



# 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 3*  
*Winter Term 2025/26*

# What have we learned?

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

- Modernity is developing as a growth society with permanently increasing per capita incomes (and lifetimes).
- Pre-modern social structures can be characterized as "limited access orders", modern ones as "open access orders". Here, business and politics are both constitutionalized in a competitive way.
- Societies of (a) hunter-gatherers, (b) settled farmers and (c) modern economic actors differ in terms of energy consumption and moral profile.
- In economics, we distinguish between reaction analysis and interaction analysis.
- The intentionalist fallacy concludes from the objective of action to its unintended consequences.
- Social dilemmas are situations of rational inefficiency (examples: 1-PD und 2-PD).



# Overview

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



Introduction (L 1)

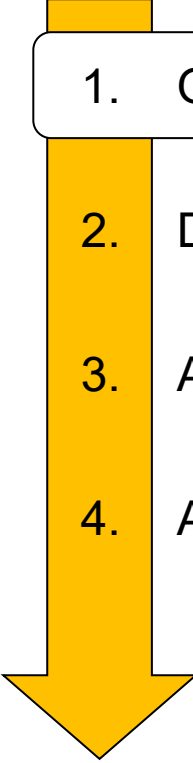
1. The Ordonomic Approach (L 2 + 3)
2. The Social Structure of Modern Society (L 4 + 5)
3. The Semantics of Modern Society (L 6)
4. Social Learning Processes for the Reciprocal Adaptation of Social Structure and Semantics (L 7 + 8 + 9)
5. Case Study on Climate Policy (L 10 + 11)
6. Applications: The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

Summary and Outlook (L 14)



# Structure of Last Lecture

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



# Structure of Today's Lecture

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1. Analysis of Social Structure and Semantics

2. Two Illustrations

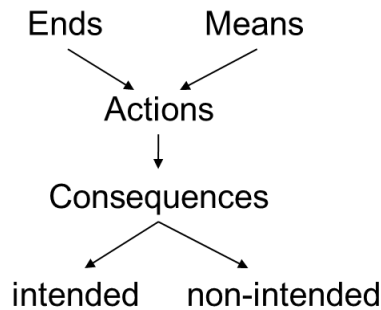
3. On the Shoulders of Giants

4. The Ordonomic Research Program

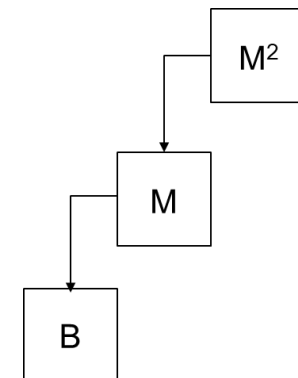
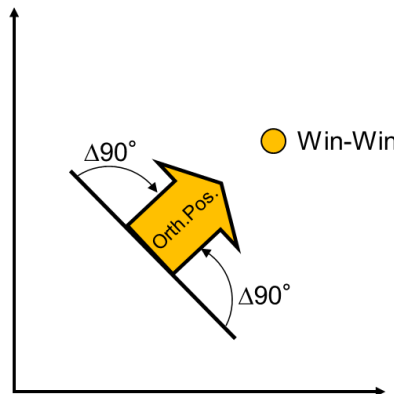
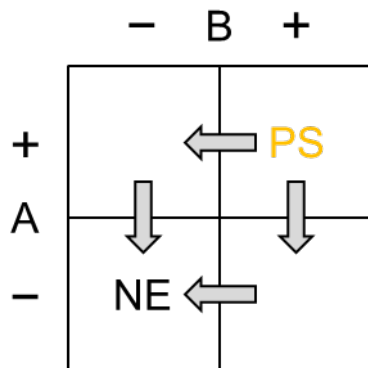
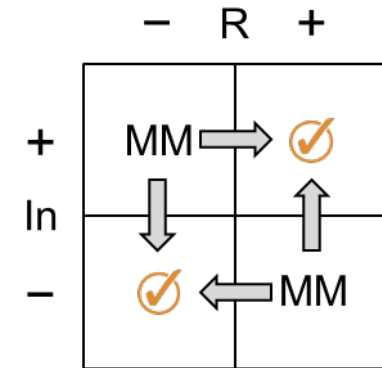


# The Ordonomic Research Program at a Glance

## Diagnosis of Modernity



1. normative
- + 2. positive
- = 3. Conclusio

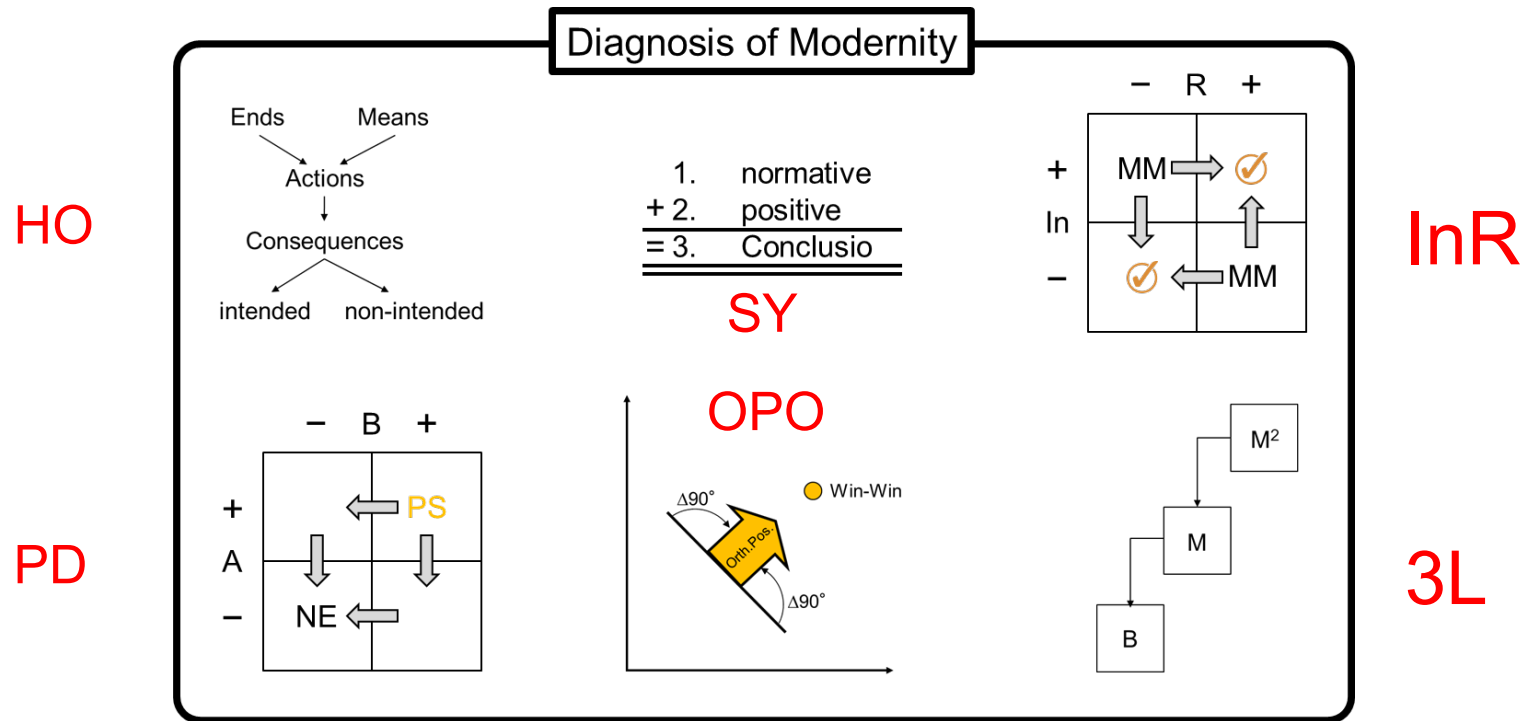


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# The Ordonomic Research Program: Overview

*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 integrative elements step by step and start with the top line.*



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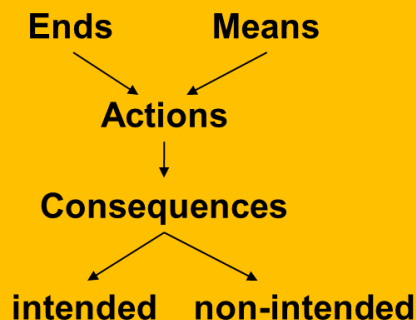


# Semantics and Social Structure (I)

*With the practical syllogism, moral value judgments can be divided into positive and normative elements, each of which can be criticized differently. For the critique of positive premises, it is often helpful to carry out an economic impact assessment, using the Homo-Oeconomicus model, in order to investigate the incentive effects to be expected from institutional arrangements (and their possible reforms).*

1. normative  
+ 2. positive  
= 3. Conclusio

(a) Practical Syllogism  
(Semantics)



(b) Homo Oeconomicus  
(Social Structure)

The ordonomic approach is designed in such a way that the analysis of the social structure and the analysis of semantics can work hand in hand. This is important because ordonomics wants to promote social learning processes in which social structure and semantics are **mutually adapted** to each other.

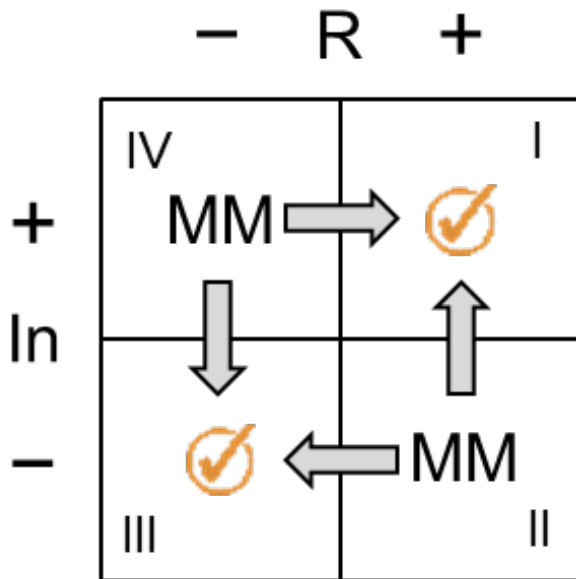
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# Integrating social structure and semantics (I): The InR Scheme

*The four-quadrant scheme for comparing incentives and reasons is primarily used to illustrate the reciprocal adaptation of social structure and semantics. Starting from a mismatch (MM), one can either reform the incentives (symbolized by vertical arrows) or revise the reasons (symbolized by horizontal arrows) to create a match between social structure and semantics.*



Own Graphics

Match: Quadrant I represents institutionally stabilized virtues, Quadrant III institutionally destabilized vices.

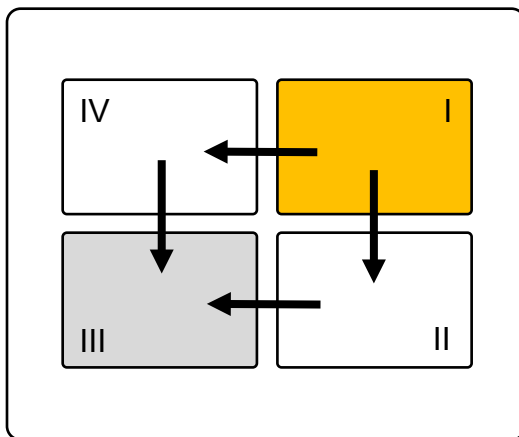
Examples of resolving a mismatch:

- Revaluation I (from QIV to QI): Revision of the canonical interest rate ban
- Revaluation II (from QII to QIII): Revision of the Code of Honor (dueling practice)
- Reform I (from QII to QI): Climate protection through Carbon pricing
- Reform II (from QVI to QIII): Tax on cigarettes

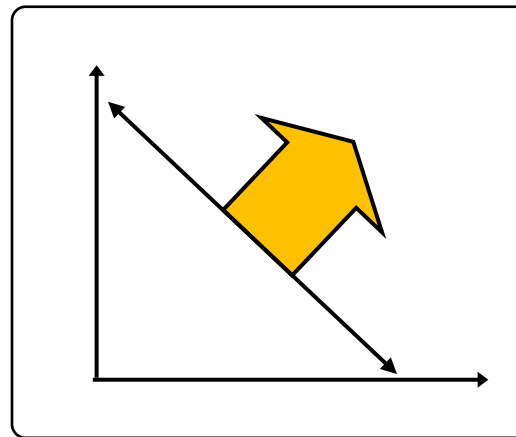


## Social Structure and Semantics (II)

*The model of social dilemmas provides the social-structural basis for (re-)forming the institutional order of action, but also for orthogonal positionings and the associated reforms of the semantic order of thought. Along the diagonal through the quadrants II and IV, the model contains a tradeoff dimension (win-lose), along the diagonal through the quadrants I and III, it contains the dimension of common interests (win-win).*



(a) Social Dilemma  
(Social Structure)



(b) Orthogonal Positioning  
(Semantics)

The dilemmatic (Nash) equilibrium in Quadrant III is pareto-inferior. Compared to Quadrant I, there is a win-win potential that has not yet been exhausted. This opens the eyes to the possibility of orthogonal positioning, which categorically transcends the perceptual framework of a tradeoff.



# Integrating Social Structure And Semantics (I): The 3L Scheme

*The ordonomic three-level scheme distinguishes three arenas: the basic game of rule compliance, the metagame of rule-setting negotiation, and the meta-metagame of rule-finding discussion.*

*The three-level model systematically brings together social structure and semantics.*

*Level 1: Base game B (follow rules; choose moves);*

*Level 2: Metagame M (set rules of the game);*

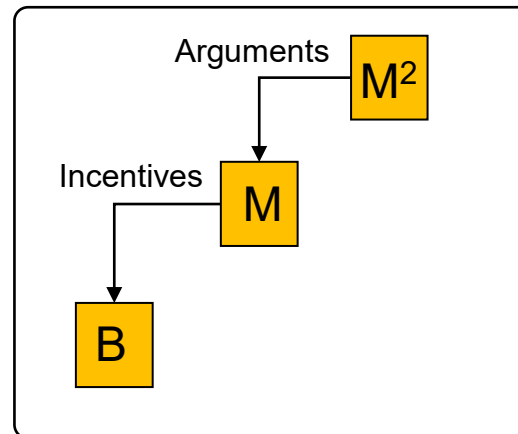
*Level 3: Meta-metagame M<sup>2</sup> (discuss rule problem and solution options)*

## Systematics:

Level 3 (M<sup>2</sup>): Semantics

Level 2 (M): Social structure

Level 1 (B): Actions



## Illustration:

Level 3 (M<sup>2</sup>): Public

Level 2 (M): Politics

Level 1 (B): Economy

Three-Level Scheme  
(Social Structure & Semantics)



# David Hume and the Ideal of Democracy

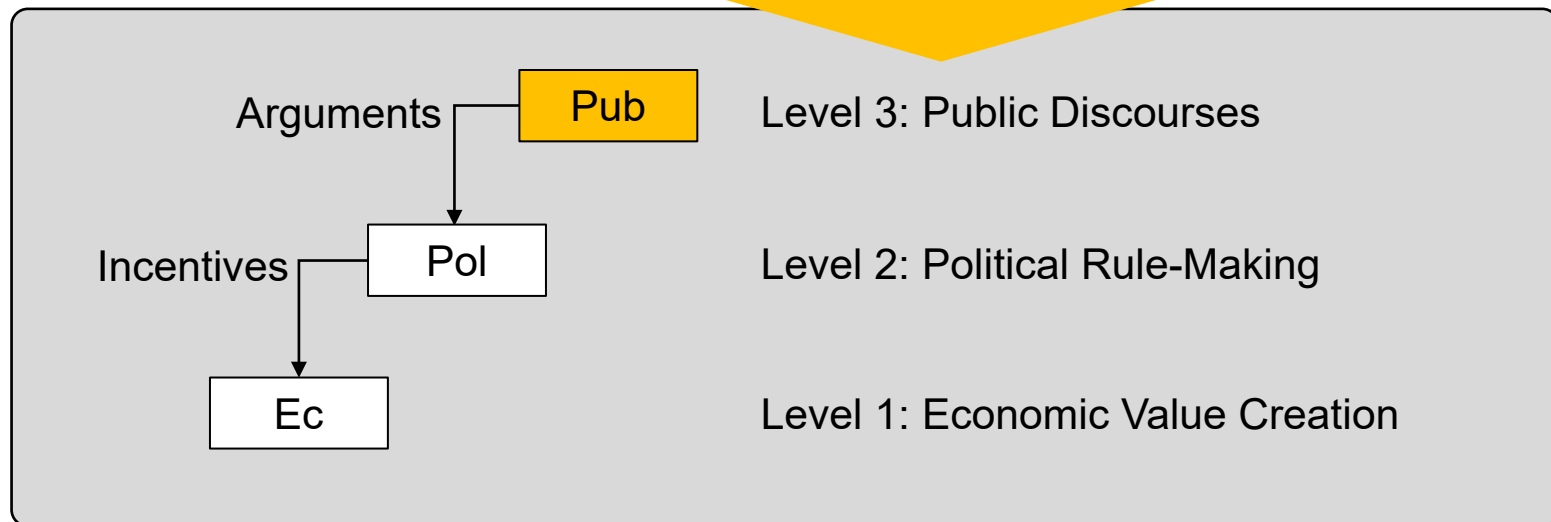
*The public expects (and puts argumentative pressure on) politics to serve the common good. Policymakers then provide the economy with a regulatory framework that promotes the well-understood interests of citizens through incentives..*



David Hume (1739)

„It is on opinion only that government is founded.“

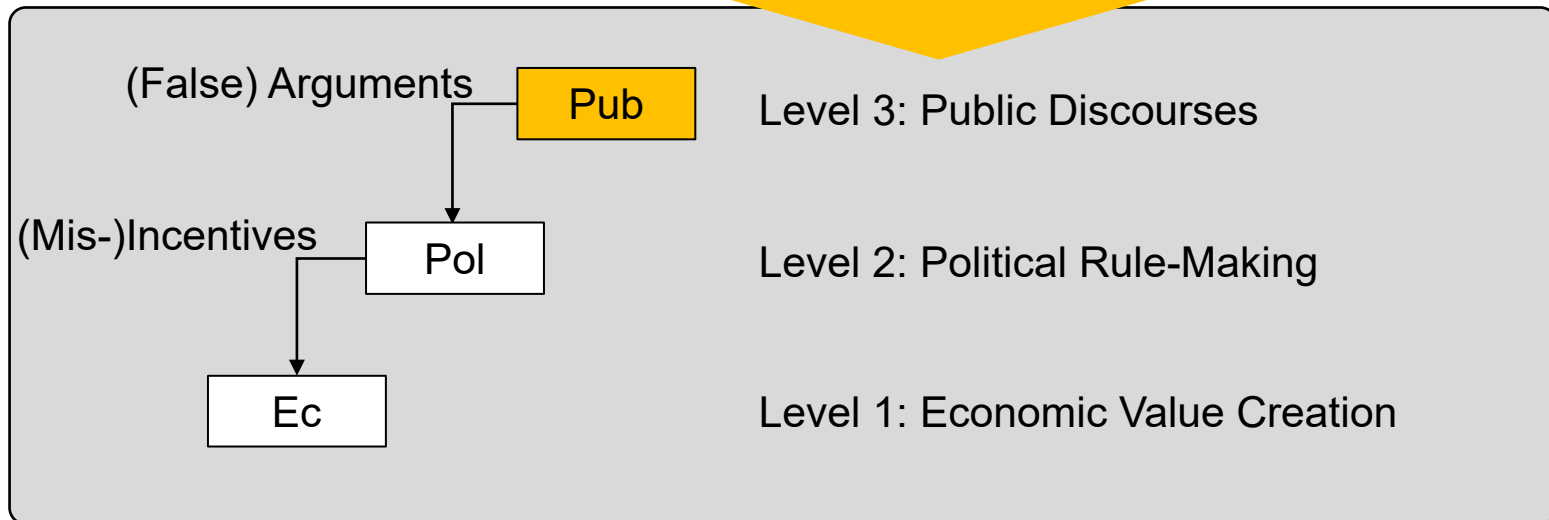
## Opinion Formation



# Problem Diagnosis: Democratic Discourse Failure

*Politics creates misincentives for the economy because it itself is under pressure from false expectations generated in public discourse: discourse failure leads to policy failure and market failure.*

## Discourse Failure



Not only good but also bad policy results are to be attributed to the public frame of thought that sets the course.



# Structure of Today's 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



# Overview

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*We illustrate the InR scheme and the 3L scheme below.*



The InR scheme and the three types of modern ethics:  
We distinguish three archetypal moral problems and assign them a very specific approach to moral theory (= ethics).

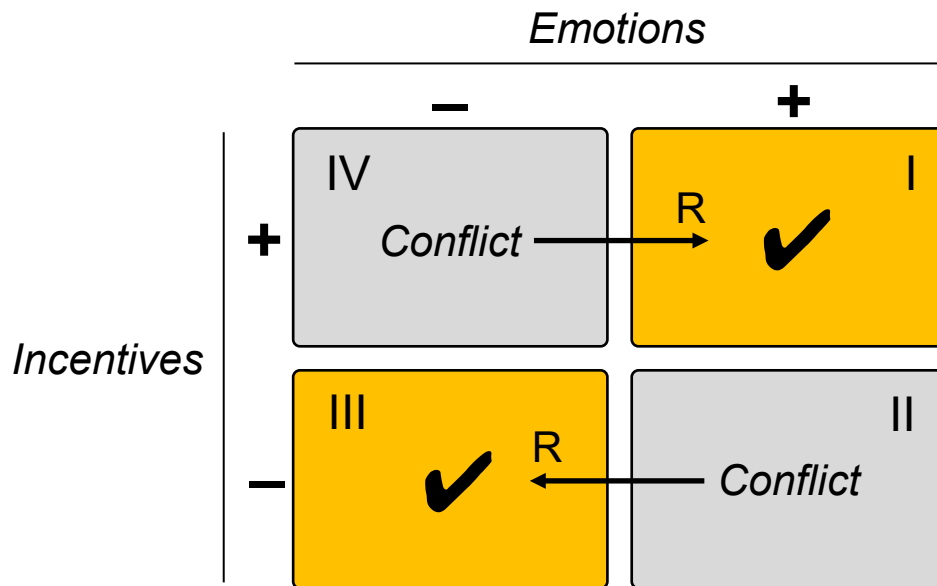


The 3L scheme and the Thirty Years' War:  
We reconstruct why it took so long to end this religious war by institutionalizing tolerance.



# Archetype I: Me versus Us – Individual Ethics

*The first problem concerns the relationship between the individual and the community. The individual must learn to fit into the community (and its incentive structure) and thereby develop as a person. Individuation takes place as socialisation: good reasons (R) help to get a grip on one's own emotions and impulses (E) in the face of given incentive structures (In) within the community, so that ERIn equilibria are created.*



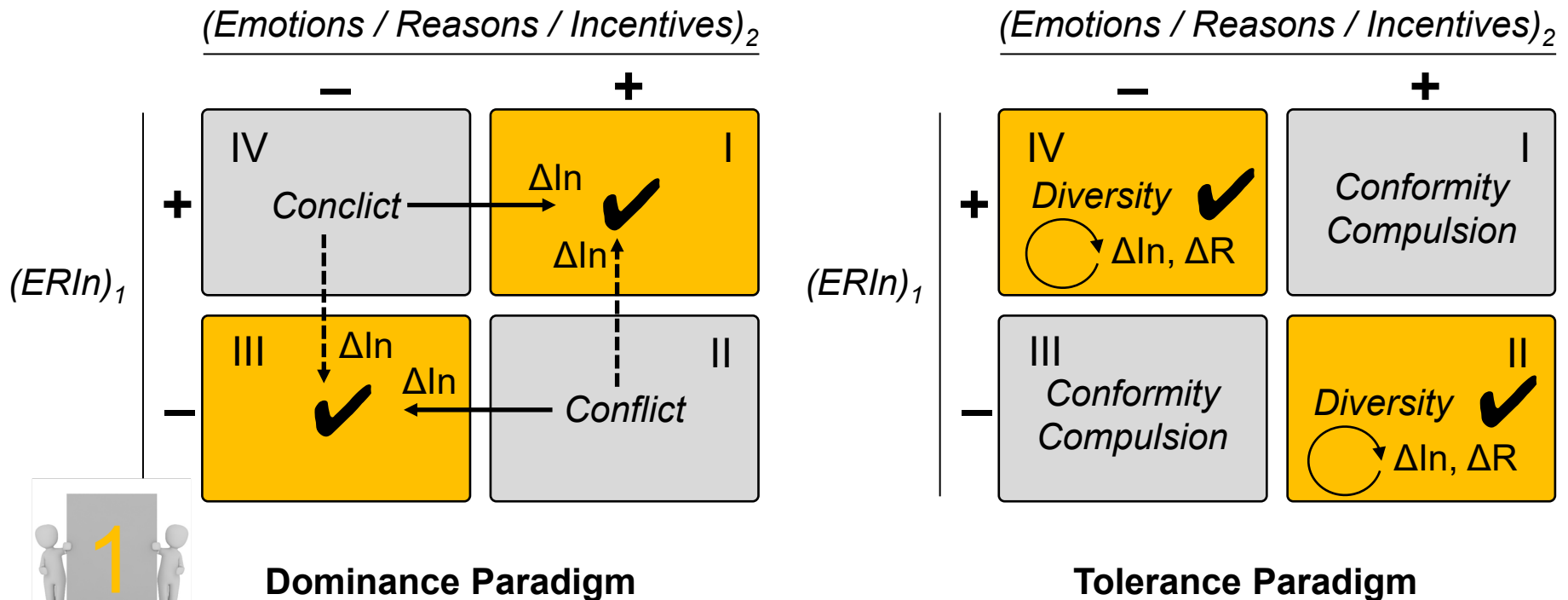
**Task of Individual Ethics:**  
Rationalization of  
community morality via  
good (*individually*  
understandable) reasons.





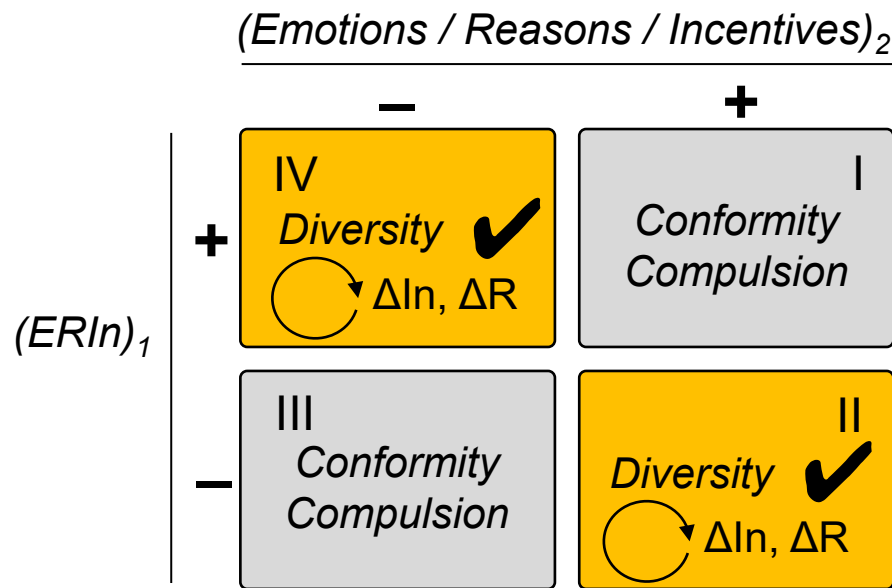
## Archetype II: Us versus Them – Constitutional Ethics

*The second problem concerns the relationship between groups. This is where moral conflicts arise, provided that different group norms are practised. The traditional pattern of conflict resolution is dominance. Since the Reformation, however, there has been extensive experimentation with constitutional solutions that impose tolerance on individual morals (= E/R/In complexes). The tolerance paradigm switches from conformity to diversity. The latter is stabilized by incentives (In) and reasons (R).*



## Archetype II: Us versus Them – Constitutional Ethics

*Reformation example: Catholics and Protestants clash with their first and second natures. Constitutional ethics makes it the third nature to put an end to this conflict. Tolerance becomes a duty. The individual and his or her group are required to control their own emotions.*



Task of  
**Constitutional Ethics:**  
Rationalisation of  
institutions for a  
(collectively  
comprehensible) pluralism  
of community morals.

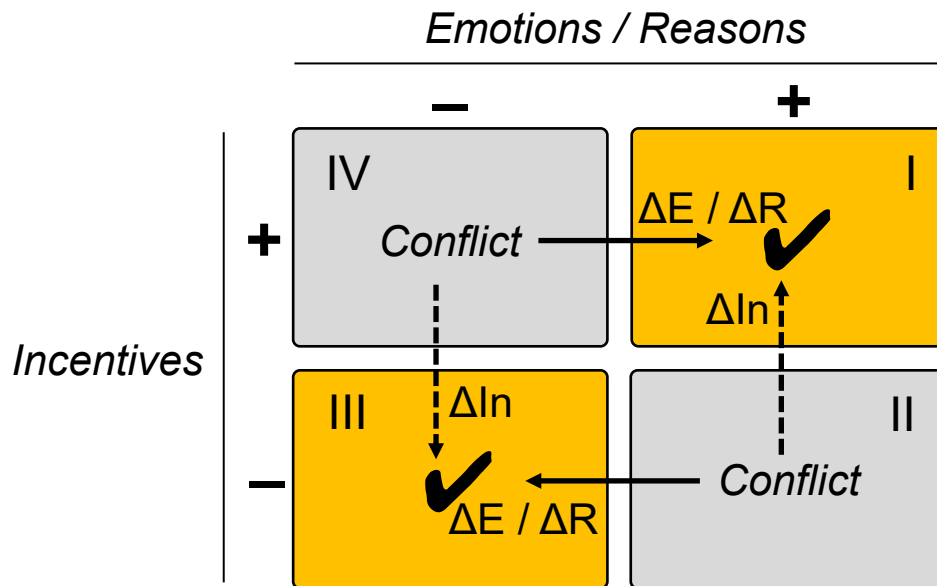


**Tolerance Paradigm**



# Archetype III: Me / Us versus System – Order Ethics

*The third problem constellation concerns the relationship between single individuals or groups and the functional systems of modern society. It is here that socio-political conflicts (= mismatches) emerge. They are to be dissolved by adjusting (a) the incentives to the emotions and reasons (= In, vertical arrows, reforming the order of action) or – the other way around – (b) by adjusting the emotions and reasons to the prevailing incentives (= E / R, horizontal arrows, reforming the order of thought and feeling).*



**Task of Order Ethics:**  
Rationalization of societal morality through *collectively* insightful arguments for governance: the management of ideas and institutions

Example QII vertical: Incentivizing organ donations

Example QII horizontal: Family solidarity becomes nepotism (moral devaluation)

Example QIV vertical: Putting a price-tag on pollution

Example QIV horizontal: Profit orientation enables solidarity among strangers (moral appreciation)



# Martin Luther King Jr. (\* 15. Januar 1929 – † 4. April 1968)

*King takes a differentiated view on the mismatch problem.*

Sentence 1: Individual Ethics – **Sentence 2: Order Ethics**



KingJr..jpg&exph=1993&expw=1600&ng+jr&selectedIndex=22&ajaxhist=0&v,8,10

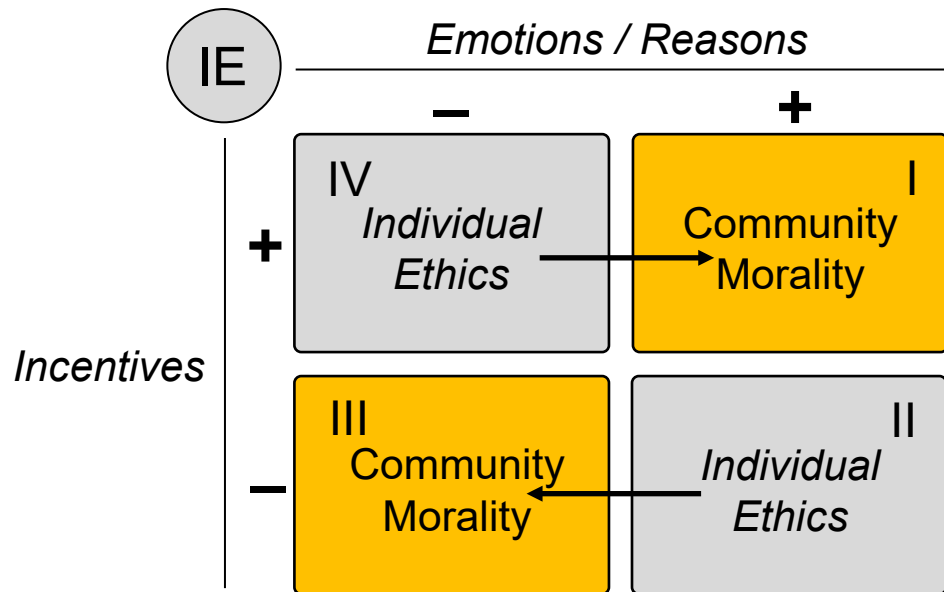
„[W]e all should seek to live a well-adjusted life in order to avoid neurotic and schizophrenic personalities. **But there are some things within our social order to which I am proud to be mal-adjusted and to which I call upon you to be maladjusted.** I never intend to adjust myself to segregation and discrimination. I never intend to adjust myself to mob rule. I never intend to adjust myself to the tragic effects of the methods of physical violence and to tragic militarism. I call upon you to be maladjusted to such things.“

Quelle: King, Martin Luther Jr. (1957): The Power of Nonviolence, S. 3, on 23 January 2020 on the Internet at: <https://faculty.atu.edu/cbrucker/Amst2003/Texts/Nonviolence.pdf>

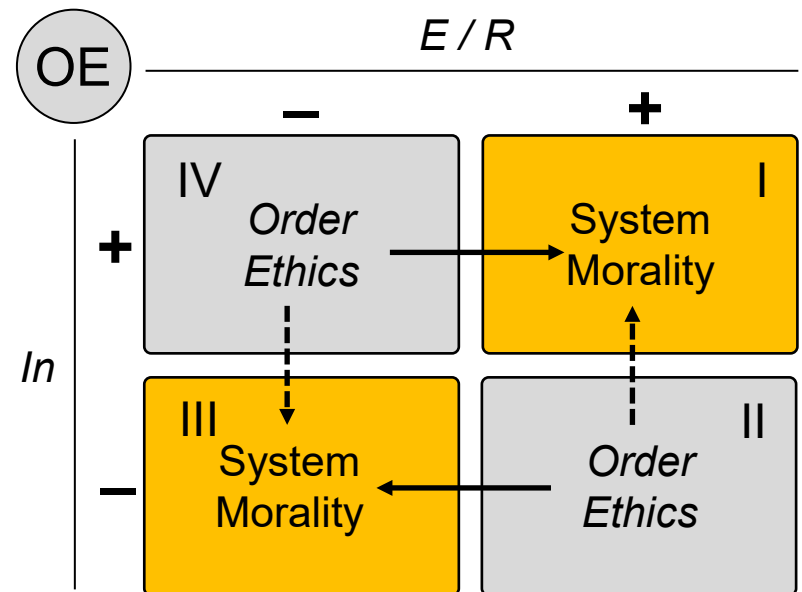


# Individual Ethics and Order Ethics in Comparison

*Individual Ethics only deals with enlightenment problems (horizontal arrows). Order Ethics (OE), on the other hand, also deals with problems of institutional reform (vertical arrows). For Individual Ethics, incentives are given. For Order Ethics, incentives can be (re-)designed.*



IE: individually insightful arguments for adapting to incentives

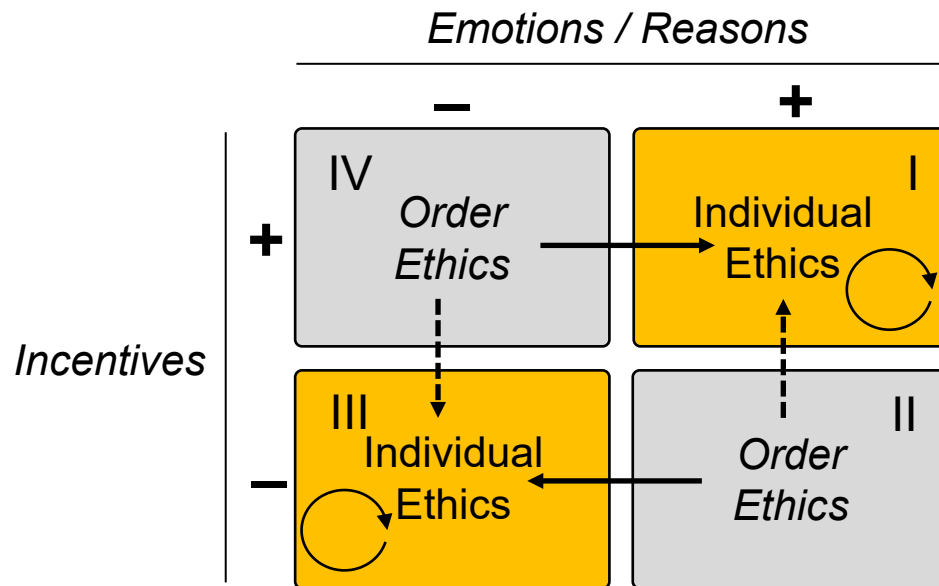


OE: collectively insightful arguments for governance, i.e. the management of ideas and institutions



# Individual Ethics and Order Ethic Can Work Hand in Hand

*Order Ethics transforms ERIn mismatches into ERIn equilibria. Individual Ethics then stabilizes such ERIn matches.*



Order Ethics assists  
Individual Ethics:  
**Individual Ethics**  
*maintains* ERIn matches –  
**Order Ethics**  
*creates* ERIn matches.



## Second Illustration: The 3L Scheme and the Wars of Confession



<https://goo.gl/kCaq1g>

Martin Luther  
(1483-1546)

- Criticism of indulgence
- Protestantism
- Reformation



<https://goo.gl/JWwE3O>

Philipp Melanchthon  
(1497-1560)

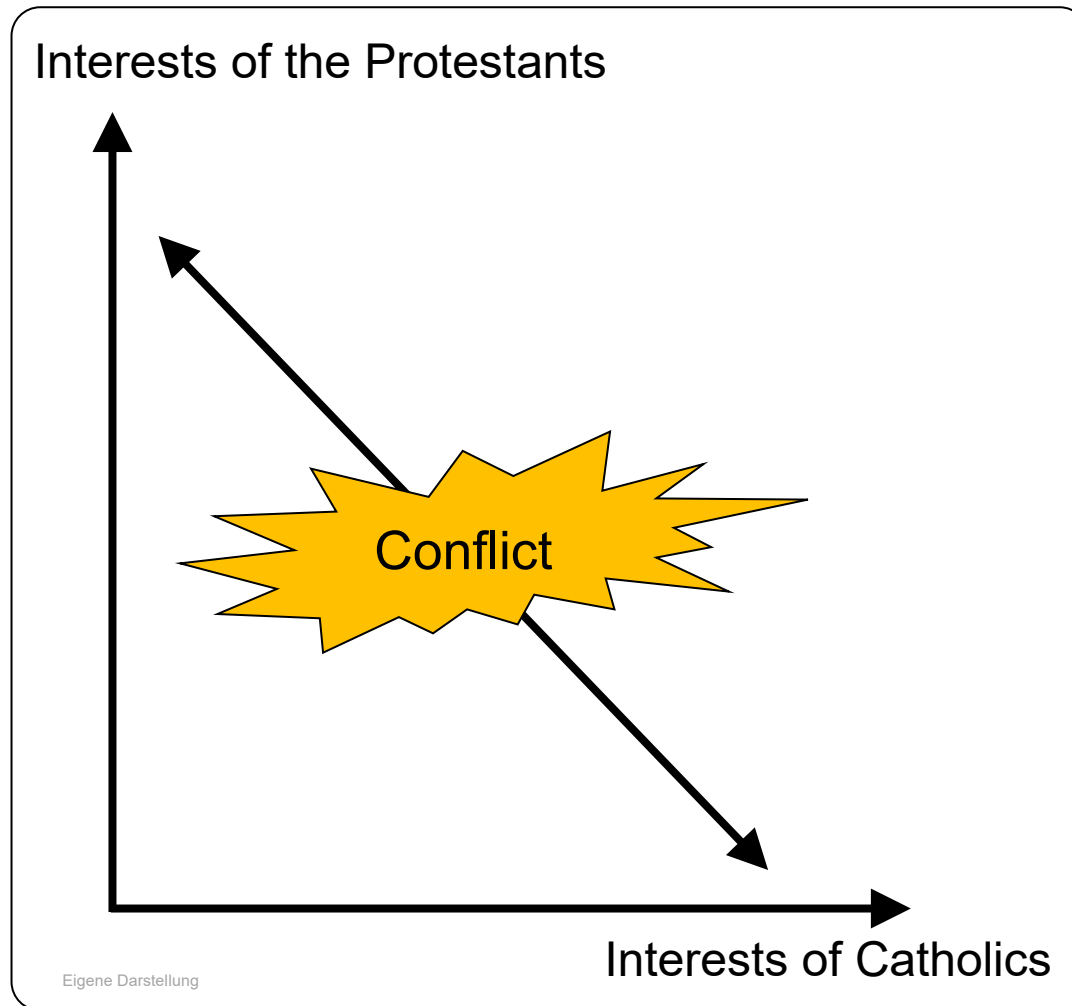
- Humanism
- Education
- „ad fontes“



Unintended Result: New Dualism!



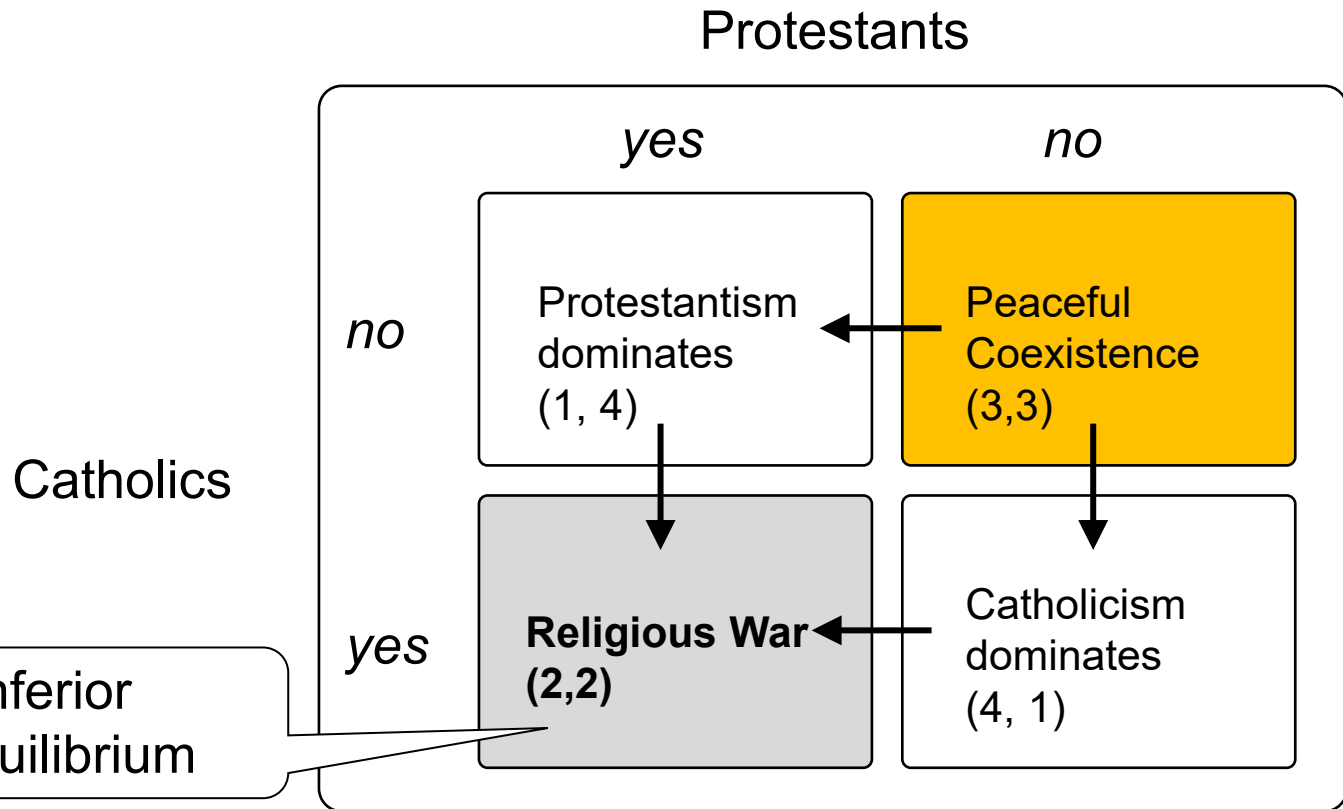
# New Dualism: Confession Dispute





# The Problem of Religious Tolerance

*Strategy: Religious quest for dominance?*



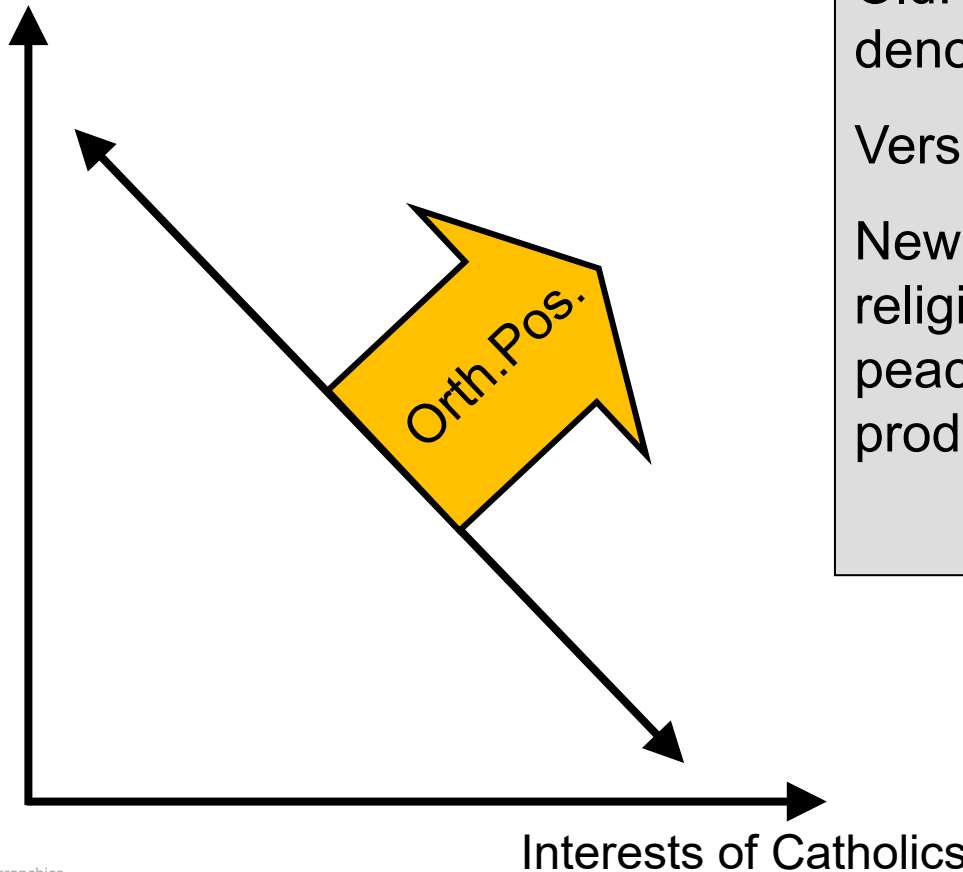
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# Paradigm Shift: Tolerance

*Overcoming the tradeoff with a new question:*

Interests of the Protestants



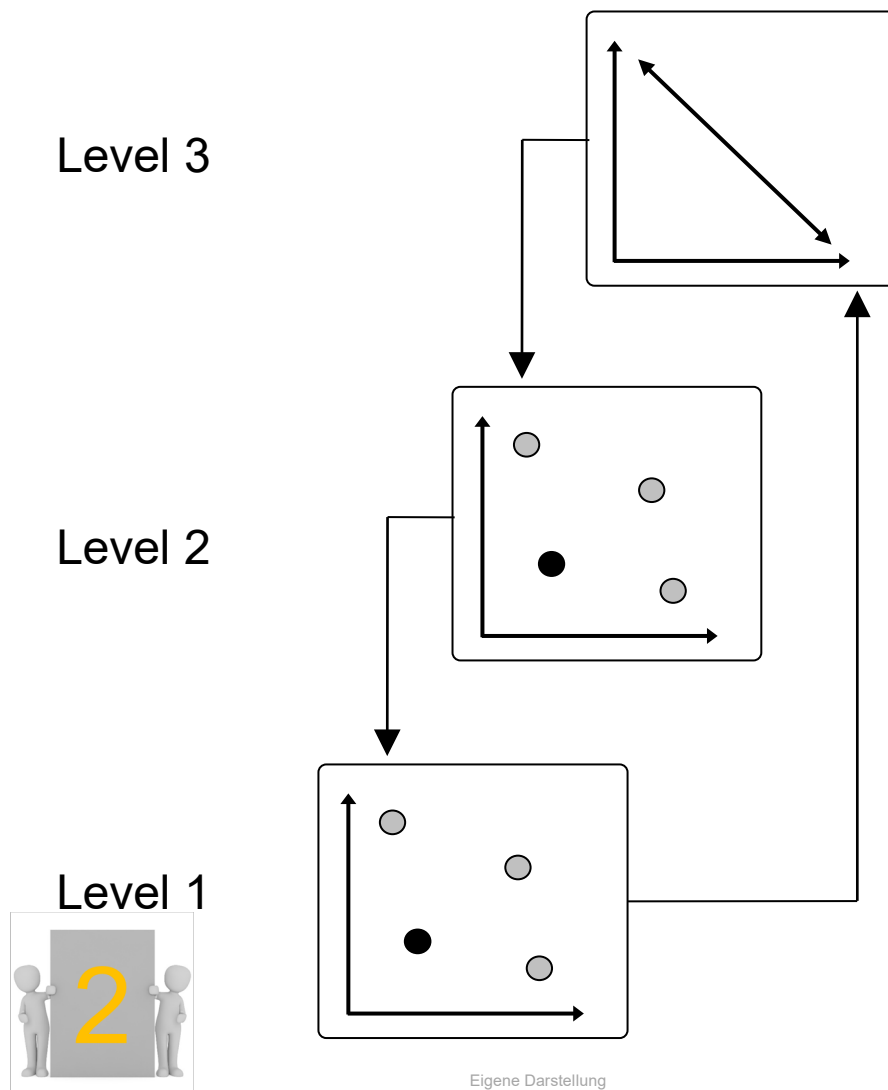
Old: Who has the right denomination?

Versus

New: How can different religions live together peacefully and productively?



# The History of the Thirty Years' War in the 3-Level Scheme (I)



In the basic game (level 1), there is civil war.

This solidifies the "mental model" of tradeoff perception (level 3).

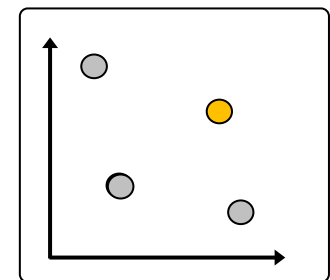
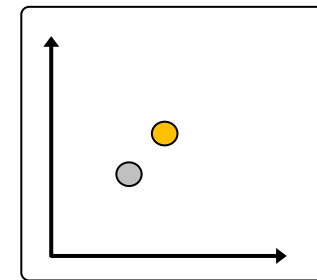
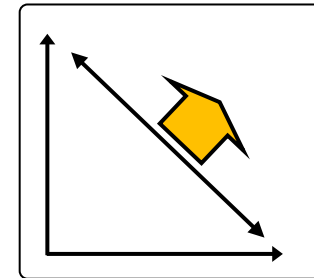
As a result, all attempts to achieve peace in political negotiations (at level 2) fail: the conflict perception of the basic game is duplicated in the metagame!



<http://www.waldorf-ideen-pool.de/medien/Faecher/Geschichte/Neuzeit/DreissigKrieg/Krieg004.jpg>



# The History of the Thirty Years' War in the 3-Level Scheme (II)



The tolerance idea ensures orthogonal positioning at level 3.

This transforms the political negotiation on level 2 into a pure coordination game.

The successful peace negotiations lead to the overcoming of the social dilemma at level 1.



<https://upload.wikimedia.org/wikipedia/commons/5/5f/Wes>

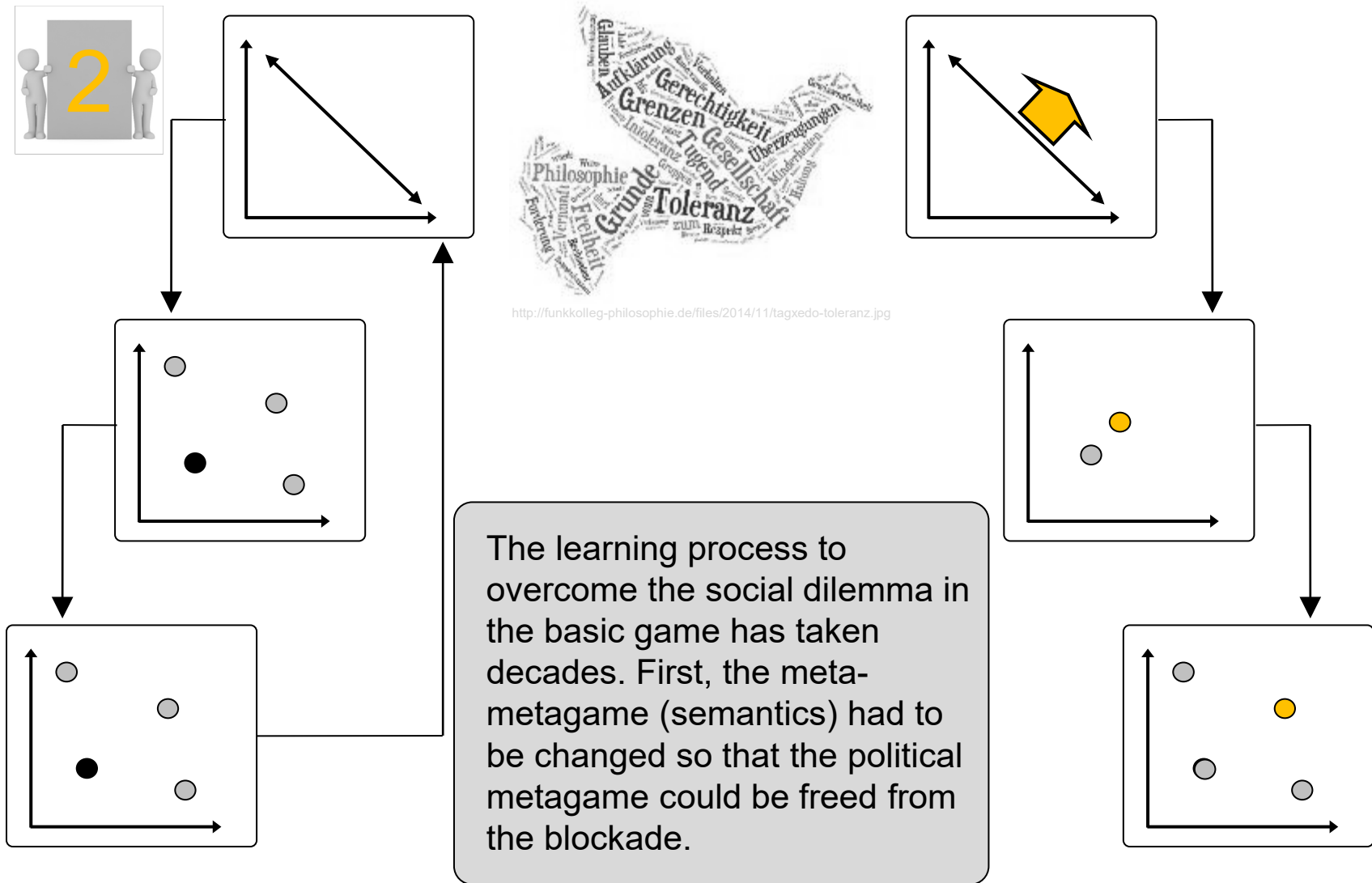


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profession

Own graphics



# The History of the Thirty Years' War in the 3-Level Scheme (III)



Eigene Darstellung



# Structure of Today's 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



# Ordonomics Stands on the Shoulders of Giants (I)

*The ordonomic reference authors include William J. Baumol, Gary S. Becker and James M. Buchanan.*



<https://www.sinpermiso.info/sites/default/files/styles/adaptive/public/baumol.jpg?itok=gl1LmZ64>



[https://www.wikiberal.org/images/0/0d/Becker\\_1.jpg](https://www.wikiberal.org/images/0/0d/Becker_1.jpg)



[https://www.independent.org/images/bios\\_hirez/buchanan\\_james\\_280x396.jpg](https://www.independent.org/images/bios_hirez/buchanan_james_280x396.jpg)

1. Baumol: Positive externalities are much more important than negative ones because increases in societal welfare are based on the diffusion of innovation rents.
2. Becker: The economic approach is universally applicable.
3. Buchanan: We need to think about pareto-superior rule arrangements.



## Ordonomics Stands on the Shoulders of Giants (II)

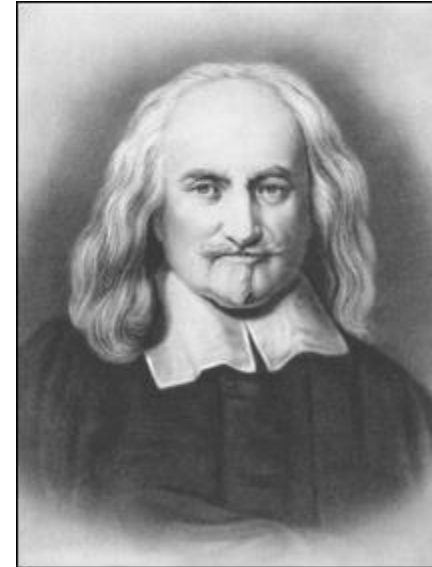
*The ordonomic reference authors include Ronald H. Coase, F.A. von Hayek and Thomas Hobbes.*



<https://www.nobelprize.org/images/coase-13431-content-portrait-mobile-tiny.jpg>



[https://acting-man.com/blog/media/2016/04/Friedrich\\_Hayek.jpg](https://acting-man.com/blog/media/2016/04/Friedrich_Hayek.jpg)



<http://totallyhistory.com/wp-content/uploads/2013/12/Thomas-Hobbes2.jpg>

4. Coase: Externalities are caused symmetrically by “victim” and “perpetrator”.
5. Hayek: Procedural fairness is market-compliant, equality of outcome is not.
6. Hobbes: Man is a wolf to man. / Man is a God to man.





# Ordonomics Stands on the Shoulders of Giants (III)

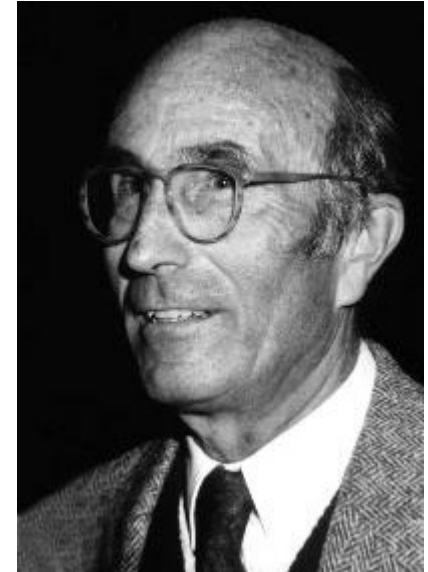
*The ordonomic reference authors include Karl Homann, David Hume and Niklas Luhmann.*



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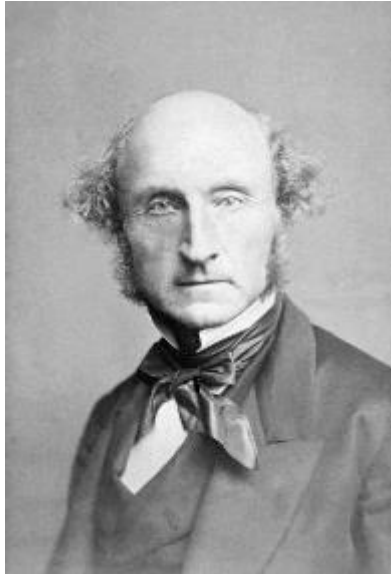
[http://cceh.uni-koeln.de/files/luhmann/luhmann\\_unibi.jpg](http://cceh.uni-koeln.de/files/luhmann/luhmann_unibi.jpg)

7. Homann: In competition, the institutional framework becomes the systematic place of morality. / Competition can be a more effective form of solidarity than sharing.
8. Hume: Reason is the slave of passions.
9. Luhmann: Modern society is based on functional differentiation (and on rapid progress in the evolution of ideas) / Ethics should not identify (or even infect) itself with morality.



# Ordonomics Stands on the Shoulders of Giants (IV)

*The ordonomic reference authors include John Stuart Mill, Ludwig von Mises and Mancur Olson.*



<https://fee.org/media/22757/fee-john-stuart-mill.jpg?center=0.48248587570621471,0.29666666666666669&mode=crop>



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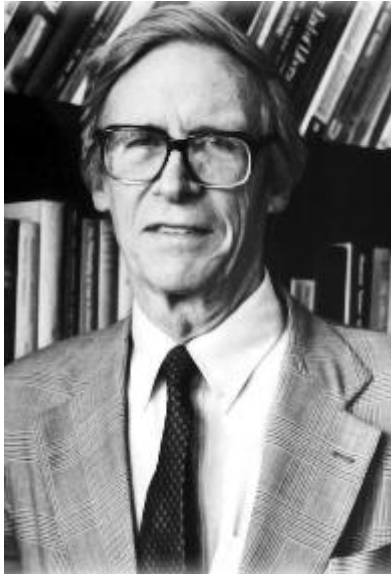
[http://media.economist.com/sites/default/files/cf\\_images/19980307/1ob.jpg](http://media.economist.com/sites/default/files/cf_images/19980307/1ob.jpg)

10. Mill: One must (want to) get to know the arguments of the other side.
11. Mises: Ultimately, it's not interests but ideas that make history.
12. Olson: A group typically does not act in the group's interest.



# Ordonomics Stands on the Shoulders of Giants (V)

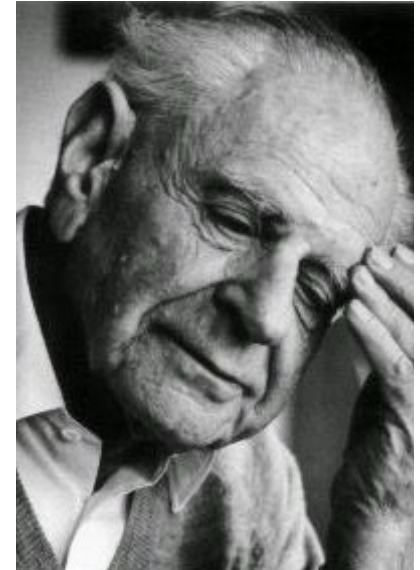
*The ordonomic reference authors include John Rawls, Thomas C. Schelling and Karl R. Popper.*



<https://images.jacobinmag.com/wp-content/uploads/2018/08/22125302/j.jpg>



<https://www.hetwebsite.net/het/profiles/image/schelling.jpg>



[https://1.bp.blogspot.com/-akyUKs1FS\\_U/VSE44VDIRFI/AAAAAABAAADYs/WyiHGWW35Yo/s1600/sir\\_karl\\_popper\\_1902-1995-2.jpeg](https://1.bp.blogspot.com/-akyUKs1FS_U/VSE44VDIRFI/AAAAAABAAADYs/WyiHGWW35Yo/s1600/sir_karl_popper_1902-1995-2.jpeg)

13. Rawls: Our everyday intuitions for justice must be clarified so that we can judge not only actions, but also rules of action.
14. Schelling: The right to be sued is a (commitment) privilege.
15. Popper: We learn from mistakes. / Epistemic progress rests on falsification, not verification.



# Ordonomics Stands on the Shoulders of Giants (VI)

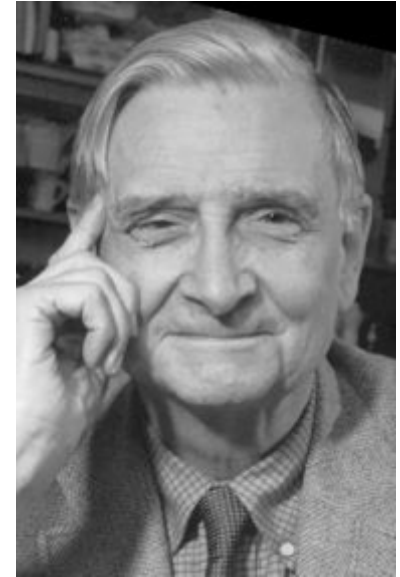
*The ordonomic reference authors include Joseph A. Schumpeter, Adam Smith, and Edward O. Wilson.*



<https://blogs-images.forbes.com/arthurmachado/files/2016/02/Joseph-Schumpeter-1200x1827.jpg>



<https://www.hetwebsite.net/het/profiles/image/schelling.jpg>



[https://upload.wikimedia.org/wikipedia/commons/6/60/Edward\\_O.\\_Wilson%2C\\_2003\\_%28cropped%29.jpg](https://upload.wikimedia.org/wikipedia/commons/6/60/Edward_O._Wilson%2C_2003_%28cropped%29.jpg)

16. Schumpeter: Even potential competition can be very effective.
17. Smith: Moral desiderata can be realized systemically: by institutionally channeling the unintended consequences of intentional action.
18. Wilson: In human evolution, selfishness arises through competition in groups, altruism through competition between groups.





# Ordonomics Stands on the Shoulders of Giants (VII)

*The ordonomic reference authors include Deirdre McCloskey, Elinor Ostrom and Martha Nussbaum.*



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<https://www.epa.gov/epa/ajaxserp=0&vt=0&sim=11>



[https://ethics.org.au/wp-content/uploads/2018/08/Ethics-Centre\\_Big-Thinkers-Martha-Nussbaum.jpg](https://ethics.org.au/wp-content/uploads/2018/08/Ethics-Centre_Big-Thinkers-Martha-Nussbaum.jpg)

19. McCloskey: Bourgeois Virtues were important for Modern Growth. Semantics have consequences!
20. Ostrom: We need institutions to manage common pool resources and the according dilemma structures.
21. Nussbaum: Emotions like disgust have no place in political discussions and decisions.



# Structure of Today's Lecture

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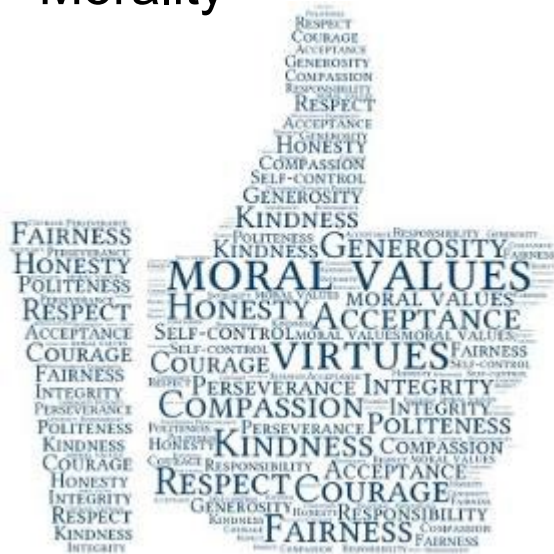
1. Analysis of Social Structure and Semantics
2. Two Illustrations
3. On the Shoulders of Giants
4. The Ordonomic Research Program



# Ordonomics Pursues Two Different Questions (I)

*It is about the interdependencies of social structure and semantics.*

Morality



<http://www.pricelessparenting.com/images/moral-values.jpg>

Society



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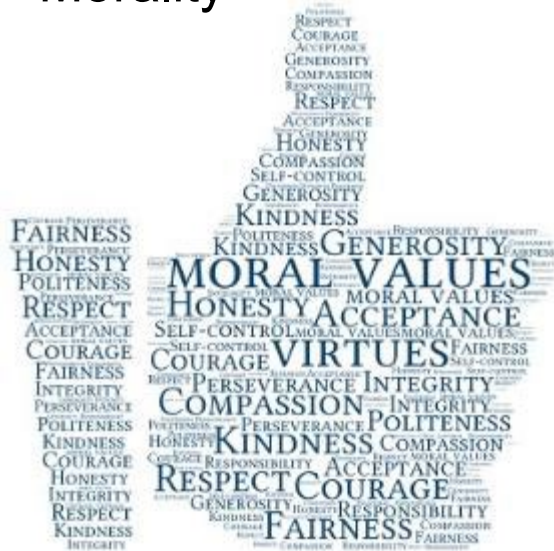
How morally fit is modern society?



# Ordonomics Pursues Two Different Questions (II)

*It is about the interdependencies of social structure and semantics – in both directions!*

Morality



<http://www.pricelessparenting.com/images/moral-values.jpg>

Society



<http://www.faellanden.ch/de/images/51f77a7307d66.jpg>

How morally fit is modern society?



How societally fit is modern morality?





# Ordonomics: Analysis of Social Structure and Semantics

*Ordonomics studies successful and failing learning processes. To this end, the ordonomic approach analyses the interdependencies (and discrepancies) between social structure and semantics, between institutions and ideas, between incentives and reasons, between base and superstructure, between metagame and meta-metagame.*

## Semantics:

The normative concepts and the categorical ideas that underlie them  
(order of thought)

Semantics

Social Structure

## Social Structure:

The institutional framework and its incentive effects, i.e. the rules of the game and their influence on the choice of moves  
(order of action)

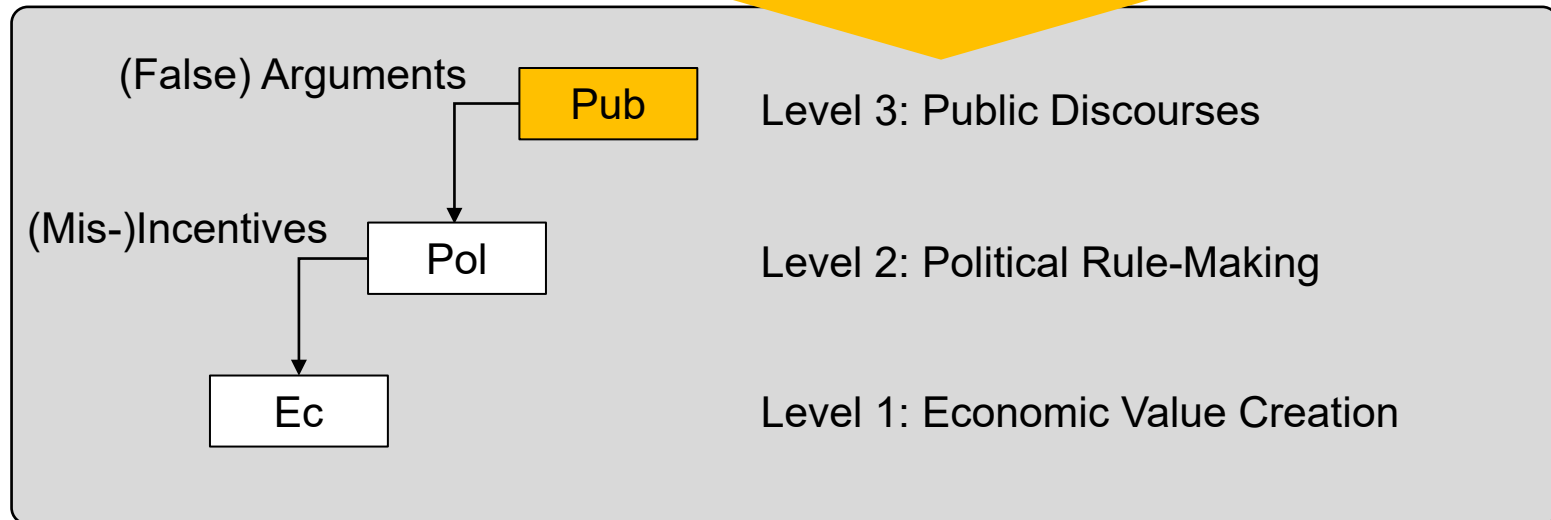


# Societal Learning Processes

*Ordonomics assumes that the dynamics of the modern growth society lead again and again to new discrepancies between social structure and semantics, so that societal learning processes remain continuously necessary. However, they can be blocked by discourse failure, so that false arguments lead to misincentives.*

Ordonomics:  
Research and Teaching and  
Publications

## Opinion Formation

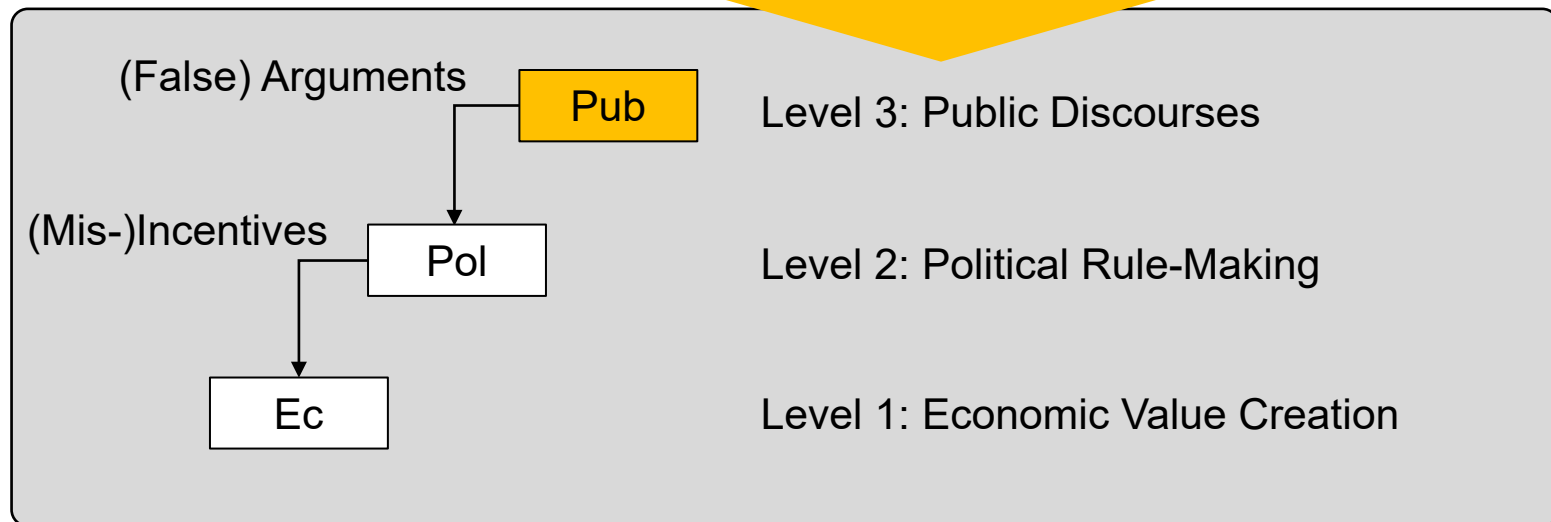


# Ordonomic Governance: Management of Ideas and Institutions

*Ordonomics sees itself as a science in society. It takes up empirically salient problems and tries to generate constructive solutions. These are addressed to various publics through research and teaching and publications. Ordonomics aims at enlightenment (of ideas) and reform (of institutions).*

Ordonomics:  
Research and Teaching and  
Publications

## Opinion Formation



# The Ordonomic Self-Location

*Ordonomics sees itself as a grammar of argumentation for the discursive resolution of problems arising from thinking along the front lines dividing political tribes. The ordonomic enterprise is based on two assumptions.*



In the dispute of the political camps, it is often the case that each side can point to legitimate concerns, at least on individual aspects – and otherwise tends to be one-sided and exaggerating.

Mill (1859, 2009; p. 79) writes in chapter 2, paragraph 36 of his book "On Liberty": „In politics ... it is almost a commonplace, that a party of order or stability, and a party of progress or reform, are both necessary elements of a healthy state of political life“.



We must beware of moralising politicization, so that societal learning processes are not blocked. Otherwise, we run the danger of tribalization and polarization – and exclusion.

Haidt (2012, p. 217) provides part III of his book "The Righteous Mind" with the following headline: „Morality Binds and Blinds“. And he formulates the following motto: „We Are 90 Percent Chimp and 10 Percent Bee.“



# The Ordonomic Approach

*Moral arguments play an important role in political discourses. However, these are often mere arguments of expression, not arguments of persuasion. It makes sense, therefore, to reconstruct controversial statements in the practical syllogism, and then to address the positive premises in order to examine whether downstream or upstream arguments can be formulated as constructive criticisms that free public discourse from blockages.*

