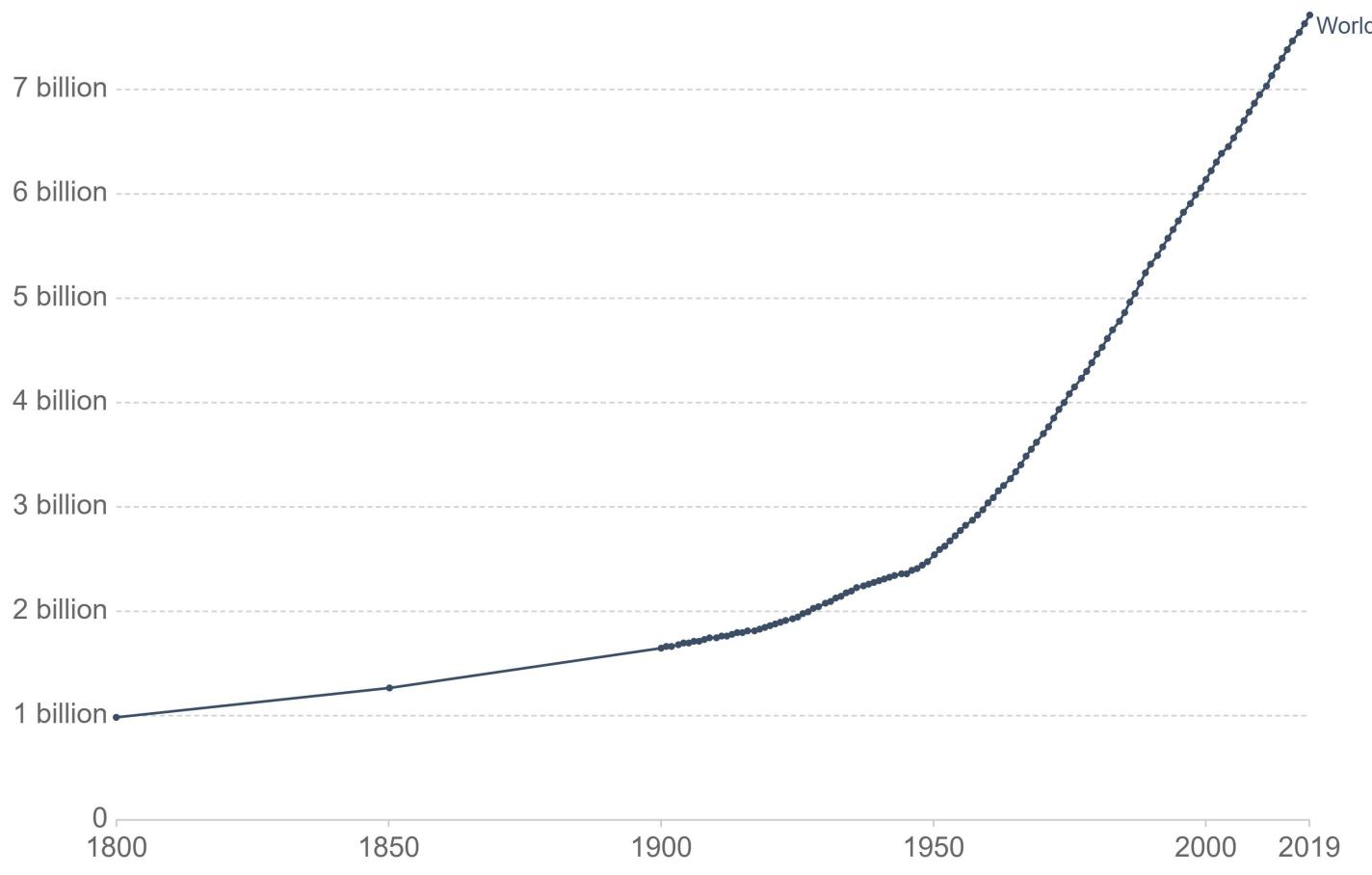


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# Global population grows from 989.8 million to 7.7 billion people

Population, 1800 to 2019

Our World  
in Data



Source: Gapminder; HYDE & UN Population Division (2019)

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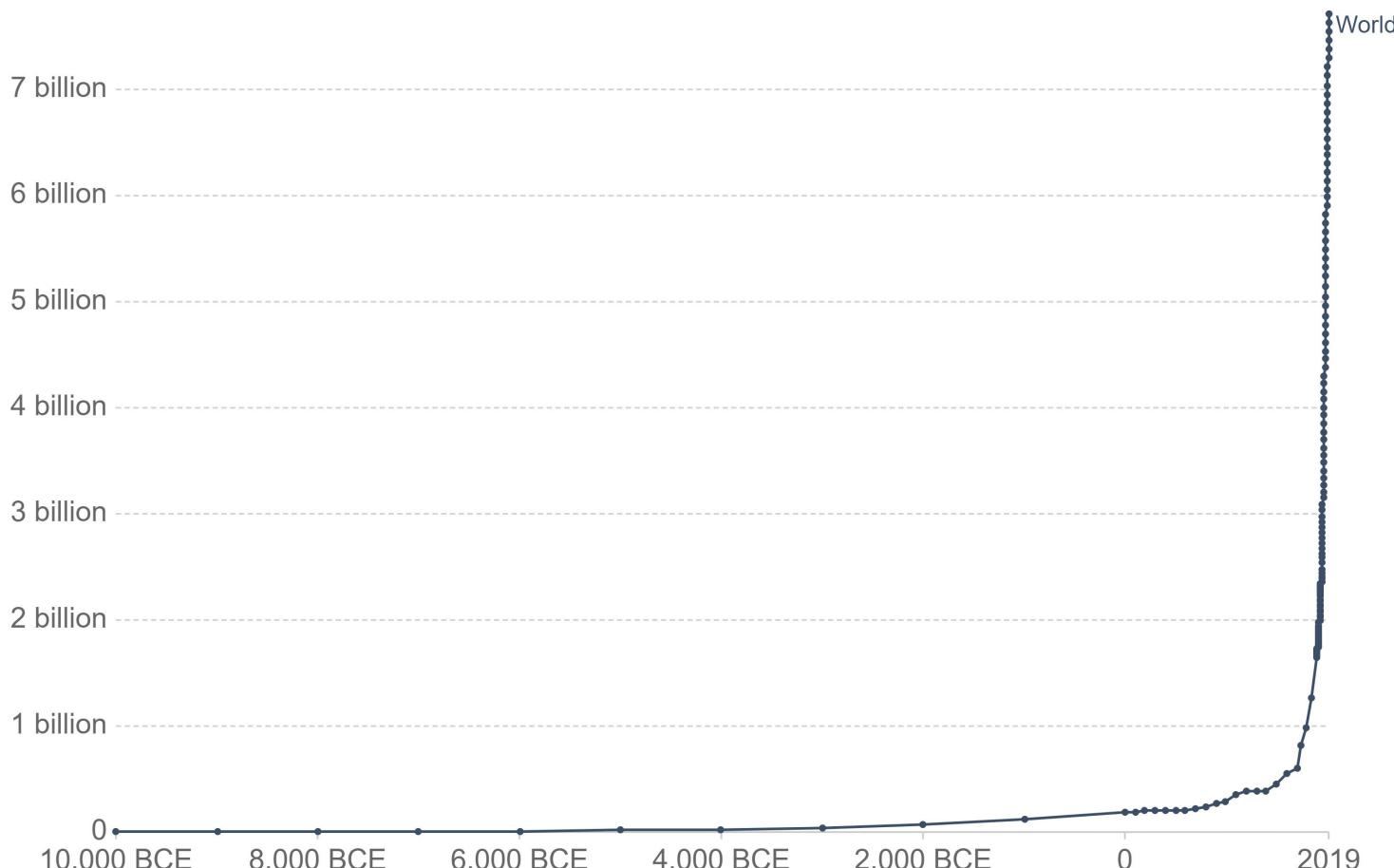


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# Here is the bigger picture for the last 12,000 years

Population, 10,000 BCE to 2019

Our World  
in Data



Source: Gapminder; HYDE & UN Population Division (2019)

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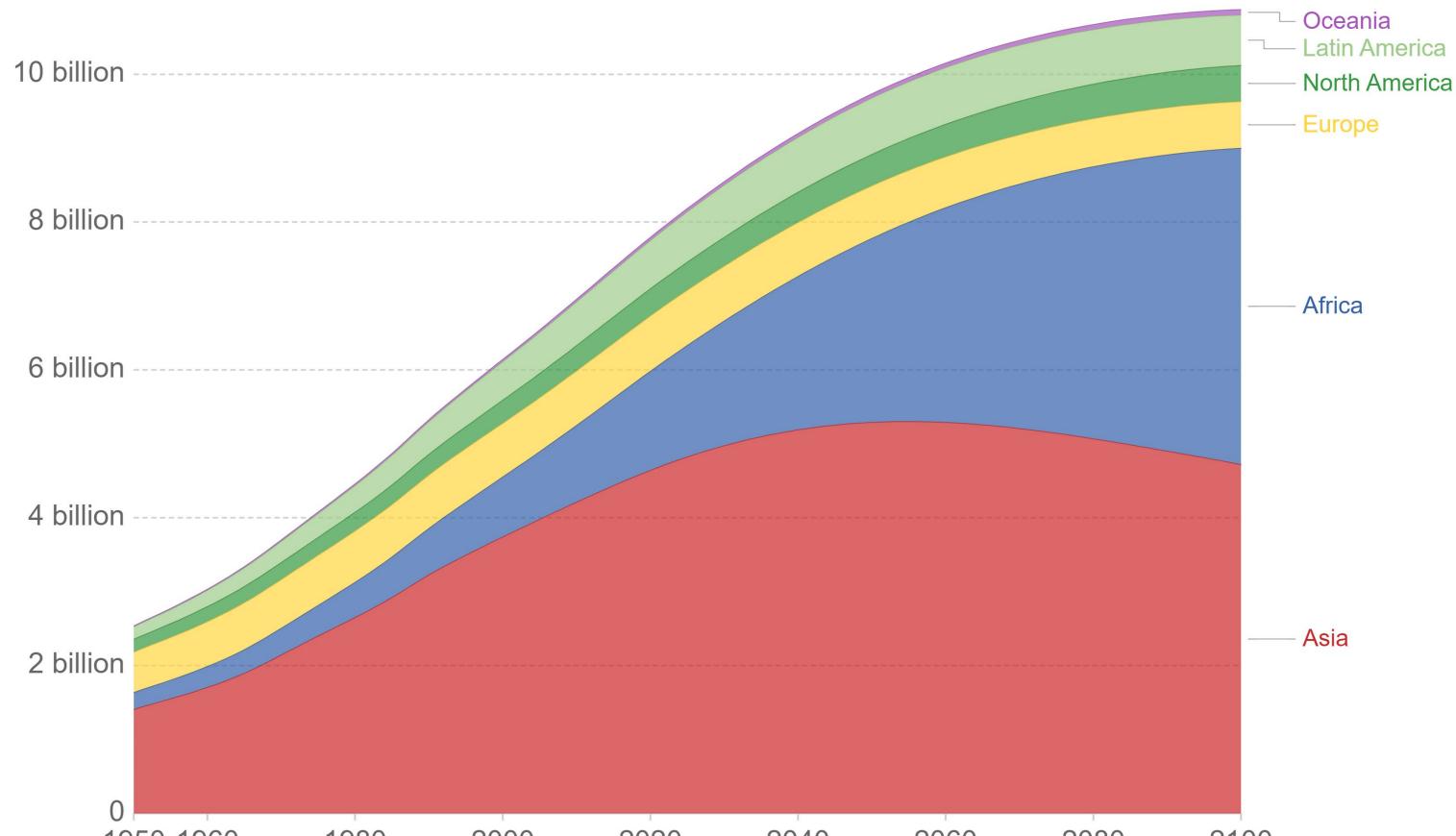


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# A look into the future – World population up to 2100: 10.8 billion

World population by region projected to 2100, 1950 to 2100

Projected population to 2100 is based on the UN's medium population scenario.



Source: HYDE (2016) & UN, WPP (2019)

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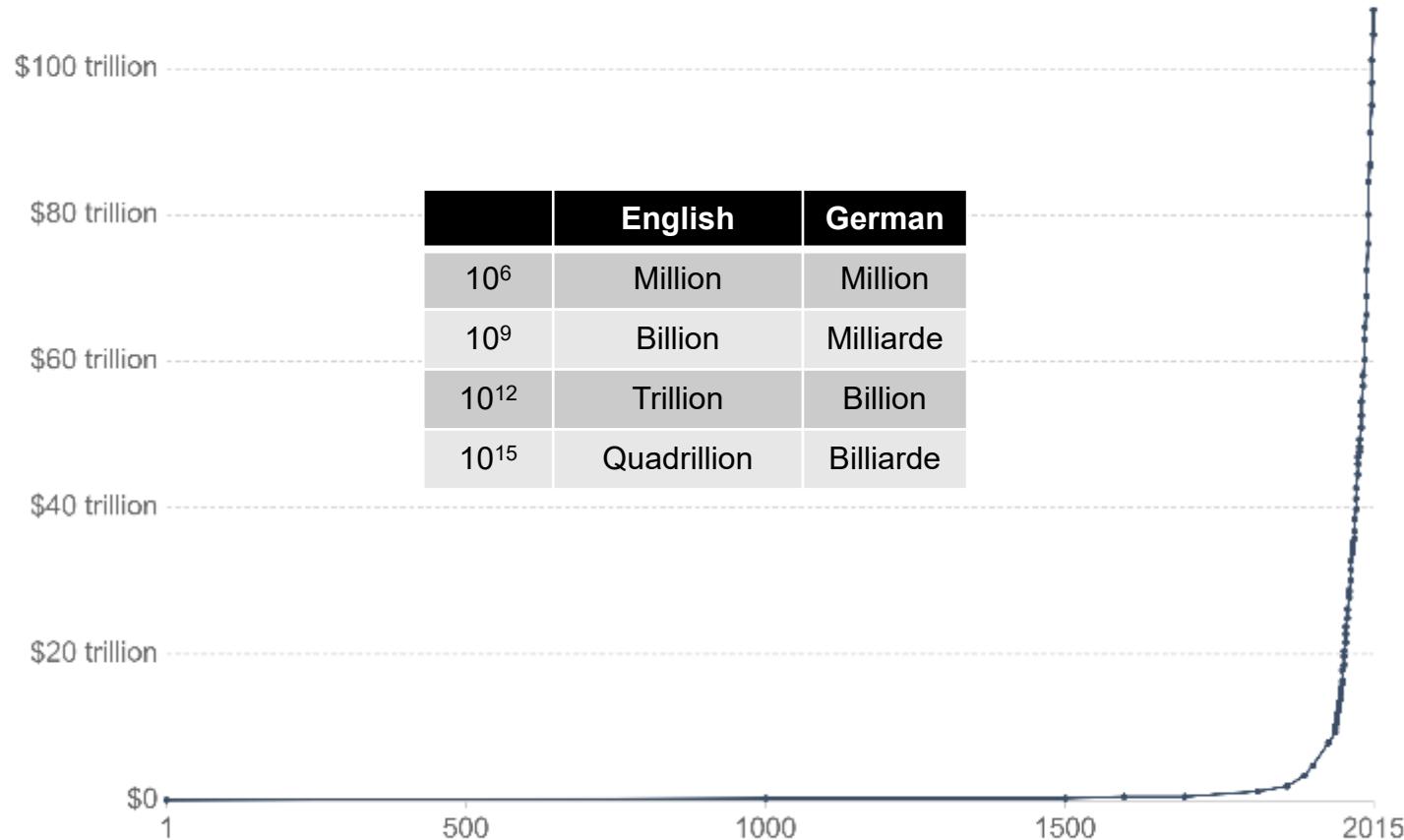
## Fact No. 2: World Production

Over the last 2,000 years, global GDP has risen from 183 billion to 108 trillion (=  $10^{12}$ )

### World GDP over the last two millennia

Total output of the world economy; adjusted for inflation and expressed in international-\$ in 2011 prices.

Our World  
in Data



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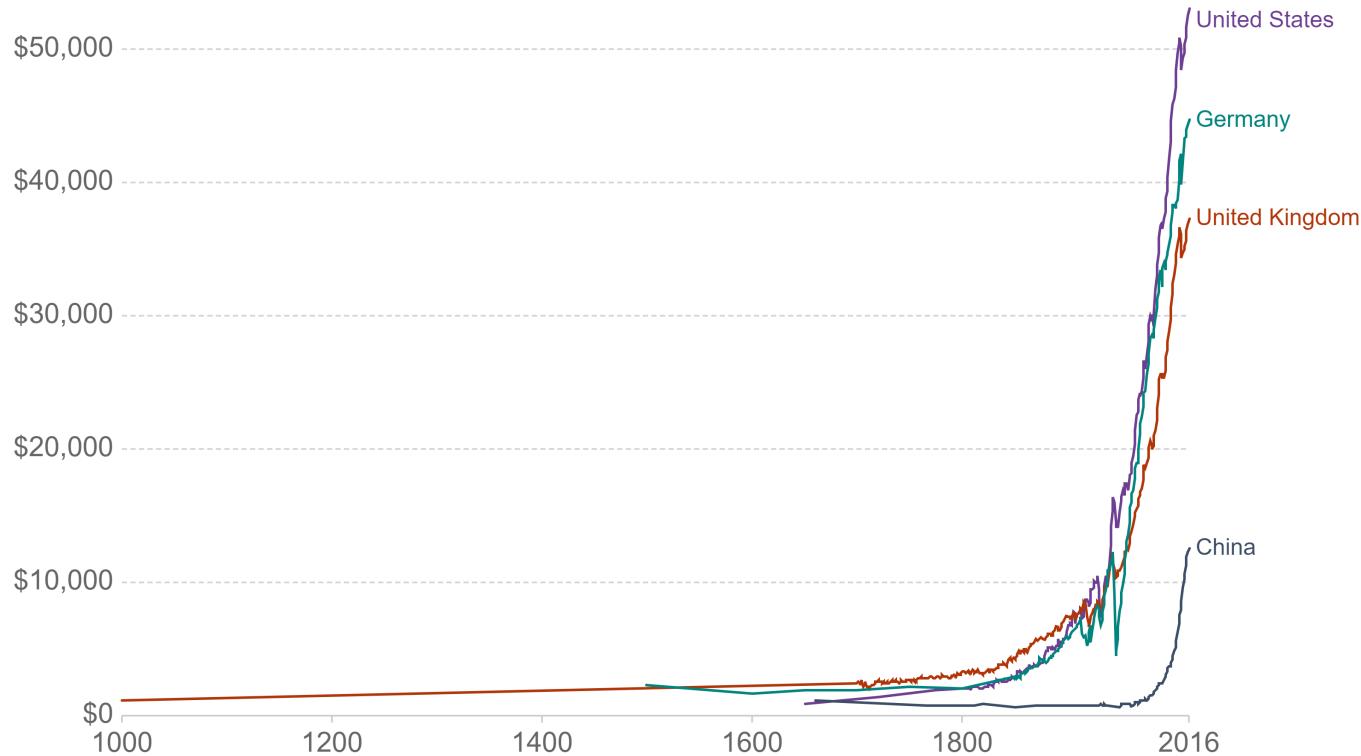
# Fact No 3: Per Capita Income

*Per capita income has only increased significantly since about 1800.*

## GDP per capita, 1000 to 2016

GDP per capita adjusted for price changes over time (inflation) and price differences between countries – it is measured in international-\$ in 2011 prices.

Our World  
in Data



Source: Maddison Project Database (2018)

Note: These series are adjusted for price differences between countries based on only a single benchmark year, in 2011. This makes them suitable for studying the growth of incomes over time but not for comparing income levels between countries.

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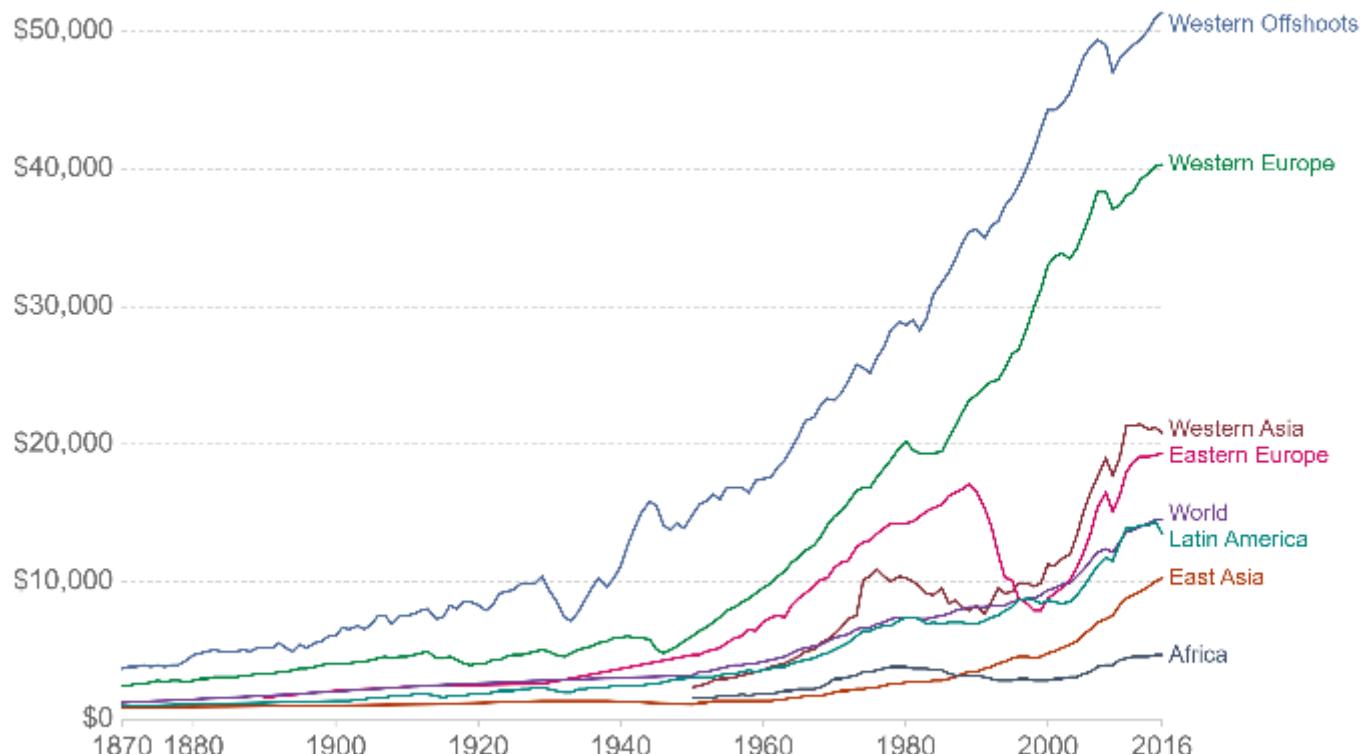


# Per Capita Income by World Regions, 1870-2016

*By now, the growth process embraces all continents.*

## GDP per capita, 1870 to 2016

GDP per capita adjusted for price changes over time (inflation) and price differences between countries – it is measured in international-\$ in 2011 prices.



Source: Maddison Project Database (2018)

Note: These series are adjusted for price differences between countries using multiple benchmark years, and are therefore suitable for cross-country comparisons of income levels at different points in time.

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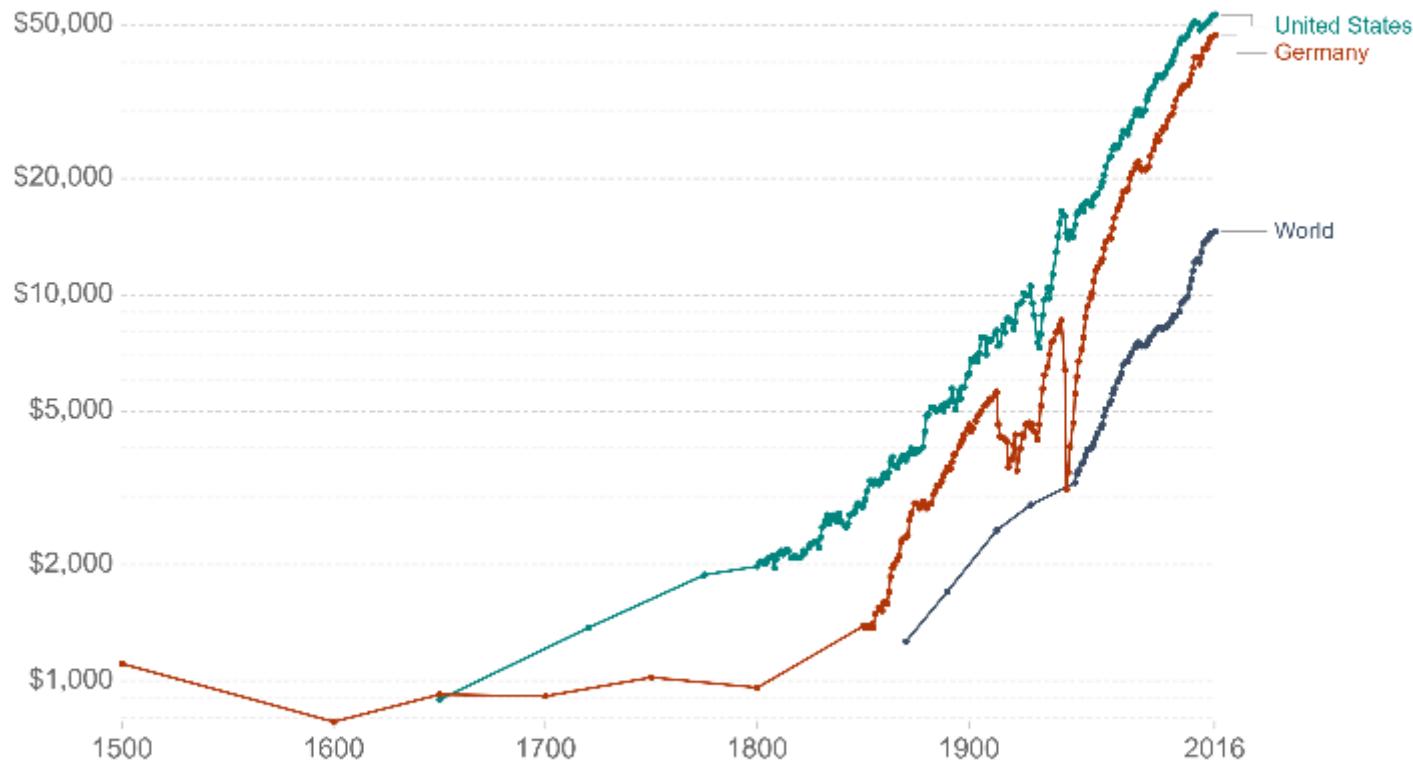


# Germany in the last 500 Years: Bitter Poverty up to 1800

## GDP per capita, 1500 to 2016

Our World  
in Data

GDP per capita adjusted for price changes over time (inflation) and price differences between countries – it is measured in international-\$ in 2011 prices.



Source: Maddison Project Database (2018)

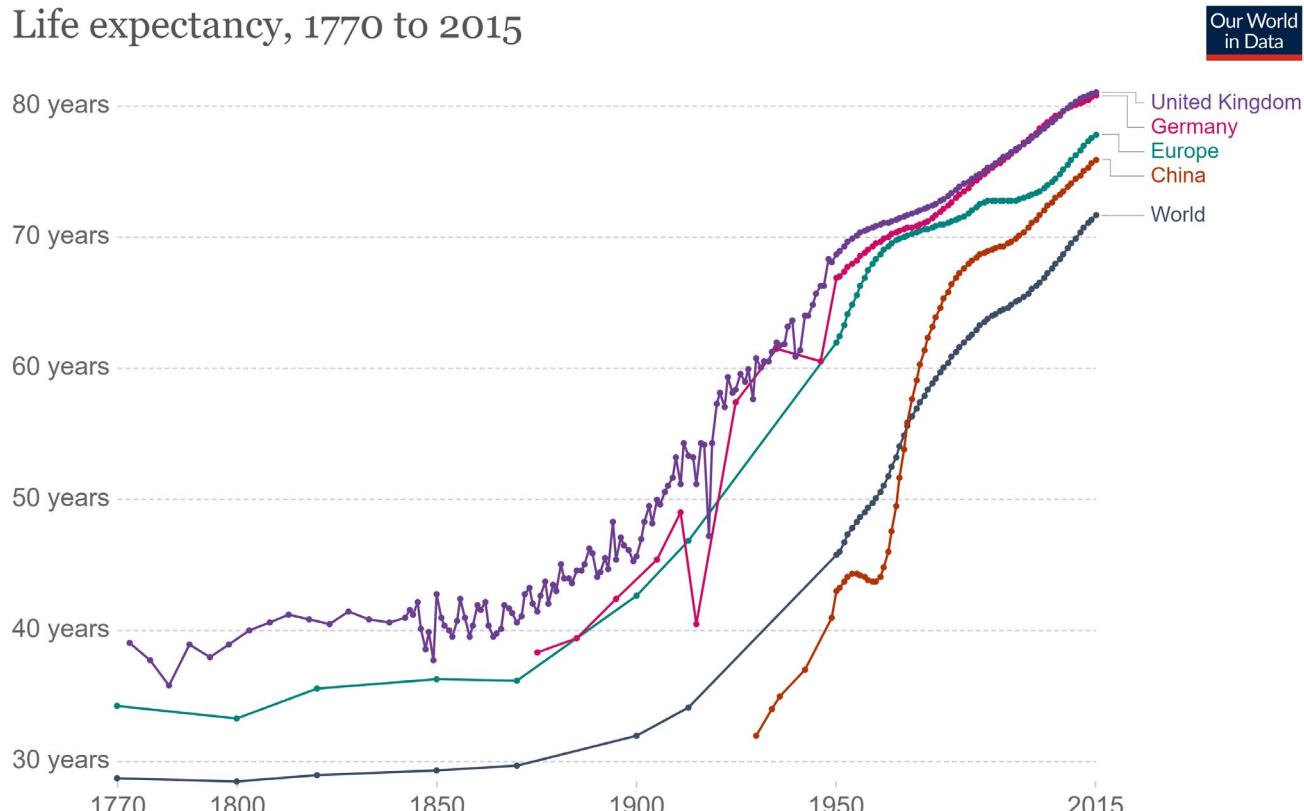
Note: These series are adjusted for price differences between countries using multiple benchmark years, and are therefore suitable for cross-country comparisons of income levels at different points in time.

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## Fact No. 4: Life Expectancy

In 1800, the average life expectancy at birth in Europe was 33.3 years, and worldwide 28.5 years. For 1900, the corresponding values are 47.7 and 32 years; for 2015 they are 77.8 and 71.7 years. (D 1905: 45.5 years; D 2015: 80.8 years)



Source: Riley (2005), Clio Infra (2015), and UN Population Division (2019)

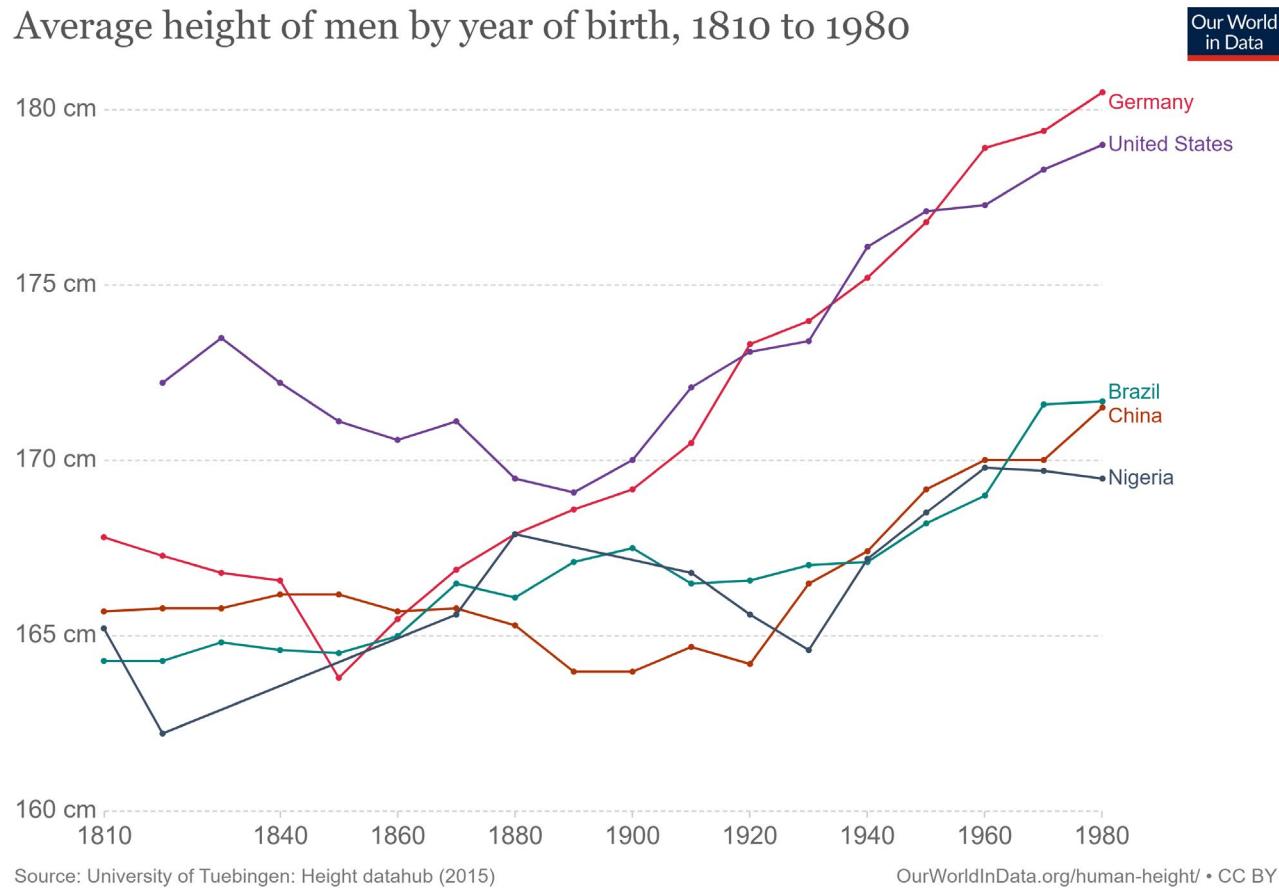
Note: Shown is period life expectancy at birth, the average number of years a newborn would live if the pattern of mortality in the given year were to stay the same throughout its life.

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## Fact No. 5a: Height

*Nutritional deficiencies during pregnancy and in the early childhood years after birth are reflected in body size, among other things. It is therefore an important welfare indicator – in historical longitudinal terms as well as in terms of global cross-section.*

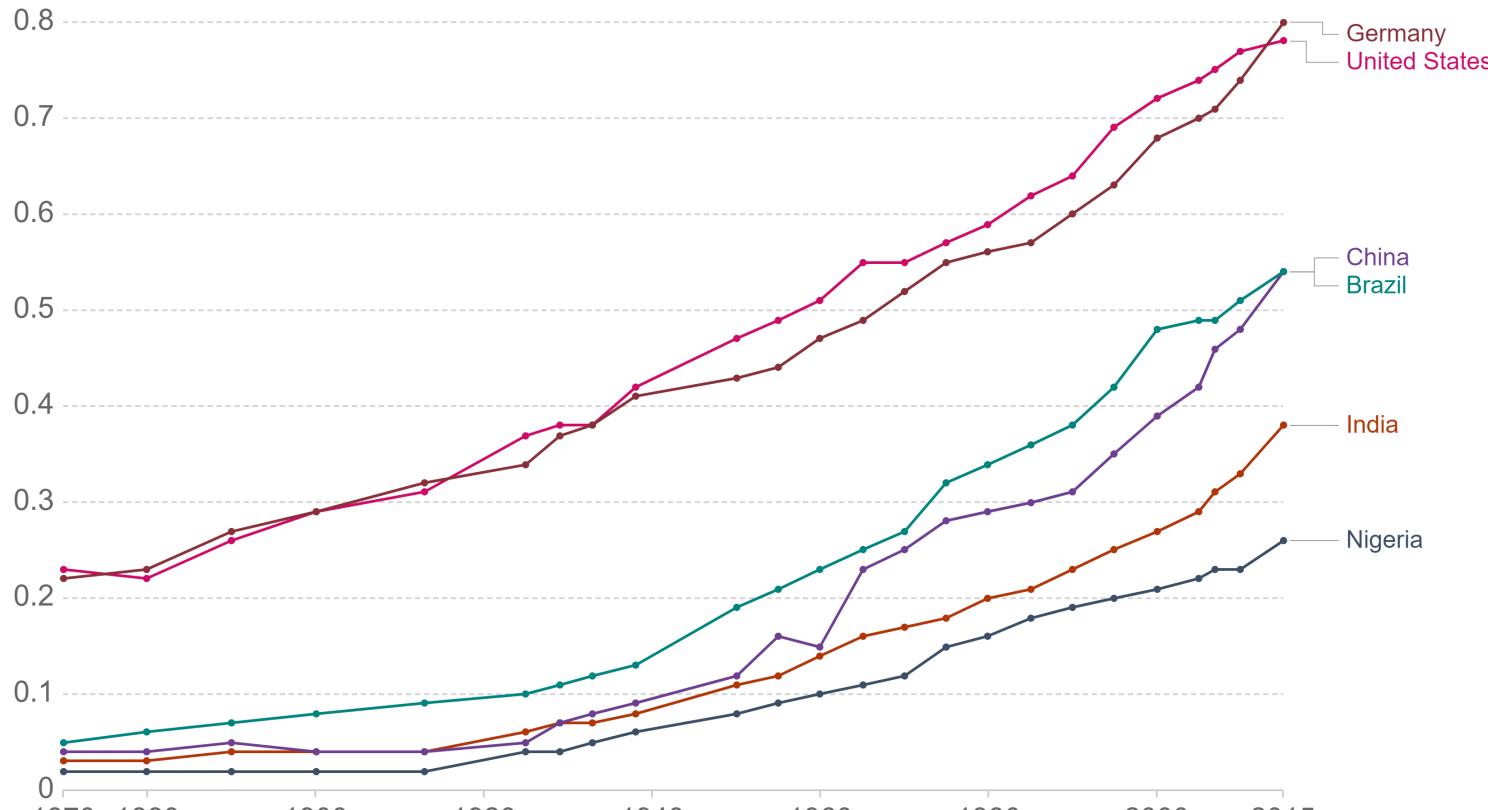


# Fact No. 5b: The Human Development Index in Historical Retrospect

## Historical Index of Human Development, 1870 to 2015

Our World  
in Data

The Historical Index of Human Development (HIHD) is a summary measure of average achievement in three key dimensions of human development: a long and healthy life, being knowledgeable and having a decent standard of living.



Source: Prados de la Escosura (2018)

OurWorldInData.org/human-development-index • CC BY



# **Modern Society is a Growth Society: Beware of addictiveness!**

*First a warning. And then an important insight.*

Robert Lucas



[https://www.google.de/search?q=robert+luucas&source=lnms&tbm=isch&sa=X&ved=0ahUKEwjF6J6U4e7dAhWVDVywKHYhUA6QQ\\_AUIdigB&biw=1164&bih=677#imgrc=mD3x0P5icabnKM::](https://www.google.de/search?q=robert+luucas&source=lnms&tbm=isch&sa=X&ved=0ahUKEwjF6J6U4e7dAhWVDVywKHYhUA6QQ_AUIdigB&biw=1164&bih=677#imgrc=mD3x0P5icabnKM::)

„The consequences for human welfare involved in questions [of improved growth performance] are simply staggering: Once one starts to think about them, it is hard to think about anything else.“

Robert Lucas (1988): On the Mechanics of Economic Development, in: Journal of Monetary Economics 22 (!988) 3-42; Zitat S. 5.

„Traditional society was characterized by stable per capita income. Our own world is one of accelerating income growth.“

Robert Lucas (2004): The Industrial Revolution: Past and Future, in: Economic Education Bulletin, Vol. XLIV, No. 8, p. 1-8; quotation p. 4.



# **Modern Society is a Growth Society: Another Warning**

*Lucas hints at an important fallacy that often misdirects political discussion:*

Robert Lucas



[https://www.google.de/search?q=robert+luucas&source=lnms&tbo=isch&sa=X&ved=0ahUKEwjF6J6U4e7dAhWVDVywKHYhUA6QQ\\_AUIdgB&biw=1164&bih=677#imgrc=mD3x0P5icabnKM::](https://www.google.de/search?q=robert+luucas&source=lnms&tbo=isch&sa=X&ved=0ahUKEwjF6J6U4e7dAhWVDVywKHYhUA6QQ_AUIdgB&biw=1164&bih=677#imgrc=mD3x0P5icabnKM::)

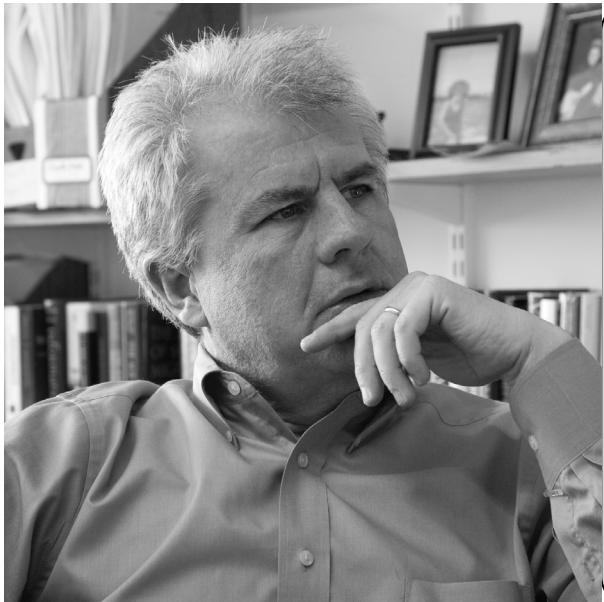
„Macroeconomic policy ... does not appear to be of central importance to growth. ... Of the tendencies that are harmful to sound economics, the most seductive, and in my opinion the most poisonous, is to focus on questions of distribution. ... **[O]f the vast increase in the well-being of hundreds of millions of people that has occurred in the 200-year course of the industrial revolution to date, virtually none of it can be attributed to the direct redistribution of resources from rich to poor.** The potential for improving the lives of poor people by finding different ways of distributing current production is *nothing* compared to the apparently limitless potential of increasing production.“

Robert Lucas (2004): The Industrial Revolution: Past and Future, in: Economic Education Bulletin, Vol. XLIV, No. 8, p. 1-8; quotation p. 8, italics in original, bold by I.P.



# Empirical Conclusion: Growth is Good for Development

Pritchett, Lant (2022) *Economic Growth in Five Figures (one with five variants)*, Online article  
June 23<sup>rd</sup> 2022: <https://lantpritchett.org/economic-growth-in-five-figures-one-with-five-variants/>



„I support the claim that more rapid and sustained economic growth should be acknowledged as a (perhaps even »the«) key objective of »development.« All development actors should acknowledge this—governments, international agencies, bilateral agencies, development banks, development academics, (development) NGOs, philanthropists.“ (p. 1)

<https://www.cgdev.org/sites/default/files/media/images/experts/hi-res/pritchett.jpg>

Is GDP a perfect indicator of human well-being? – No!

But:

- (a) GDP is closely correlated with most welfare indicators.
- (b) If you want to fight absolute poverty, increased production (by the formerly poor themselves) is much more important than re-distribution.



# Structure of Today's Lecture

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1. Ordonomics: an Overview
2. Diagnosis of Modernity
3. Analysis of Social Structure
4. Analysis of Semantics



# **On the Relationship between Theory and Practice**

*Taking up thoughts by Kant and Hegel, psychologist Kurt Lewin formulates:*

[http://www.lastonearth.com/lpic/l\\_lewin\\_k.jpg](http://www.lastonearth.com/lpic/l_lewin_k.jpg)



**Kurt Lewin**  
(\*1890 – †1947)

**„Es gibt nichts Praktischeres als eine gute Theorie.“**

zitiert in: Robert Wegener, Agnes Fritze, Michael Loebbert (Hrsg.), *Coaching Entwickeln - Forschung und Praxis im Dialog*, VS-Verlag für Sozialwissenschaften, Wiesbaden 2011, S. 47 Google Books

**„There is nothing so practical as a good theory.“**

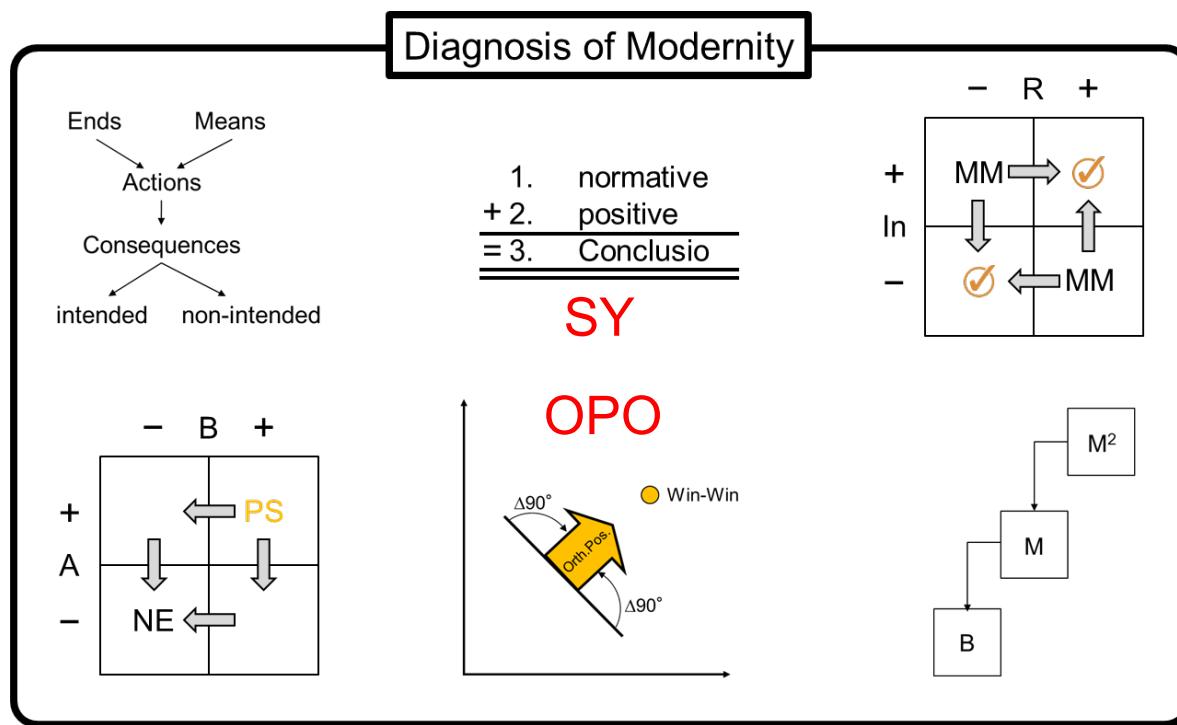
Problems of Research in Social Psychology, in: *Field Theory in Social Science; Selected Theoretical Papers*, D. Cartwright (Hrsg.), Harper & Row, New York 1951. S. 169"



# The Ordonomic Analysis of Social Structure

Ordonomics employs *Homo Oeconomicus* (HO) as an attribution scheme and uses models of social dilemmas (PD) to enlighten the situational property of rational inefficiency. We now go through the individual elements step by step and also provide illustrative applications.

HO



InR

PD

OPO

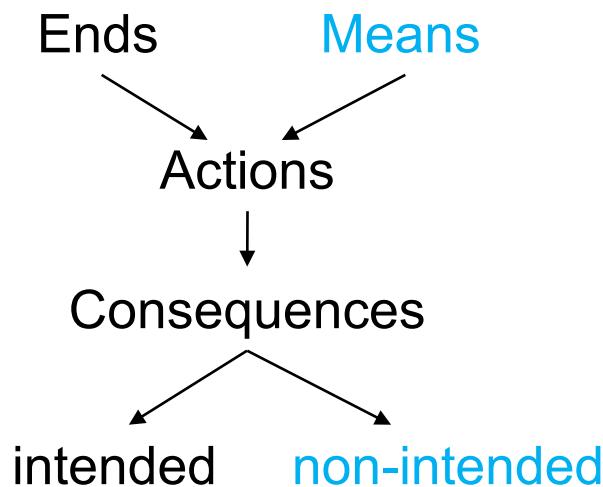
3L



# The Homo Oeconomicus as an Attribution Scheme

*Homo Oeconomicus is not a (normative) concept of man, but a positive analytical instrument. It serves to explain the unintended consequences of intentional action. The explanandum are situational characteristics and their incentive effects.*

Example: murder (rate).



Economics sorts all action-influencing factors into two categories: preferences (ends) and constraints (limits of means). Unlike common sense, which is trained to relate intended results to goals, economics attributes unintended consequences to limited means. The economic reaction analysis infers from situational data changes to socially aggregated rate changes. Preferences are kept constant. All of this, of course, only makes sense with regard to the specific problem formulation of economics: micro foundation

Murder is an intentional act. That's why detectives are right to ask for the motive. But the murder rate is a societal phenomenon that emerges unintentionally. Economic explanations never address the action of a single individual. Instead, they are tailor-made for aggregate behavioral patterns.



# Reaction Analysis: Economics in a Nutshell

*The economic reaction analysis models how a representative actor reacts to parametric environmental changes. There are many brief summaries of important insights in the literature. Here is a typical version:*

## The Ten Pillars of Economic Wisdom

By David R. Henderson ([https://www.econlib.org/archives/2012/04/the\\_ten\\_pillars.html](https://www.econlib.org/archives/2012/04/the_ten_pillars.html))

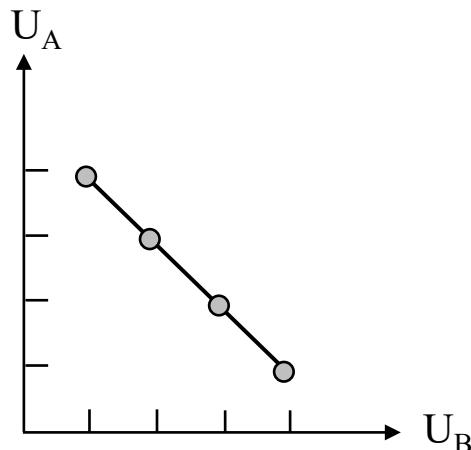
1. TANSTAAFL: There ain't no such thing as a free lunch. (Caution:  $\Delta$  for interactions!)
2. Incentives matter; incentives affect behavior.
3. Economic thinking is thinking on the margin.
4. The only way to create wealth is to move resources from a lower-valued to a higher-valued use. Corollary: Both sides gain from exchange.
5. Information is valuable and costly, and most information that's valuable is inherently decentralized.
6. Every action has unintended consequences; you can never do only one thing.
7. The value of a good or a service is subjective.
8. Creating jobs is not the same as creating wealth.
9. The only way to increase a nation's real income is to increase its real output.
10. Competition is a hardy weed, not a delicate flower.



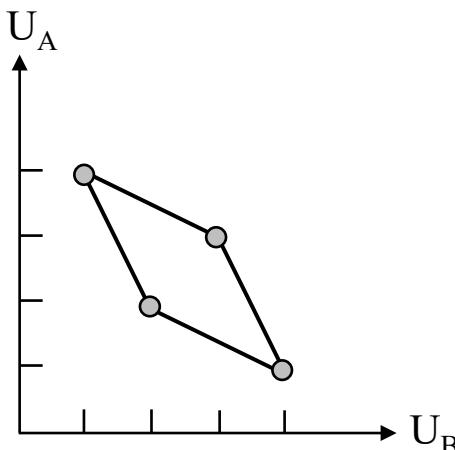
# Interaction Analysis: Economics in a Nutshell

The economic interaction analysis models how rational actors behave in a situation of strategic interdependence. They anticipate how others anticipate how to respond to responses. In game theory, three types of situations can be distinguished.

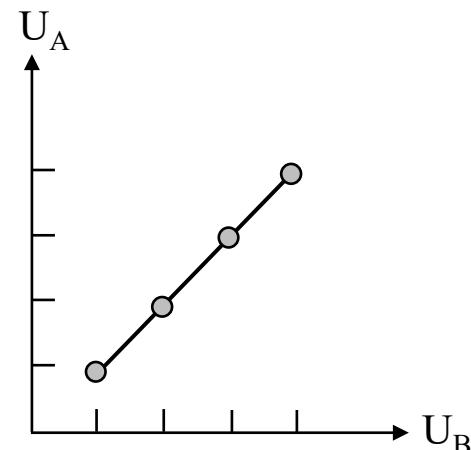
Source: Thomas Schelling (1960, 1980; S. 88): *Strategy of Conflict*



(1a)



(1b)



(1c)

1a: pure conflict (= tradeoff), 1c: pure harmony, 1b: mixed motifs

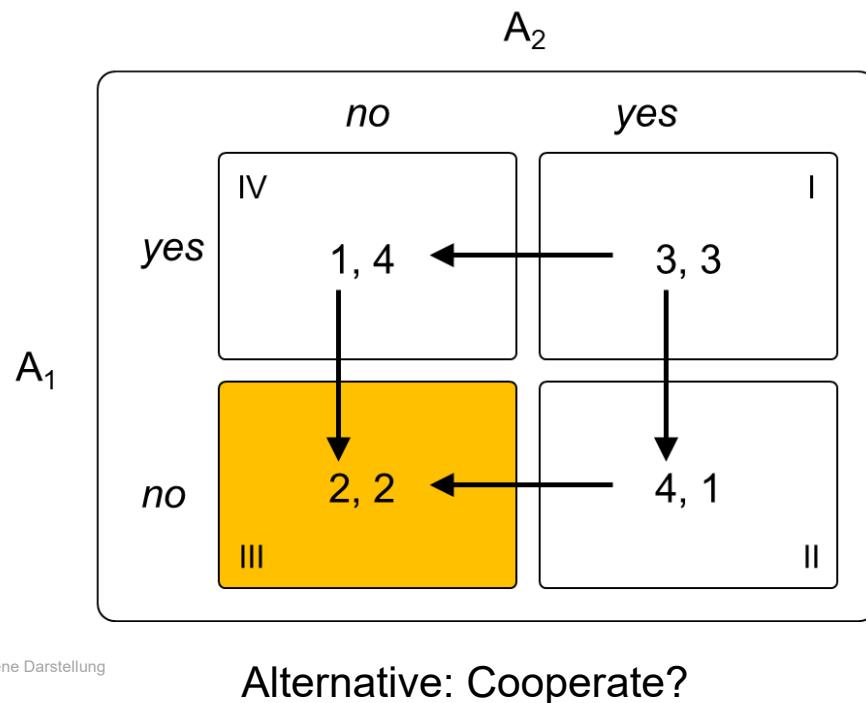
Social dilemmas are mixed-motif games with win-win, win-lose and lose-lose options.  
(In this model world, TANSTAAFL does not apply!)



# The Two-Sided Prisoners' Dilemma (PD)

Two actors ( $A_1$ ) can cooperate. But given the payoffs (and their incentive effects), such cooperation does not materialize, even though it would be more advantageous to both players than the equilibrium combination of strategies: Quadrant I is pareto-superior to Quadrant III.

Caution: In the prisoners' dilemma there are no "revealed preferences"! It is not possible to empirically observe why e.g.  $A_1$  refuses to cooperate. Does this aim at reaching Quadrant II? Or at avoiding Quadrant IV? (Analogously for  $A_2$ )



Aggressive variant:  
Aspire to Q II (in order to  
take advantage of A<sub>2</sub>)

Defensive variant:  
Prevent Q IV  
(= self-protection by A<sub>1</sub>)

Ordinal Scale:  $4 > 3 > 2 > 1$

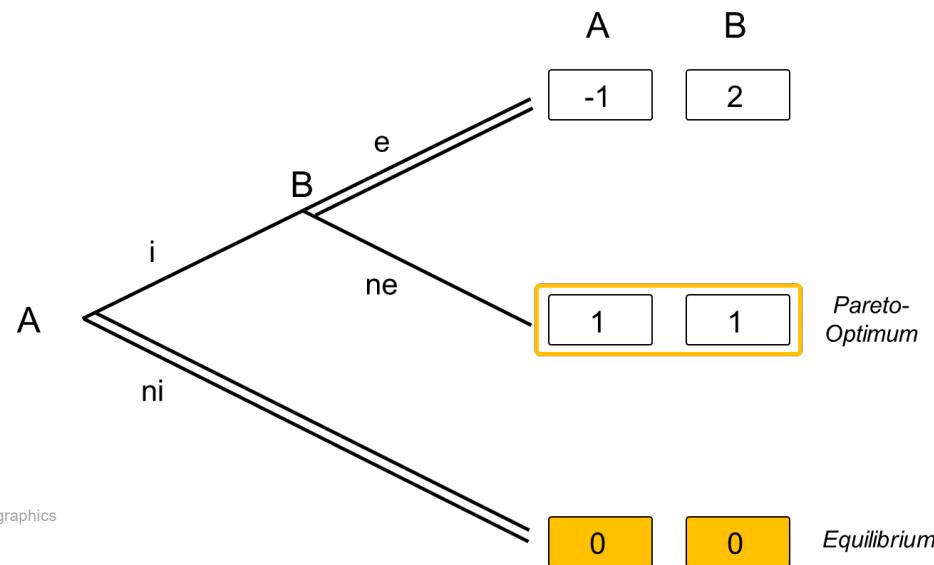
Eigene Darstellung



# The One-Sided Prisoners' Dilemma

*Backwards induction shows: In the subgame-perfect equilibrium, incentives lead the players to reach payoff pair (0,0), although the more attractive payoff pair (1,1) would be possible. Rational inefficiency!*

*In the one-sided prisoners' dilemma, there is no mutual possibility of exploitation, only one-sided exploitation (of A by B). Overcoming the one-sided prisoner dilemma therefore requires no collective, but only an **individual commitment** (of the potential exploiter B).*



Solution algorithm:  
(1) How will B decide?  
(2) Given B's decision,  
how will A decide?

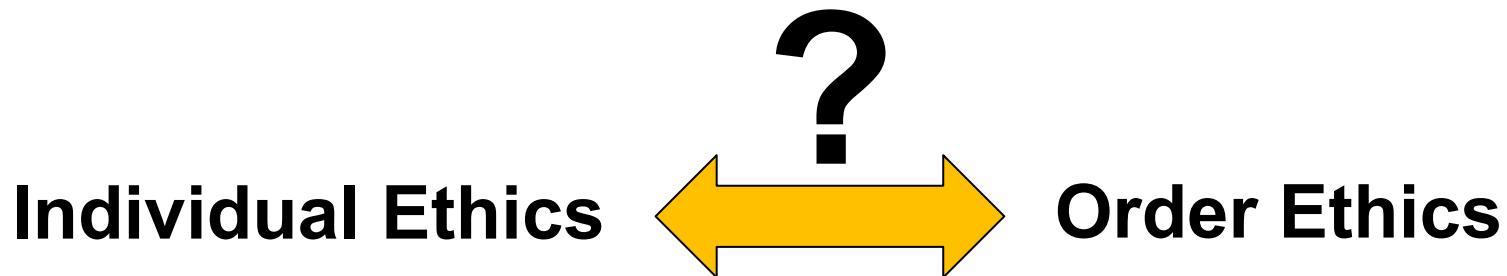
A: invest / trust? – B: exploit?

Ordinal Scale:  $2 > 1 > 0 > -1$



# Application of the HO Scheme to Meta-Ethics

We want to try to systematically determine the relationship between **Individual Ethics (IE)** and **Order Ethics (OE)**. Ethics is the theory of morality, while the term "morality" refers to the first, second and third nature of man: (a) to his instincts and emotions, (b) to his behavioural dispositions, in particular to his reflected habits, and finally (c) to the formal and informal rules of human coexistence. So this is a meta-ethical discussion of morality: How do different approaches to ethics support the moral cause of social cooperation?



Ethics as a theory of morality serves to rationalize moral practice. It aims at observing, classifying, systematizing, explaining moral phenomena – and improving them normatively! Different approaches to ethics can deal with different problems.

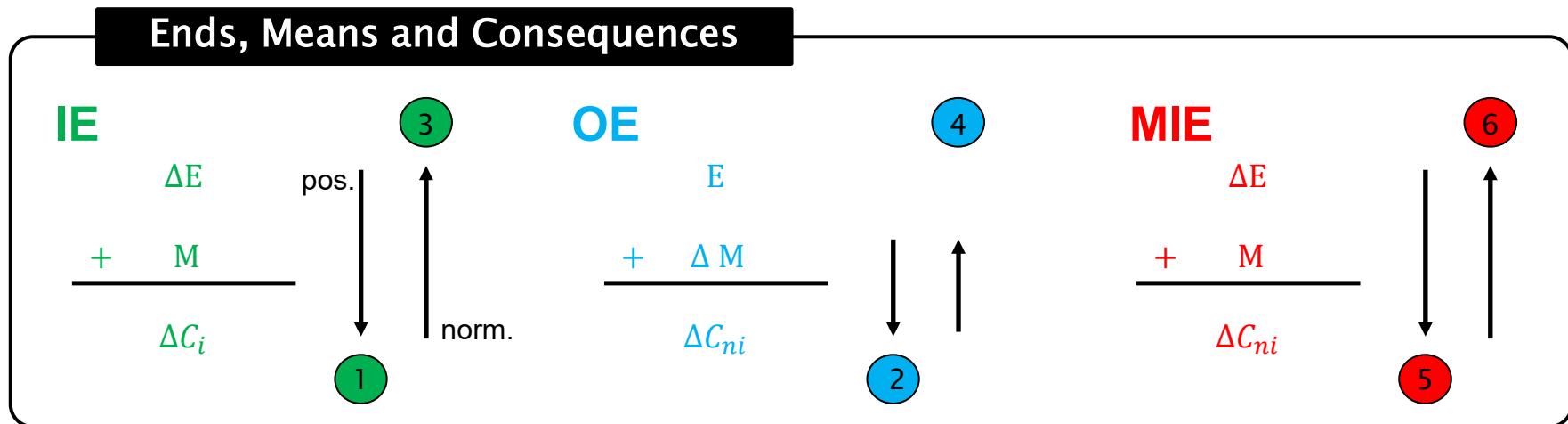


# Individual Ethics versus Order Ethics

Thesis: *Individual Ethics (IE)* argues along a logic of action, while *Order Ethics (OE)* employs a situational logic. Both are legitimate. But individual ethics is subject to intentionalist and moralistic **misconceptions** (arrows 5 and 6) if it transcends its scope. It then mutates into *Misplaced Individual Ethics (MIE)*.

*Individual Ethics* asks: What should I do?

*Order Ethics* asks: (a) What can we want? (b) What do we want to be able to do?



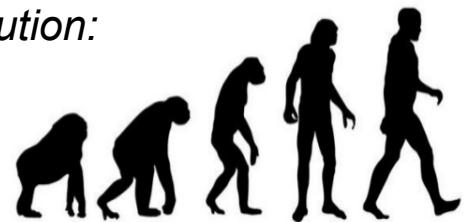
Crucial Question:

Are the consequences of action intended? Everything depends on the problem situation!



# Joshua Greene: Morality as a Problem-Solving Mechanism

*Joshua Greene looks at morality from the perspective of human evolution:  
morality was created to promote cooperation in small groups.*



<http://image.slidesharecdn.com/presentation1350503111226-1350503111226-1-970x540>



Joshua Greene  
\*1974

<https://brainworldmagazine.com/in-search-of-morality-an-interview-with-joshua-greene/>

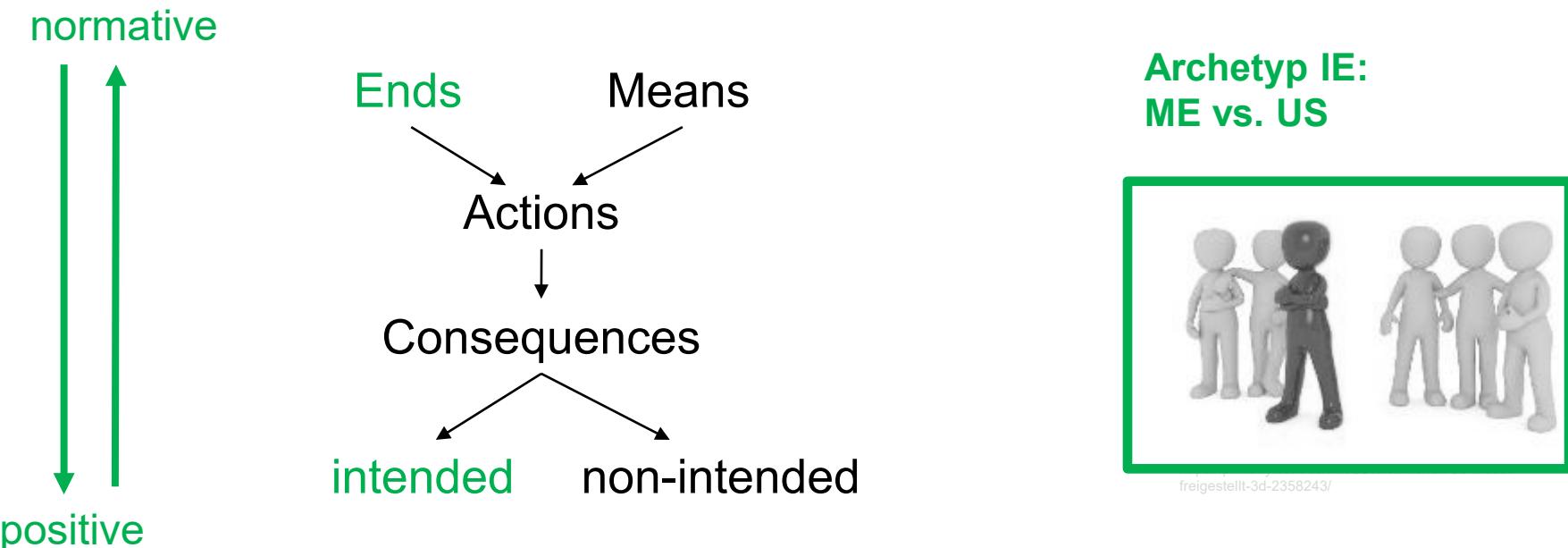
Greene (2013; 293) identifies the archetypal problem of community morality:

„The ... problem is Me versus Us. ... **Our moral brain solves this problem primarily with emotion.** Feelings of empathy, love, friendship, gratitude, honor, shame, guilt, loyalty, humility, awe, and embarrassment impel us to (sometimes) put the interests of others ahead of our own. Likewise, feelings of anger and disgust impel us to shun or punish people who overvalue Me relative to Us. **Thanks to these automatic settings, we do far less lying, cheating, stealing, and killing than we otherwise would, and that enables Us to succeed.**“



# The Tools of Individual Ethics

*Individual Ethics* explains positively how *intended* consequences of action are caused by *preferences* (= inner motives). And it recommends normatively that morally desirable consequences of action be achieved through changes in the preferences. By providing good reasons, *Individual Ethics* helps to adapt to a given situation and to acquire a moral character through reflected habit formation: *individuation takes place as socialization*.

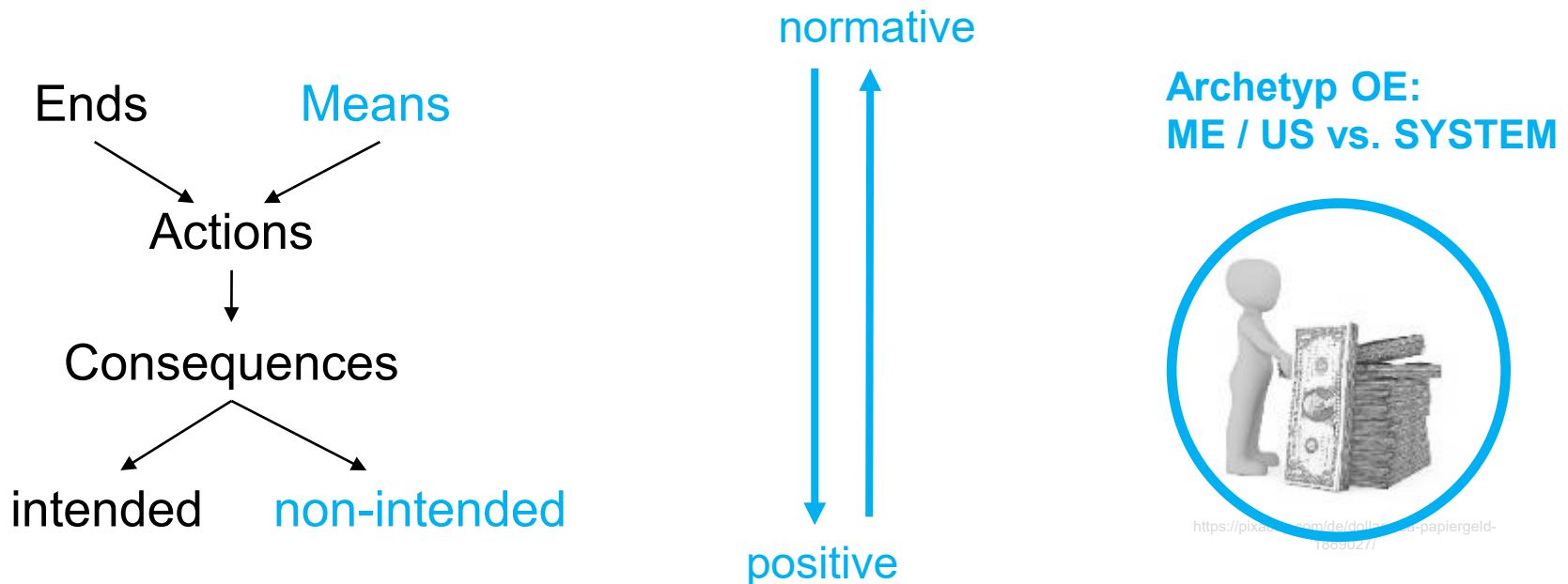


For example, what precautions and considerations are important for my self-interest to align with group interest so that I, as a group member, experience moral appreciation?



# The Tools of Order Ethics

*Order Ethics* explains positively how *unintended consequences of action are caused by means* (= external factors). And it recommends normatively to bring about morally desirable consequences of action through changes in constraints (= incentive changes, institutional reforms). By providing good reasons, Order Ethics helps to shape situations in such a way that moral behavior does not lead to unreasonable disadvantages.



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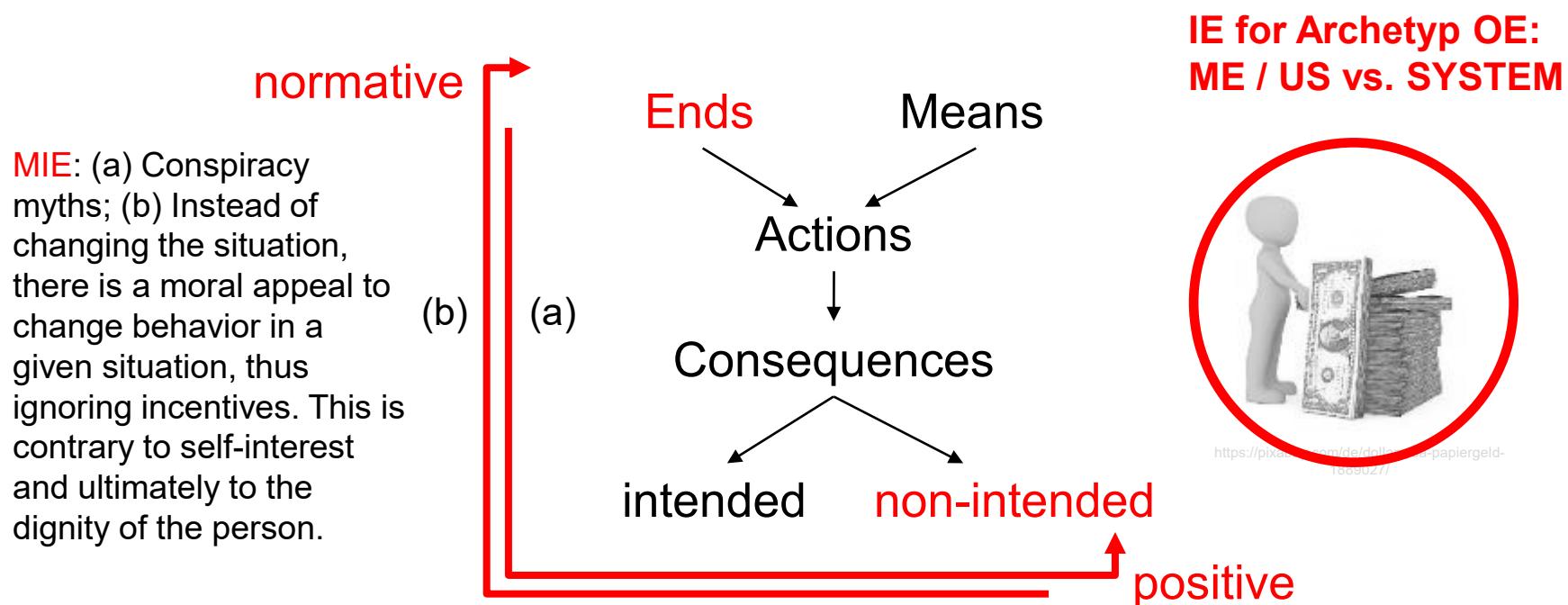
For example, in the housing market, prices are not rising because people on the supply side intend to profit. They are rising because people on the demand side with their behavior trigger an unwanted side effect.



# Faulty Reasoning! – Misplaced Individual Ethics (MIE)

What happens if one applies the semantics of Individual Ethics with its typical reasoning mode where in fact not the logic of action, but the situational logic typical of the reasoning mode of Order Ethics is required?

- (a) **Intentionalist Fallacy**: Ends / motives are used to explain unintended consequences
- (b) **Moralistic Fallacy**: Changes in consequences are expected from changes in preferences



# The Intentionalist Fallacy concerning the Financial Crisis

In the media, the international financial crisis has been (and still is) attributed to the intention of greed, but not to institutional causes of misregulation. However, the vice of greed is neither the cause of the financial crisis nor a characteristic of the market.



# Game Theory

*Important insights can also be generated with the interaction-analytical modelling of social dilemmas (= situations with pareto-inferior equilibria = rational inefficiencies = yet unexhausted win-win potentials).*



<https://pixabay.com/de/photos/schach-k%C3%B6nig-schachfiguren-2727443/>

1-PD opens up the dialectic of power and powerlessness (esp. in hierarchies)

2-PD opens up the logic of collective action (esp. in competitive contexts)

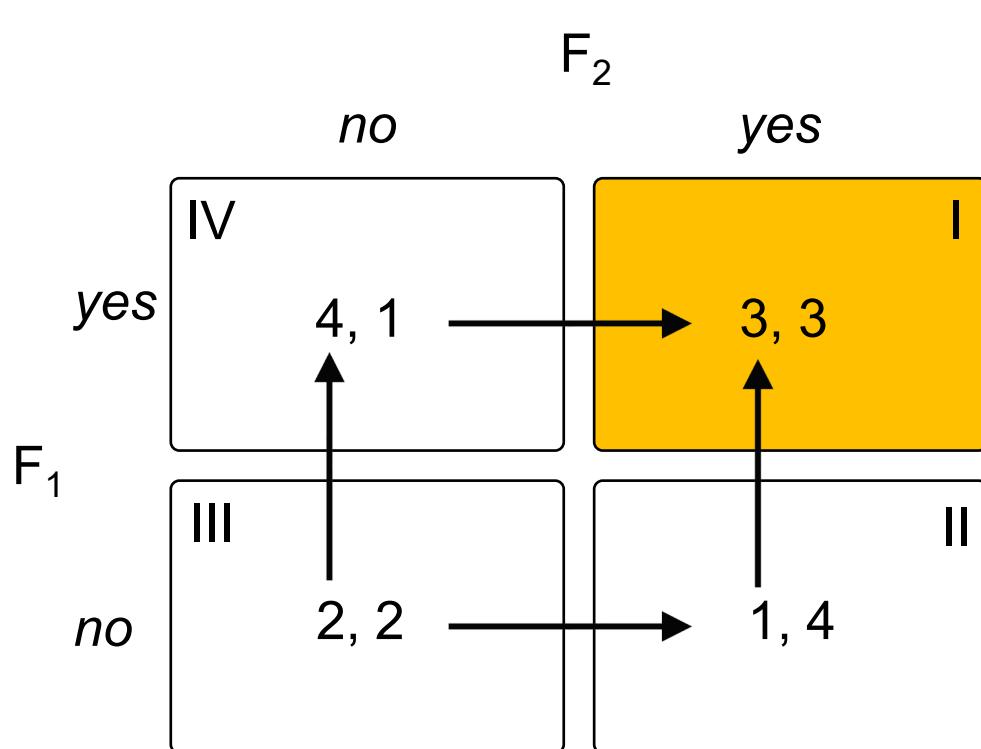


Important insights into the capitalist management of private versus public goods



# Innovation Competition I

*In the case of private goods, innovation competition leads to a progress equilibrium. In this respect, entrepreneurial innovation is the driving force behind the growth dynamics of modern society.*



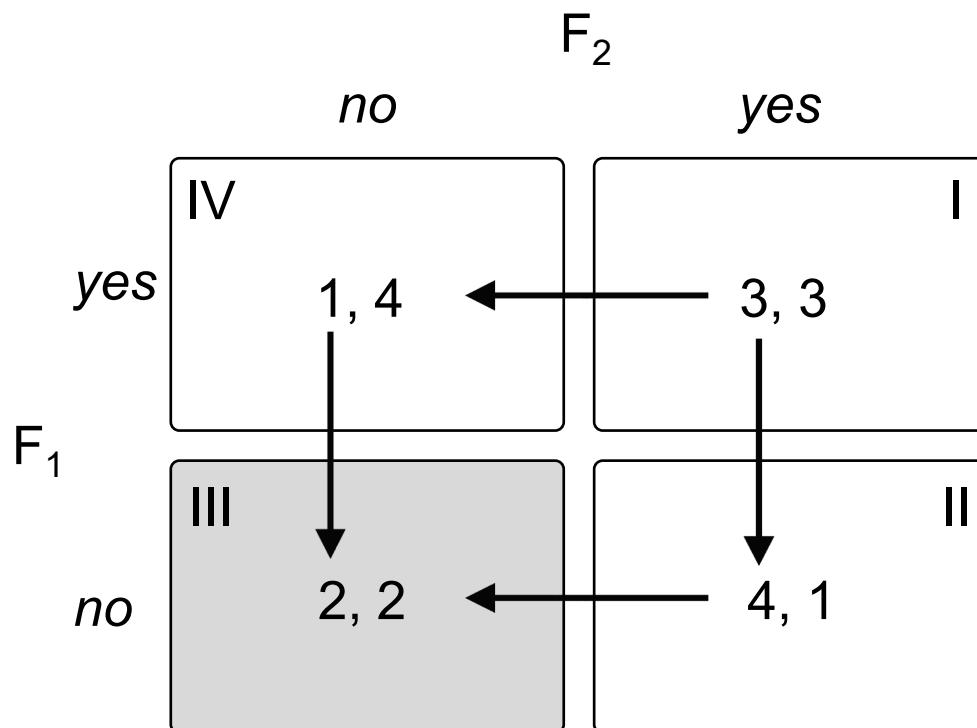
Scenario: Private Goods  
Strategy: Innovation?

Own graphics



## Innovation Competition II

*In the case of public goods, innovation competition leads to a stagnation equilibrium. In this respect, a lack of entrepreneurial innovation is the reason for environmental problems. Here, the market logic of satisfying people's needs is inoperative.*



Scenario: Public Goods  
Strategy: Innovation?

Nash Equilibrium in Quadrant III:

With regard to public goods, the innovation mechanism that works for private goods is failing.

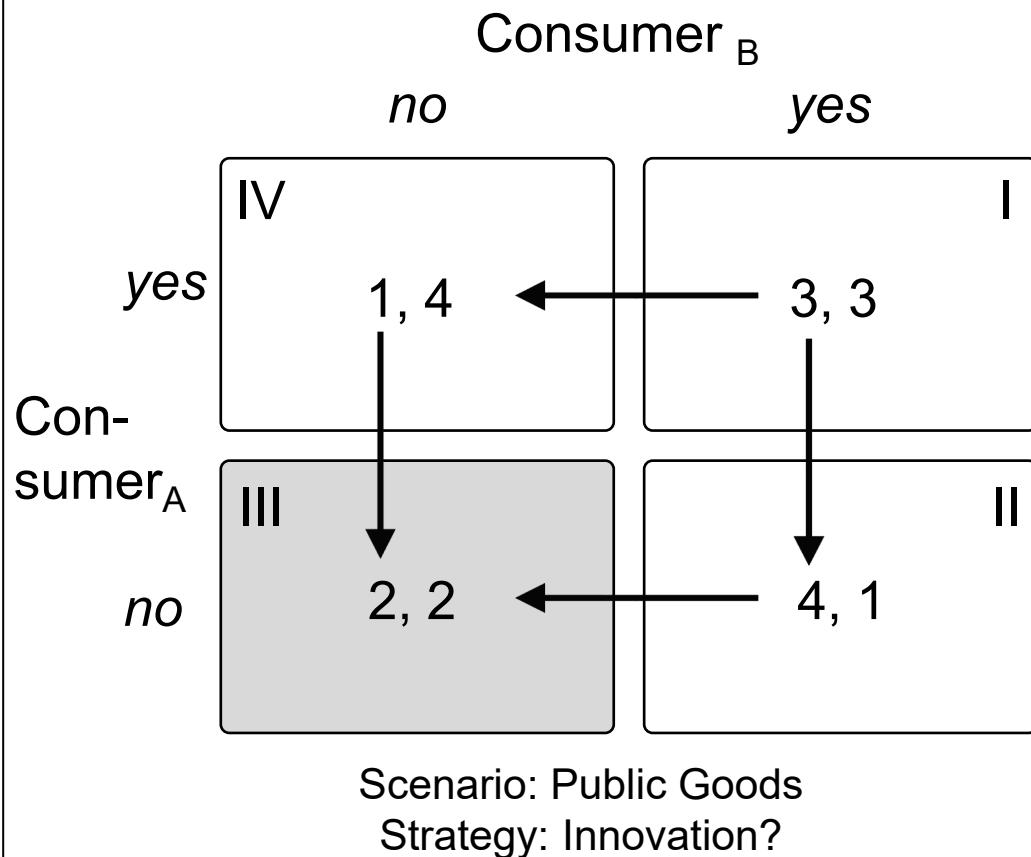
A lack of willingness on the part of consumers to pay for the costs of innovation prevents firms from cost amortisation. Therefore, innovation is not incentive compatible.

Own graphics



## Innovation Competition III

*In the case of public goods, innovation competition leads to a stagnation equilibrium. This dilemma for firms, however, is based on another dilemma: a social dilemma for consumers. Environmental problems are caused by free-riding consumers unwilling to pay for environmental protection.*



The social dilemma among firms is caused by a social dilemma among consumers.

Since every consumer is confronted with the (mis-)incentive to free-ride, firms are not able to activate a voluntary willingness to pay among their clients.

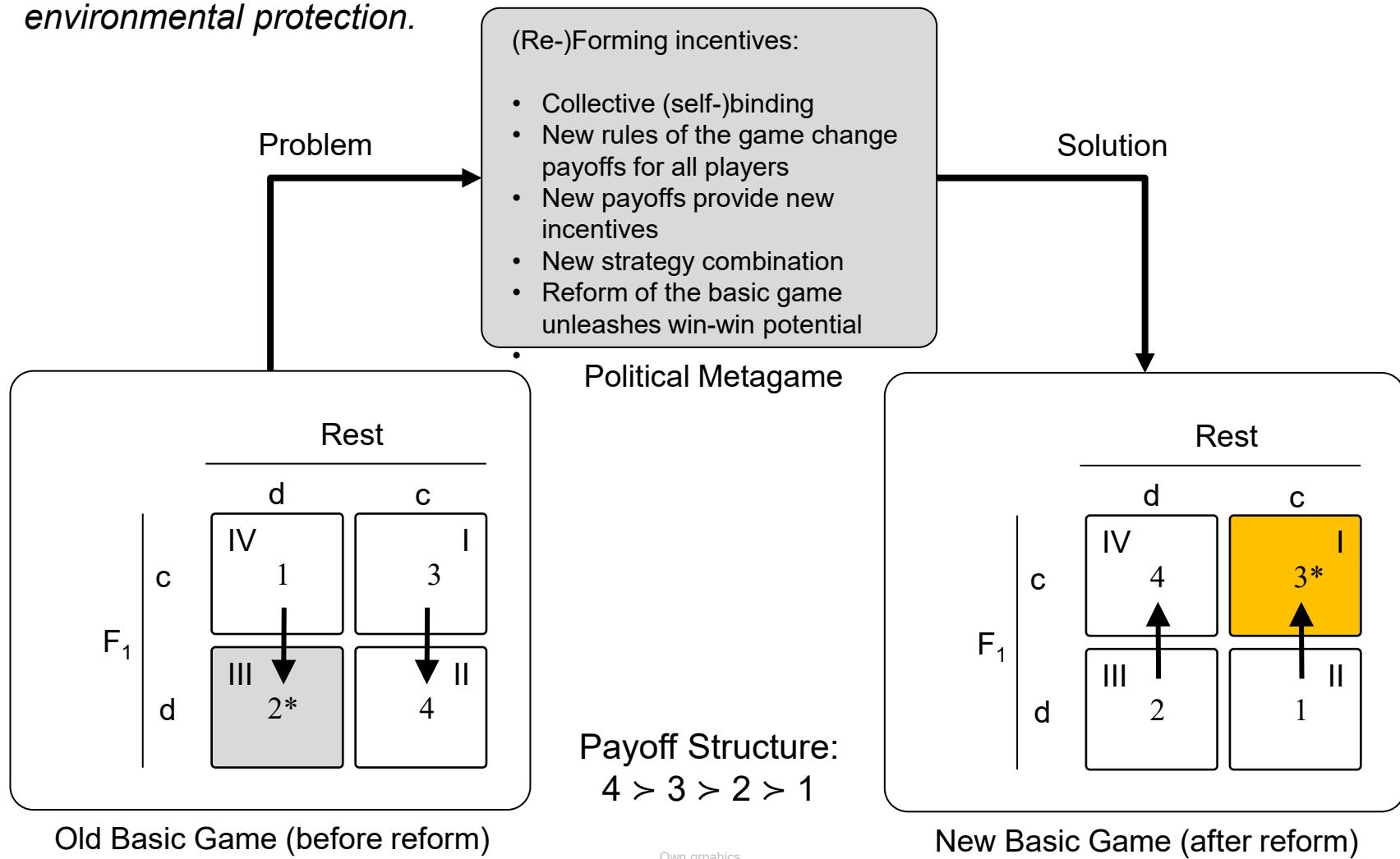
Consequently, there is a lack of revenue which could cover the costs.

Own graphics



# Political Challenge: Institutional Governance!

*If you transform public goods into private goods, you can instrumentalize markets for environmental protection.*



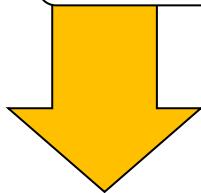
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# Structure of Today's Lecture

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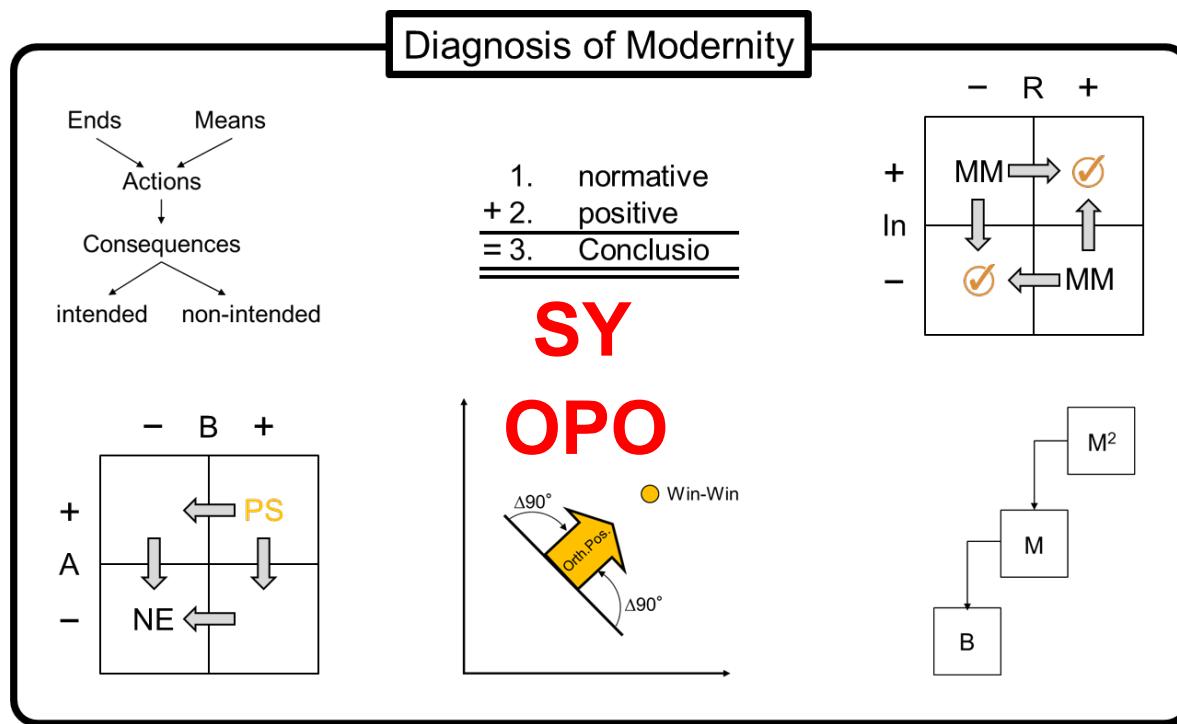
1. Ordonomics: an Overview
2. Diagnosis of Modernity
3. Analysis of Social Structure
4. Analysis of Semantics



# The Ordonomic Analysis of Semantics

Ordonomics uses the practical syllogism to analyze moral value judgments and employs the figure of thought of "orthogonal positioning" to re-orient value-controversial discussions in order to overcome the tradeoff perception by pointing to common interests. We now go through the individual elements step by step and also provide illustrative applications.

HO



InR

PD

3L

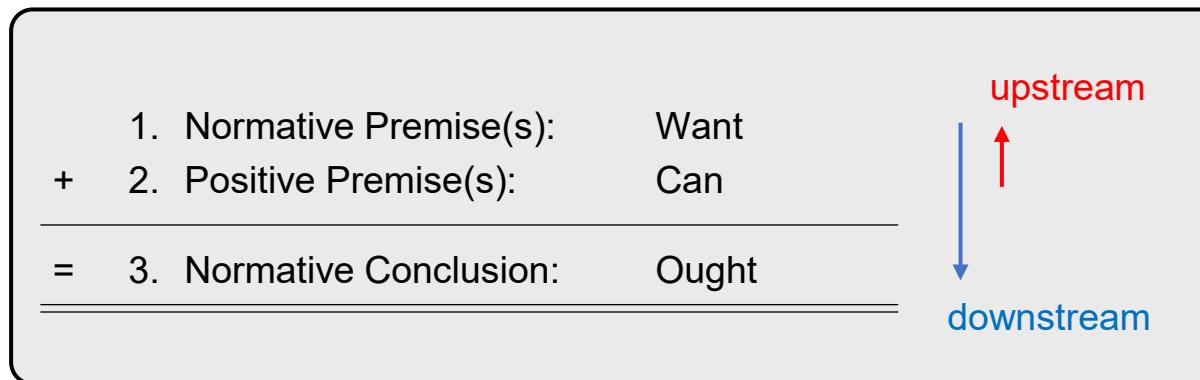


# The Practical Syllogism

*The Practical Syllogism helps to break down moral judgments into their normative and positive elements.*

The scientific critique of moral judgments always starts at level 2, i.e. with the positive premises. From there, the argumentation can take two different directions:

- (a) Downstream arguments proceed top-down, aiming at a new conclusion,  
according to the motto: from (old1) and ( $\Delta_2$ ) follows ( $\Delta_3$ ).
- (b) Upstream arguments proceed bottom-up, aiming at a new normative premise,  
according to the motto: Does ( $\Delta_2$ ) perhaps require ( $\Delta_1$ )?



The analytical instrument of practical syllogism is crucial for the ordonomic approach to ethics – and its scientific seriousness: ordonomic ethics relies on facts – and on explaining the relations between facts – to criticize moral judgments from a theoretical (ethical and meta-ethical) point of view.



# An Important Motto of Economic Ethics as a Science

<http://www.sunnycv.com/steve/USPics22/baruch.jpg>



*Barnard M. Baruch  
(1870-1965)*

„[E]very man has a right to be wrong in his opinions. But no man has a right to be wrong in his facts.“

Baruch, Barnard M. (1960; S. 376): *The Public Years*, New York.

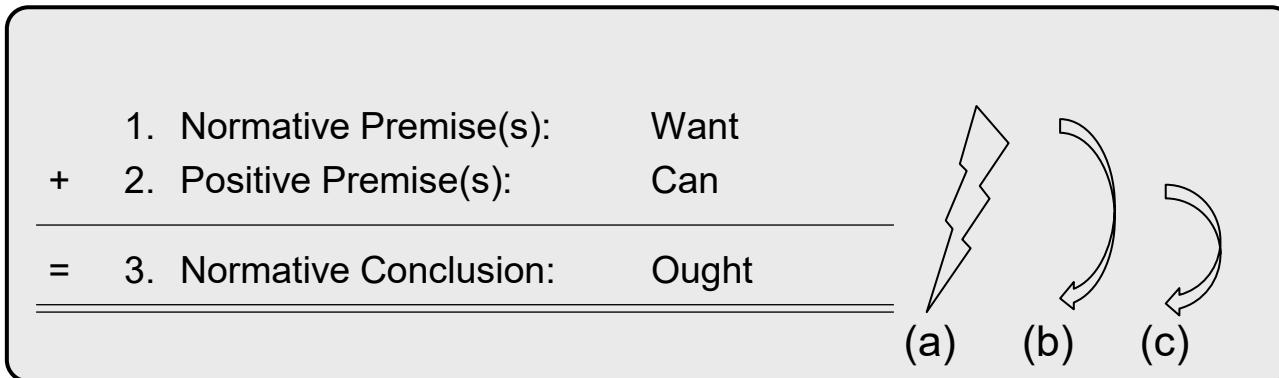
*Reformulated in contemporary terms: „[E]very person has a right to be wrong in her opinions. But no person has a right to be wrong in her facts.“*



# Errors of Thought and Reasoning

*With the help of practical syllogism, normative statements can be objectively tested. In purely logical terms, three faults ("fallacies") can be criticized:*

- (a) Non-sequitur error (3 does not follow from 1 + 2)
- (b) Normativistic Fallacy (from 1 without 2 does not follow 3)
- (c) Positivistic (= Naturalistic) Fallacy (from 2 without 1 does not follow 3)



Furthermore, normative premises may be contentious or even unreasonable (d), and positive premises may prove to be factually wrong (e).

Reference for handling the practical syllogism:

Pies, Ingo (2023): Folk Economics and Folk Ethics als Problems of Moral Reasoning, Diskussionspapier 2023-13 des Lehrstuhls für Wirtschaftsethik, Halle

<https://wcms.itz.uni-halle.de/download.php?down=65973&elem=3505981>



# Greta Thunberg Complains about Wrongful Citations

X Post

Greta Thunberg @GretaThunberg Folgen ...

The climate deniers and delayers are so desperate and feel so threatened that they simply make up their own “quotes” from pure lies and fantasies. This is what I have said about systems and ideologies:

[Post übersetzen](#)

Leaving capitalist consumerism and market economics as the dominant stewards of the only known civilization in the universe will most likely seem, in retrospect, to have been a terrible idea. But let us keep in mind that when it comes to sustainability, all previous systems have failed too. Just like all current political ideologies – socialism, liberalism, communism, conservatism, centrism, you name it. They have all failed. But, in fairness, some have certainly failed more than others.

202

9:10 vorm. · 2. Nov. 2022



## **Excursus: The Open Letter**

*The Open Letter by Neubauer et al. contains, among other things, the following arguments:*

(2) The EU should take bold action on climate protection.

„When you signed the Paris Agreement the EU nations committed to leading the way. The EU has the economic and political possibility to do so, therefore it is our moral responsibility. And now you need to actually deliver on your promises.“

Strictly speaking, the underlined sentence formulates a positivist misconception. Shall is immediately derived from Can.

But **beware**: this sentence is embedded in the argument that a promise has been made, which should now be kept. It is important to interpret seriously, according to the motto: „Steelmanning“ instead of „Strawmanning“!  
**(„principle of charitable interpretation“)**



# Strawmanning versus Steelmanning

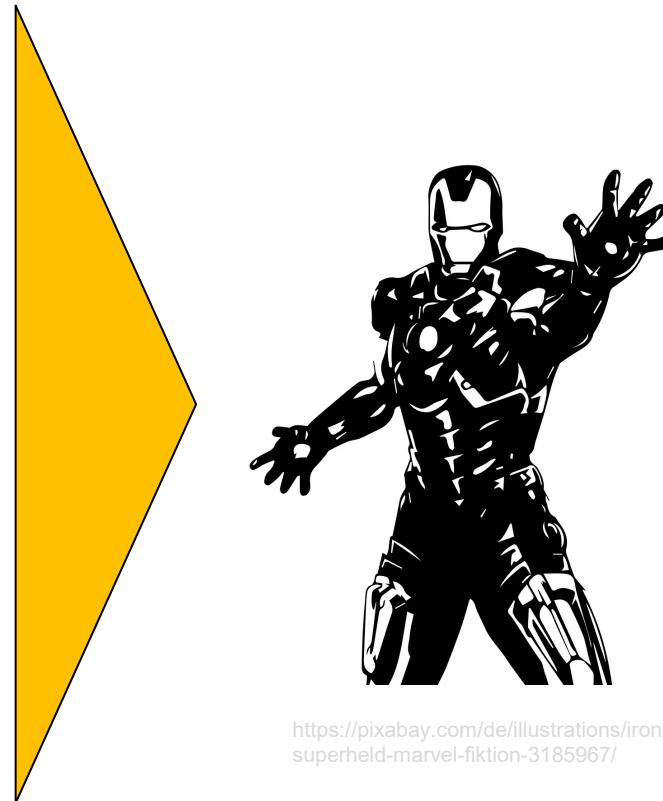
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*Strawmanning: Make the counter-argument as **weak** as possible.*

*Steelmanning: Make the counter-argument as **strong** as possible.*



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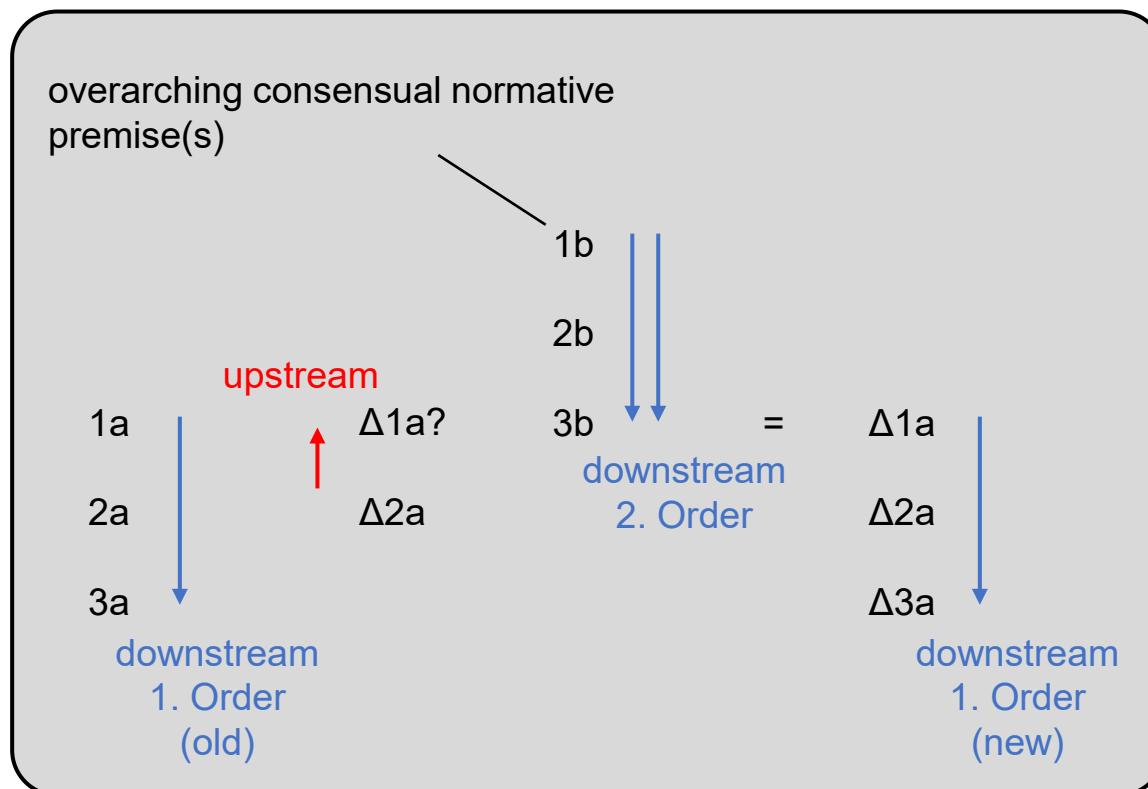


<https://pixabay.com/de/illustrations/iron-man-superheld-marvel-fiktion-3185967/>



# Upstream and Downstream Arguments

Recurring on positive insights, upstream arguments question whether the normative premise is really appropriate for the problem situation of moral judgment. This may give rise to a search for second-order downstream arguments that replace the original normative premise with reasonable justification, and then formulate first-order downstream arguments that correct and even normatively surpass the original moral judgment.



# Economic Ethics as Science

*As a social process, the scientific approach is characterized by certain rules that (should) facilitate intersubjective communication.*

- Avoid arguments „ad hominem“: Conduct a substantive discussion without regard for the person!
- Subject all ideas to a critical examination:
  - Positive I: Are the facts correct?
  - Positive II: Are the theoretical causal links between the facts correct?
  - Normative: Are the moral judgments involved reasonable and generally acceptable?

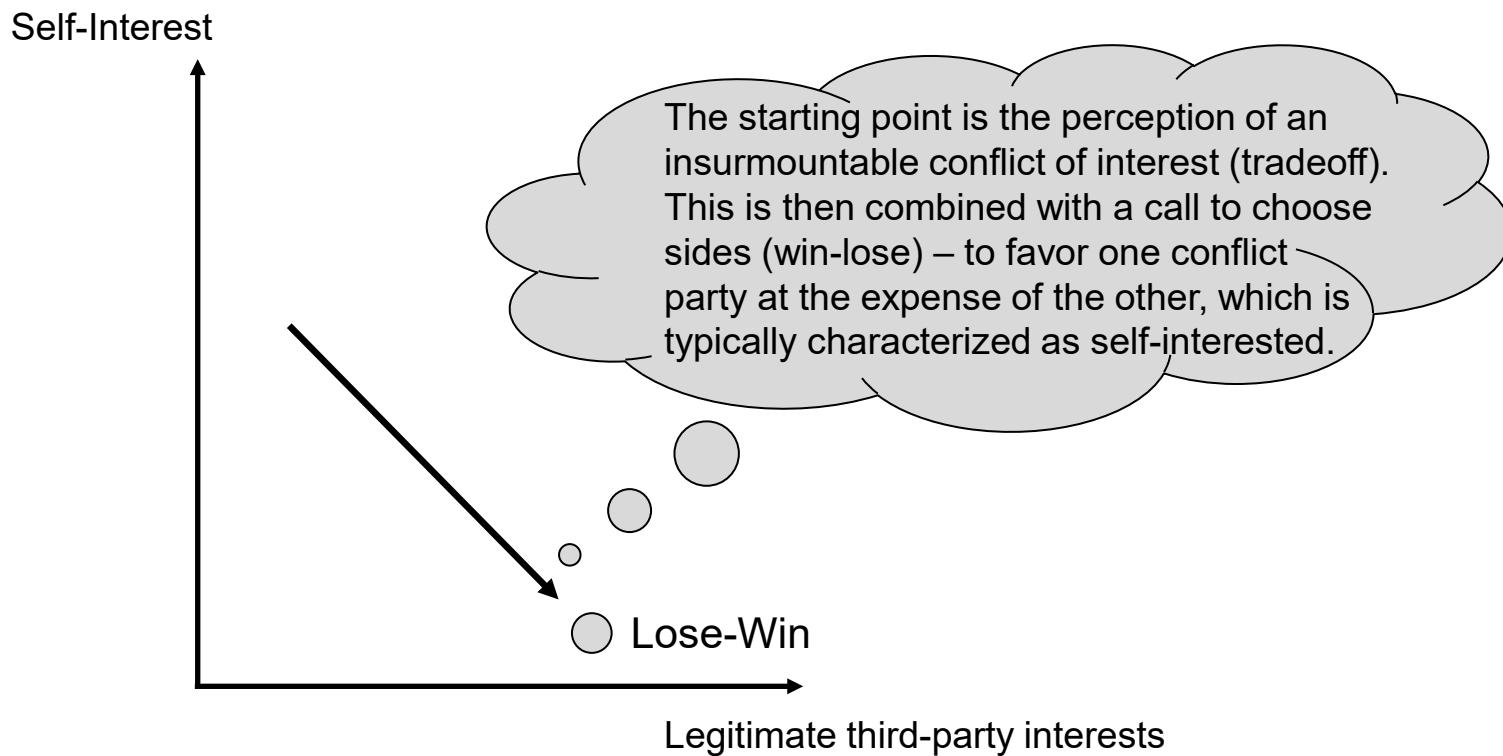


The oronomic approach to business ethics (developed in Halle) offers several analytical tools that enable a scientific approach, especially with regard to contentious discussions. In addition to the practical syllogism, the argumentation figure of "orthogonal positioning" plays a central role.



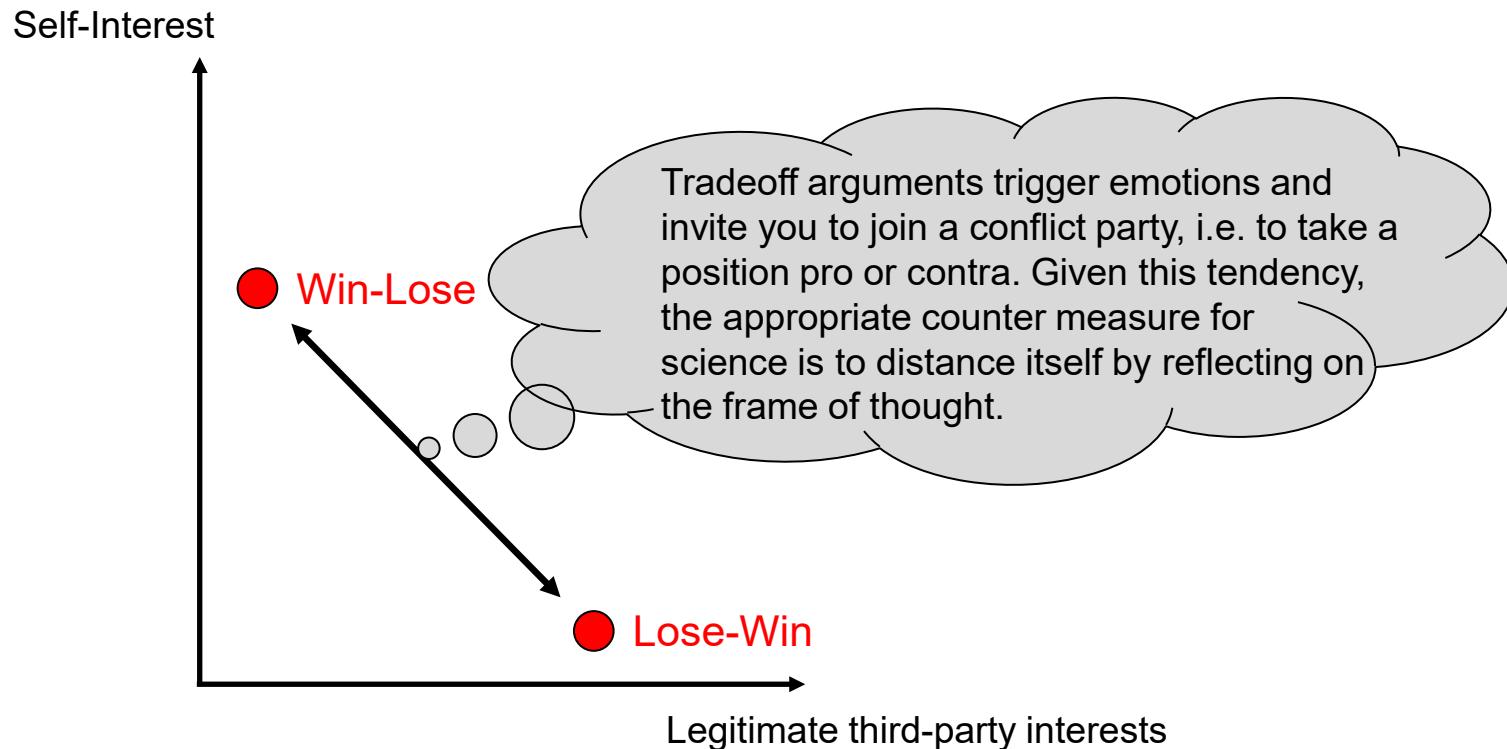
# Diagnosis: The Perception Framework of Tradeoff Thinking

*In the face of contentious debates, ordconomics asks: How do you think when you think the way people think here? – This reflects on the frame of thought. Thus one realizes that people often think within the framework of a tradeoff perception: Their typical starting point is a presumed incompatibility of self-interests and third-party interests. Then they claim that the latter shall be given priority in the situation at hand, which amounts to an appeal for win-lose.*



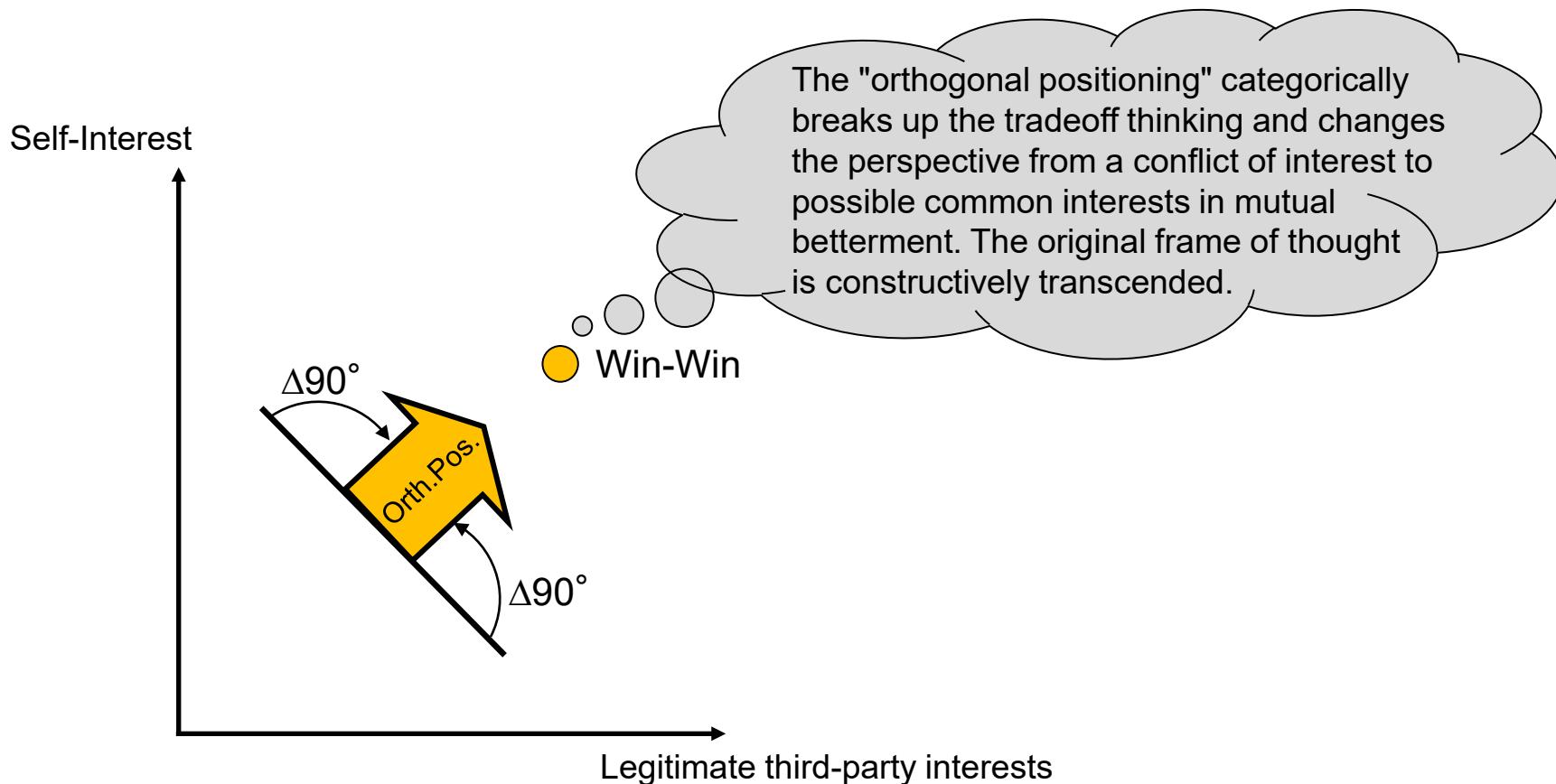
# Criterion for Problem Solving: Maintain Scientific Seriousness!

*In the face of contentious value judgments, business ethics must not simply take sides – with neither party of conflict. Because in doing so, it would lose its status as a science. It must remain impartial. How can this be done?*



# The Concept of “Orthogonal Positioning“ (OPO)

Sometimes business ethics can help to make a change of perspective (by  $90^\circ$  = "orthogonal" positioning). Instead of thinking about win-lose options within the tradeoff framework, the perspective can be focused on win-win solutions. The motto is: "thinking outside the box" or "negation of negation".



# Application (I): The Open Letter as a Practical Syllogism

*Task: Translate the message of the open letter as correct and as fair as possible into the logical scheme of our practical syllogism.*

1. The moral concern is to make a good life possible for all people, especially for those who are still young today, as well as for future generations.
  
- 2a. A good life is threatened by climate change (and other environmental problems).  
2b. The current system of a globalized market economy cannot effectively combat climate change (and other environmental problems).
  
- 2c. A good life is threatened by injustice and exploitation.  
2d. The current system of a globalized market economy is based on injustice and exploitation.
  
3. There are many good and compelling reasons for immediately abolishing the current system of a globalized market economy.



Even if one agrees unreservedly with statements 1, 2a and 2c, statements 2b and 2d and then also the normative conclusion (3) can be critically questioned.



## Application (II): The Open Letter Promotes Tradeoff Thinking

*How do you think when you think the way people think here?*

(Self-)Interests in  
the system



1. The modern world is based on injustice and exploitation.
2. The EU should take the lead in its approach to climate protection.
3. The problems cannot be solved within the current system of a globalized market economy – through reform – but only through a radical change of system.
4. We must act immediately, even if this is not politically, economically and legally possible within the current system.

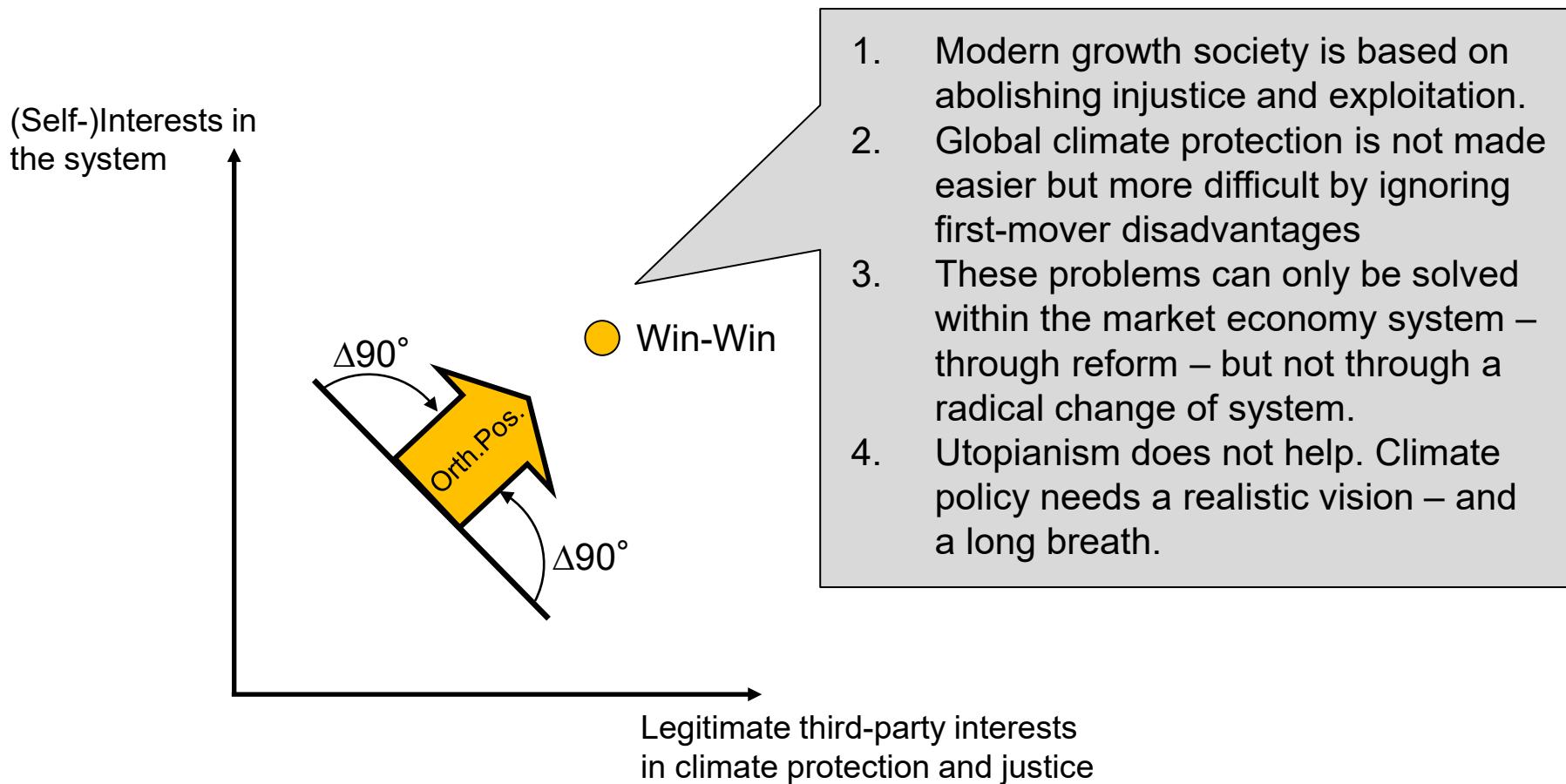
Lose-Win

Legitimate third-party interests  
in climate protection and justice



## Application (III): The concept of "orthogonal positioning"

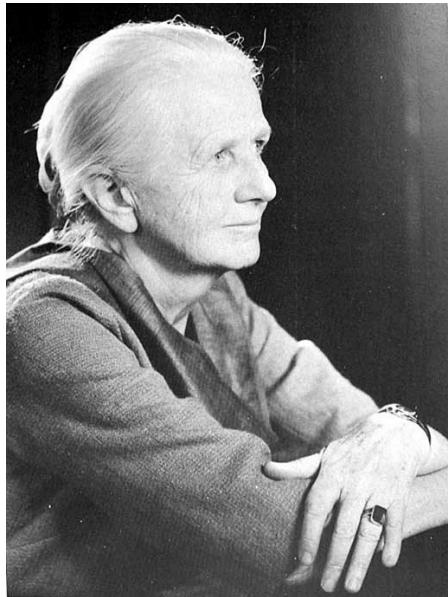
Preliminary hints for "Thinking outside the box" or "negation of negation": Might it be possible that the interests in justice and climate protection cannot be implemented without – or even against – the system of a global market economy, but perhaps in and through this system – via smart institutional governance?



# A Final Word

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Joan Robinson  
(\*1903; †1983)



„[T]he misery of being exploited by capitalists is nothing compared to the misery of not being exploited at all.“

Robinson, Joan (1962, 2021): Economic Philosophy, London and New York: Routledge, p. 41.

<https://lecercledeséconomistes.fr/wp-content/uploads/2015/06/robinson3.jpg>



Martin-Luther-Universität Halle-Wittenberg, Lehrstuhl für Wirtschaftsethik  
Prof. Dr. Ingo Pies