



Introduction to Business Ethics: Introduction

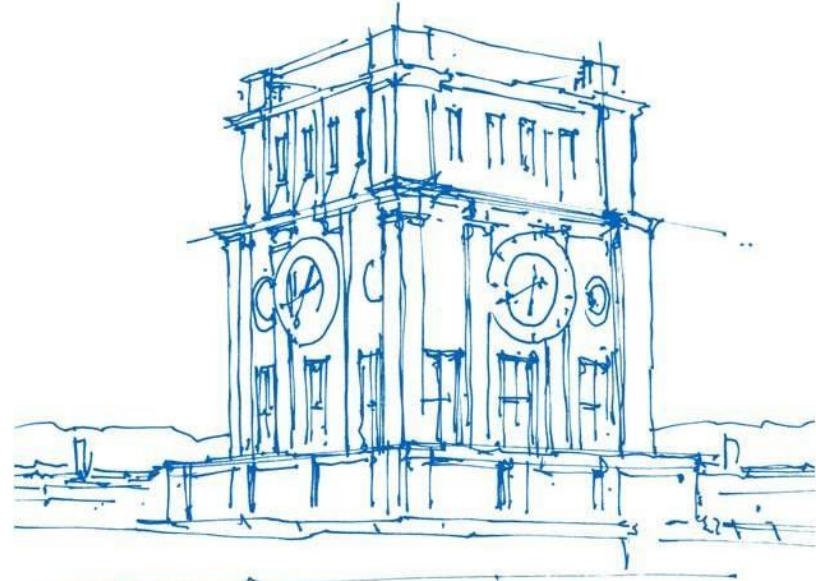
13. December 2022

Prof. Dr. Christoph Lütge

Peter Löscher Chair of Business Ethics

Technische Universität München

Winterterm 2022/23



Uhrenturm der TUM



Personal introduction



Professor Lütge is the Director of the IEAI and has held the Chair of Business Ethics at TUM since 2010.

He has a background in business informatics and philosophy, having received his doctorate in philosophy from TU Braunschweig in 1999 and his habilitation from Ludwig Maximilians University Munich in 2005. In 2020, Lütge was appointed Distinguished Visiting Professor of Tokyo University. He has also held visiting positions at Harvard, Taipei, Kyoto and Venice, and was awarded a Heisenberg Fellowship from the German Research Foundation.

Professor Lütge has been a member of the Ethics Commission on Automated and Connected Driving of the German Federal Ministry of Transport and Digital Infrastructure, as well as of the European AI Ethics initiative, AI4People.



IEAI Launch – 7 October 2019



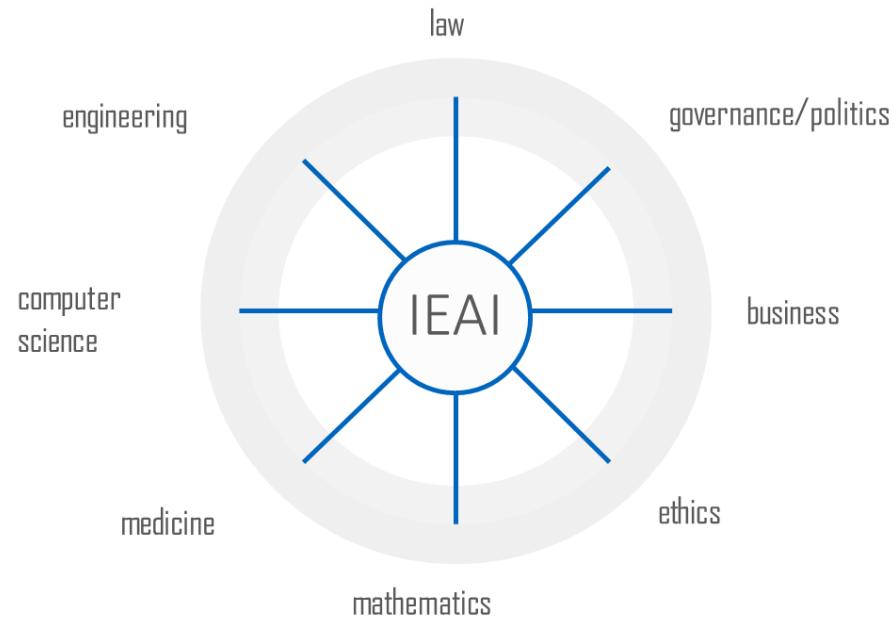
TUM Institute for Ethics in Artificial Intelligence officially opened

In attendance of Minister of State Dorothee Bär, Federal Government Commissioner for Digital Affairs, the Technical University of Munich (TUM) officially opened the TUM Institute for Ethics in Artificial Intelligence today. At the event the new institute's first research projects at the interface of ethics and artificial intelligence (AI) were presented – in areas ranging from AI in autonomous vehicles to regulatory issues.

TUM has been studying the complex interactions of science, technology and society since 2012 through the work of the Munich Center for Technology in Society (MCTS), which was established under the 2012 Excellence Initiative. As part of the MCTS, the TUM Institute for Ethics in Artificial Intelligence (IEAI) will focus on ethical implications of artificial intelligence. The US company Facebook is supporting this TUM initiative by a 6.5 million euro donation not subject to any conditions or expectations. Read more...

IEAI's mission and approach

Interdisciplinary work to achieve „Human-Centered Engineering“





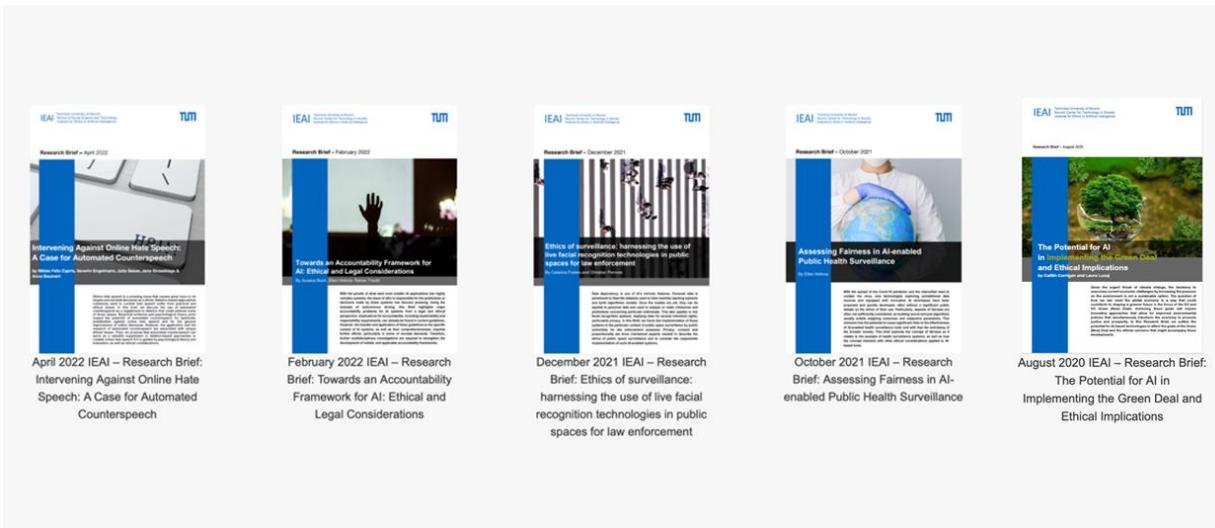
A few research highlights

- **Towards an Accountability Framework for AI Systems** (IEAI/Fujitsu)
- **Ethics for the Smart City: Applied socio-technical frameworks to assess the implementation of AI-related solutions** (Governance/Engineering and Design)
- **MELISSA - mobile artificial intelligence solution for diabetes adaptive care** (EU Horizons Funded Project)
- **ANDRE – AutoNomous DRiving Ethics** (Institute for Automotive Technology/Governance)
- **The Ethics and Practice of AI Localism at a time of COVID-19 and beyond** (TUM School of Governance/NYU Gov Lab/University of Melbourne)
- International Future Labs for Artificial Intelligence - **Artificial Intelligence for Earth Observation: Reasoning, Uncertainties, Ethics and Beyond** (BMBF - Aerospace and Geodesy/Data Science Institute/IEAI/DLR)
- **Online-Offline Spillovers – Potential Real-world Implications of Online Manipulation** (Informatics/Governance)



For the interested listener

The IEAI publishes bi-monthly Research Briefs on different topics related to AI.





THE _____ Singapore – September TBD

RESPONSIBLE AI FORUM 2023



ISBEE
International Society
of Business,
Economics and Ethics

IEAI





....but let's get to
Business (ethics)



Important Information about the Lecture

The lecture will take place from 13th of December to 8th of February:

Tuesday **11.30 a.m. – 01.00 p.m.**

Wednesday **01.15 p.m. – 02.45 p.m.**

Location: [0980, Audimax \(0509.EG.980\)](#)

The lectures will be recorded and uploaded to Lecturio.

All relevant information about this lecture is stated on TUM Moodle.



Information on the Exam

- Module “Foundations of Entrepreneurial & Ethical Business”: **Exam date: February 17th, 16.30-18.30** (120 minutes)
- You need to register for the exam (in addition to the lecture)!
- **Written exam with physical presence** (exact room: tbd.)
- 100 % multiple choice questions (1 out of 4 answers is right – see quizzes!)
- 100 single-choice questions in total; 50 questions from the Business Ethics part

What is relevant?

- **All content provided:** Live sessions, audio slides with exercises, guest lectures, video links on moodle (unless indicated otherwise)!
- No exact numbers and statistics



Peter Löscher Chair of Business Ethics

TUM School of Social Sciences and Technology

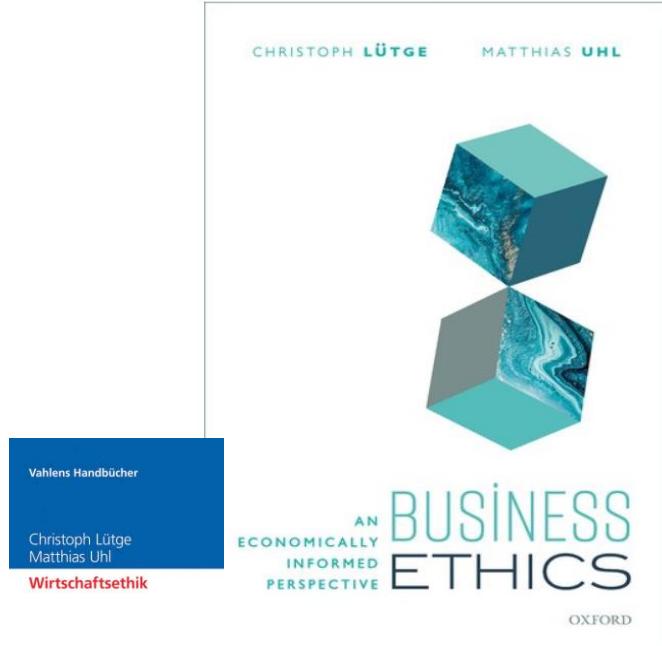
Technical University of Munich



Recommended Literature

Christoph Lütge & Matthias Uhl
Business Ethics: An Economically Informed Perspective

Munich: Oxford 2021





Why have an economically informed perspective?

„[T]he **economic component** is not merely an adjunct, but of **great relevance for business ethics**. In this book, not only are classical economic methods and results called upon in many places, but also experimental studies, their findings, and approaches. We believe that this results, in many ways, in a **new conception of the phenomena of business ethics.**“



Overview of the Lecture:

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Chapter 1: Business Ethics in the Age of Globalization

Chapter 2: Basic Concepts

Chapter 3: Historical-economic Background: Premodernity and Modernity

Chapter 4: Foundations and Tools of Business Ethics

Chapter 5: Problem Areas of Business Ethics

Chapter 6: Corporate Ethics*

*we will also invite guest speakers, which we will announce soon



Focus of today

Introduction

Chapter 1: Business Ethics in the Age of Globalization

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Introduction

Why Business Ethics? (1/4)

- In 2018, up to 1.1 m people died from AIDS-related diseases
- 70% of them are from countries of sub-Saharan Africa
- Worldwide HIV could be confined through antiretroviral medication

What obligations do Western pharmaceutical companies have to supply Africa with antiretroviral medications?



Source: wikipedia.org

Why Business Ethics? (2/4)

- In 1981, American Express developed a campaign according to which the company gave 2 cent to charity for each credit card transaction.
- Credit card returns increased by 28 percent.

Can Corporate Social Responsibility become a business case?



Source: wikipedia.org



Why Business Ethics? (3/4)

- **The Millennial Factor:** „86 percent of millennials consider it a main priority to work for a business that conducts itself ethically and responsibly. In fact, most millennials would be willing to take a considerable pay cut to work for such a business.”

Is Corporate Social Responsibility key to attract and retain top talent?

How Much Do A Company's Ethics Matter In The Modern Professional Climate?

Larry Alton Former Contributor @
I cover changes to the American workplace.

Sep 12, 2017, 01:30pm EDT

⌚ This article is more than 5 years old.



How Much Do A Company's Ethics Matter In The Modern Professional Climate? PEXELS.COM

More than ever, a company's success depends on the talent it's able to attract, but attracting the best talent is about more than just offering the best salary—or even the best benefits. Companies may have a lucrative

Source: Forbes, 2017



Why Business Ethics? (4/4)

The collage consists of three overlapping screenshots:

- Top-left screenshot:** A news article from **TECH MONITOR** titled "Digital power: How Big Tech draws its influence". The text discusses how society needs new approaches to govern Big Tech because it is powerful in ways we haven't encountered before.
- Middle screenshot:** A research article from **frontiers in Research Metrics and Analytics** titled "Artificial Intelligence and Blockchain: How Should Emerging Technologies Be Governed?". It features a circular graphic with segments labeled "Research Policy and Strategy" and "Management".
- Bottom-right screenshot:** An article from **PwC Global** titled "Tech's wake up call: with great power comes great responsibility". The article is by Dr Celine Herweijer and Benjamin Combes. It includes a quote: "With great power comes great responsibility. This aptly describes where today's tech giants find themselves."

Does the fast technological progress & increasing power of companies demand more responsible self-regulation?

...but do companies have the power to shape technology?

Traditional views of technology

Technologies' meaning, influence and direction is **solely constructed by society** and society's desires.

→ technology can be considered as a '**blank slate**' or **neutral object** waiting to gain meaning and values through human interaction (e.g., Drake et al., 2000; Herschel & Andrews, 1997).

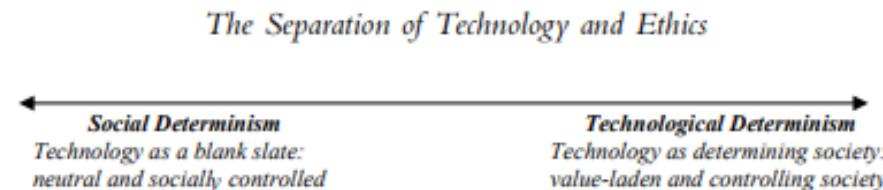


Figure 1. Traditional views of technology.

"**Technology** develops as the sole result of an **internal dynamic** and then, unmediated by any other influence, **molds society to fit its patterns**" (Winner, 1986).

→ individuals are turned into 'cogs in the machine' (Allinson, 1998) or 'slaves to artefacts' (Ellul, 1962); technomoral artefacts (Vallor, 2015)

Yes, companies do have the power to shape technology.

Updated view of technology

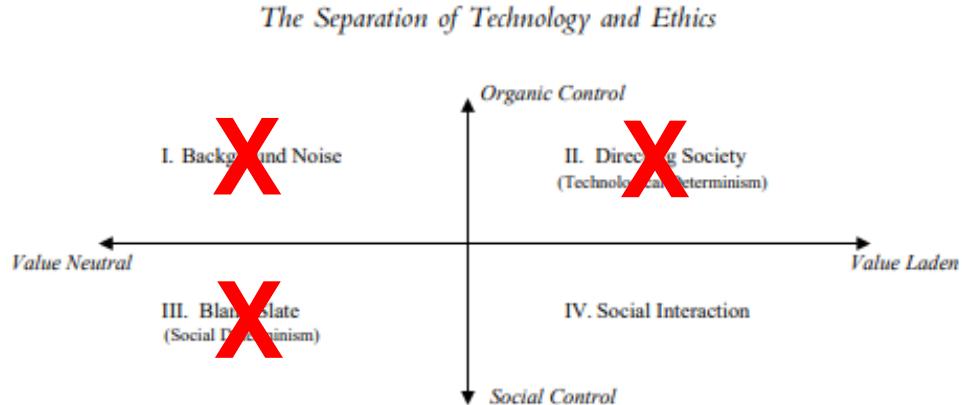


Figure 2. Technology as...

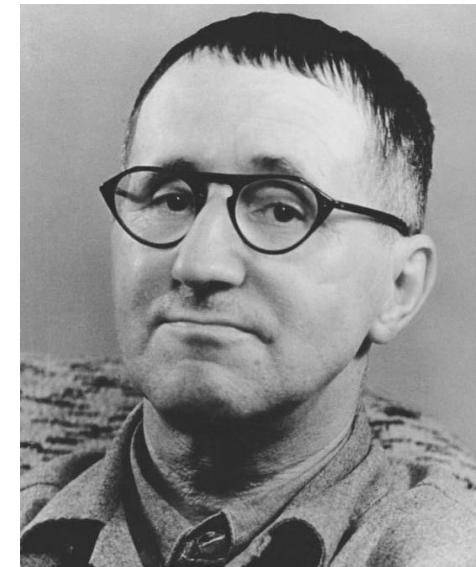
- Technology does hold inherent values but these can be controlled by society.
 - Neither technology nor society possess sole dominance over the other, rather they co-shape each other.
- Companies' responsibility increases: "[T]he controlled development and design of technology becomes paramount within a corporation".

Source: Martin & Freeman, 2004

General Perception (1/3)

Public perception is coined by virtue ethics:

- "Greed": Main cause of economic misconduct
- Distrust of certain population groups such as bankers, speculators, "grasshoppers", etc.
- Bertolt Brecht: "Bankrobbery: An initiative by the unprofessional. A true professional founds a bank."

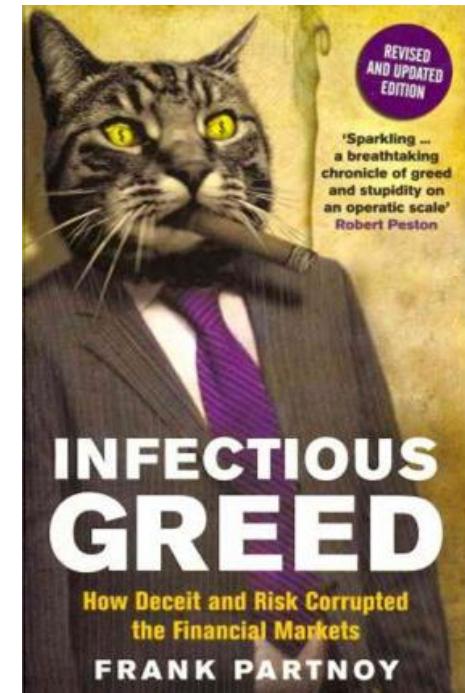
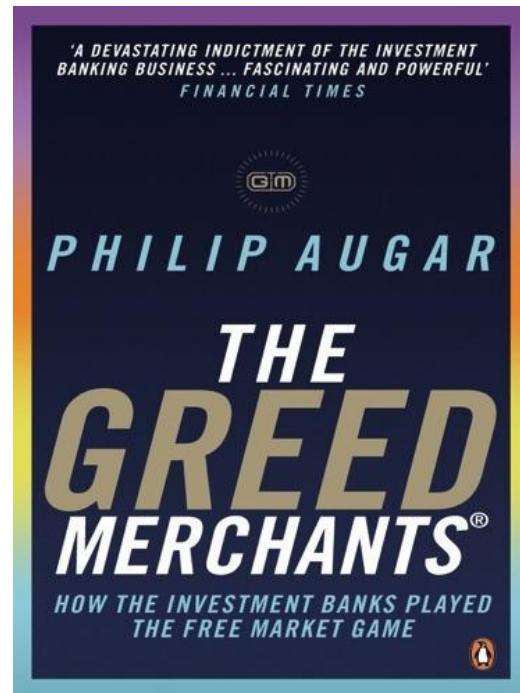
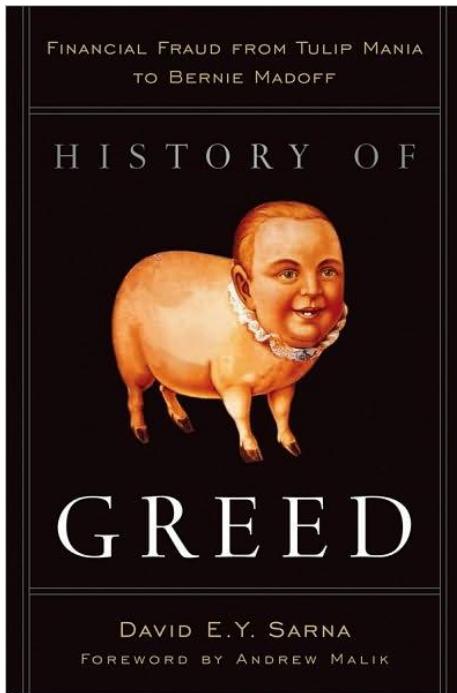


➤ Criticism targets involved actors and not structures

Source: wikipedia.org

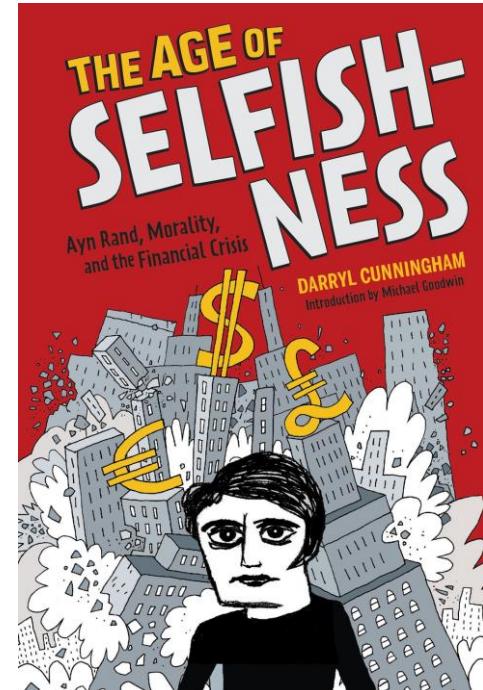
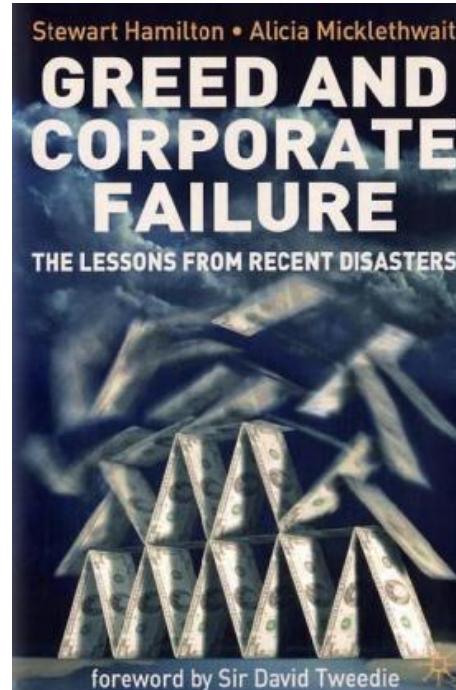
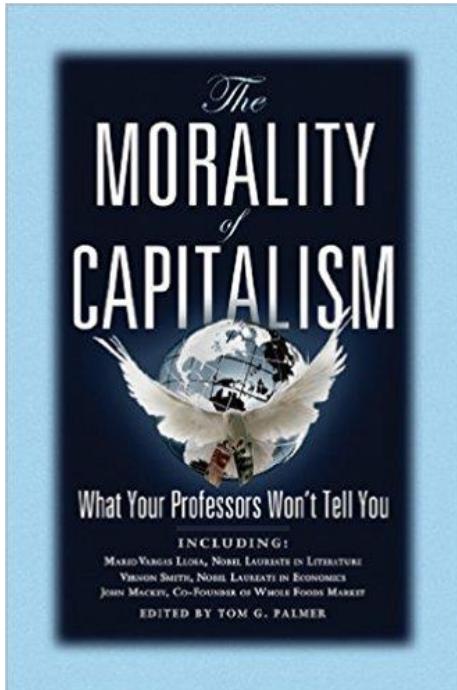


General Perception (2/3)





General Perception (3/3)





Some statistics

Costumers' demand: More ethical practices by companies

- Barclays' study on "Reshaping retail – How ethics and sustainability are changing retail's ecosystems":
- Around 63% of customers surveyed in the study said they want to see the industry make further sustainable and ethical changes.
- 52% of consumers said the ethical and sustainable credentials of a business will be an essential factor for them when choosing what to purchase.

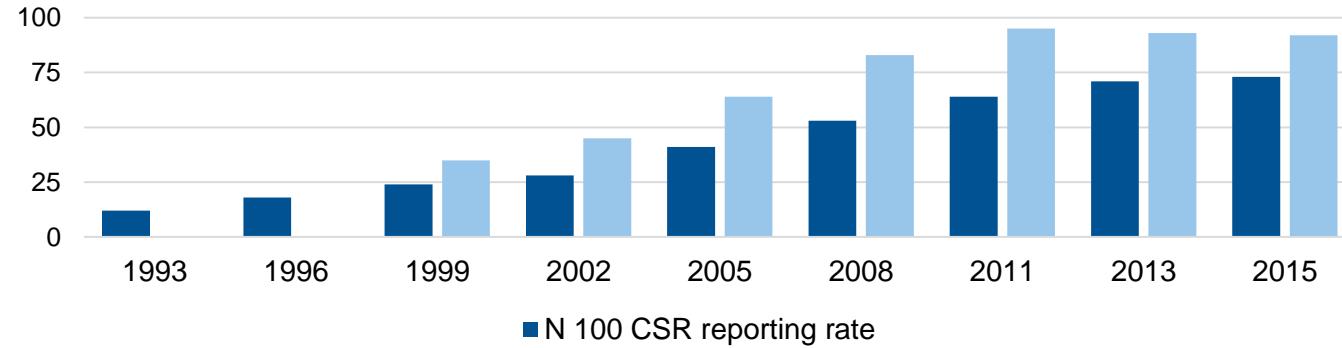


Source: Barclays, 2022; Soocial.com

CSR Reporting Development

CSR reporting rate of the 250 biggest companies worldwide:

Increase from 35% in 1999 to 95% in 2011



Source: KPMG Survey of Corporate Responsibility Reporting 2015



On an individual level (misconduct) reporting rises, too.

- Ethics.org report on ethics and compliance (2020): Around **8 in 10 employees** worldwide **report misconduct** nowadays
- Examples of the most common forms of observed misconduct included **lying** and **favoritism**
- BUT simultaneously, “there seems to be a growing issue with retaliation in response to employees reporting misconduct”: Around 61% of global employees report that they have experienced retaliation as a result.

Source: Ethics.org, 2020; Soocial.com



The Ford Pinto Case

Ford Pinto (1/7)

- Car of the **lower compact class**, developed by Ford in the 1960s as a reaction to the first Japanese compact car and the popular German Volkswagen "Käfer"
- Introduction in 1970
- Price 2,000 USD
≈ 11.400 EUR in 2018



Source: wikipedia.org

Ford Pinto (2/7)

Problem

- Fuel tank behind the rear-wheel
 - Thus damage caused by rear-end collisions at low speed
 - Possibility of leaking fuel, danger of explosion
- Engineers hinted to the problem
- Managers reasoned about the costs

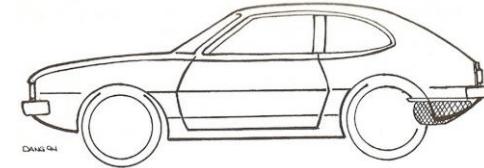
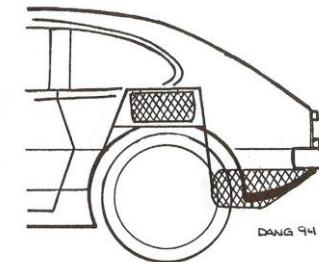


FIGURE 1
This diagram shows the placement of the fuel tank in the Ford Pinto.



Source: automotopad.com



Ford Pinto (3/7)



Source: youtube.com

Ford Pinto (4/7)

Question to Ford: Protecting rubber shell for the fuel tank?

Cost calculation:

- Fitting costs: 11 USD/vehicle for 12.5 m scheduled cars
⇒ **137.5 m USD**
- Costs, if not attached (Calculation of the Ford-statisticians):
 - 2,100 burning vehicles (average time value 700 USD)
 - 180 dead (official „indication of value“ by the US Government at that time: 200,000 USD)
 - 180 heavily injured (insurance claimed „value“ 67,000 USD)⇒ **49.5 m USD**



Source: barfblog.com

Ford Pinto (5/7)

Decision: No rubber shell

In the following years after the decision

- ca. 60 lethal accidents
- ca. 120 heavily burn injured people
- 117 lawsuits were brought against Ford
- Pinto was withdrawn from the market 1980



Source: cjsmith96.wordpress.com



Ford Pinto (6/7)

Decision: No rubber shell

Ethical evaluation?

- No contravention (prevailing rule, tank has to remain intact at the speed of 20 mph was implemented)
- Pinto was "statistically" as secure as every other compact vehicle (according to Ford)
- Human life is constantly evaluated
- Increased safety measures in traffic, e.g. backfitting of older cars with airbags?
- 11 USD per vehicle are still 0.5 percent of the sales



Ford Pinto (7/7)

Problems for Ford

- Loss of reputation, especially when the calculation was discovered
- Trial against Ford
 - First US Corporation accused of manslaughter
 - No conviction
 - However: five months after the case, the Pinto production was stopped for good.
- Starting point for Corporate Social Responsibility (CSR)
- Long-term ethics and commercial success compatible



Article recommendation

The Ford Pinto case & missing moral awareness

Pinto Fires and Personal Ethics: A Script Analysis of Missed Opportunities

Dennis A. Gioia

ABSTRACT. This article details the personal involvement of the author in the early stages of the infamous Pinto fire case. The paper first presents an insider account of the context and decision environment within which he failed to initiate an early recall of defective vehicles. A cognitive script analysis of the personal experience is then offered as an explanation of factors that led to a decision that now is commonly seen as a definitive study in unethical corporate behavior. The main analytical thesis is that script schemas that were guiding cognition and action at the time precluded consideration of issues in ethical terms because the scripts did not include ethical dimensions.

difference. My initial job title was “Problem Analyst” — a catchall label that superficially described what I would be thinking about and doing in the coming years. On some deeper level, however, the title paradoxically came to connote the many critical things that I would *not* be thinking about and acting upon.

By that summer of 1972 I was very full of myself. I had met my life’s goals to that point with some notable success. I had virtually everything I wanted, including a strongly-held value system that had led

Table 2. Benefits and Costs Relating to Fuel Leakage Associated with the Static Rollover Test Portion of FMVSS 208

Benefits
<i>Savings:</i> 80 burn deaths, 180 serious burn injuries, 2,100 burned vehicles.
<i>Unit cost:</i> \$200,000 per death, \$67,000 per injury, \$700 per vehicle.
<i>Total benefit:</i> $180 \times (\$200,000) + 180 \times (\$67,000) + 2,100 \times (\$700) = \$49.5$ million.
Costs
<i>Sales:</i> 11 million cars, 1.5 million light trucks.
<i>Unit cost:</i> \$11 per car, \$11 per truck.
<i>Total cost:</i> $11,000,000 \times (\$11) + 1,500,000 \times (\$11) = \$137$ million.





What is the value of life?



Value of life – a few calculations...(1)

NHTSA in 1972

• Future Productivity Losses	173,300	
• Medical Costs	1,125	
• Property Damage	1,500	\$ 200,725 in 1972
• Insurance Administration	4,700	$\triangleq \$ 1,175,471$ in 2017
• Legal and Court	3,000	$\triangleq € 999,354$ in 2017
• Employer Losses	1,000	
• Victim's Pain and Suffering	10,000	
• Funeral	900	
• Other	5,200	
		\$ 200,725

Source: Dowie 1977/1994, p. 26



Value of life – a few calculations...(2)

Market value of body

• Oxygen (O)	ca. 63%	133.48	
• Carbon (C)	ca. 20%	713.00	
• Hydrogen (H)	ca. 10%	0.02	
• Nitrogen (N)	ca. 3.0%	120.00	€1,022.45 in 2008
• Calcium (Ca)	ca. 1.5%	20.85	≈ € 1,037 in 2017
• Phosphor (P)	ca. 1.0%	13.90	
• Potassium (K)	ca. 0.3%	10.25	
• Sulfur (S)	ca. 0.2%	8.00	
• Other	ca. 1.3%	2.95	

€ 1,022.45

Source: Klarne 2008, p. 68



Conclusion

- Some misconducts in the past and the increasing power of companies highlight the relevance of business ethics.
- Additionally, consumers demand and companies acknowledge the increasing importance of corporate social responsibility.
- To what extent business ethics becomes ever more important in the age of globalization will be the next focus in this lecture.



Introduction to Business Ethics: Business Ethics in the Age of Globalization

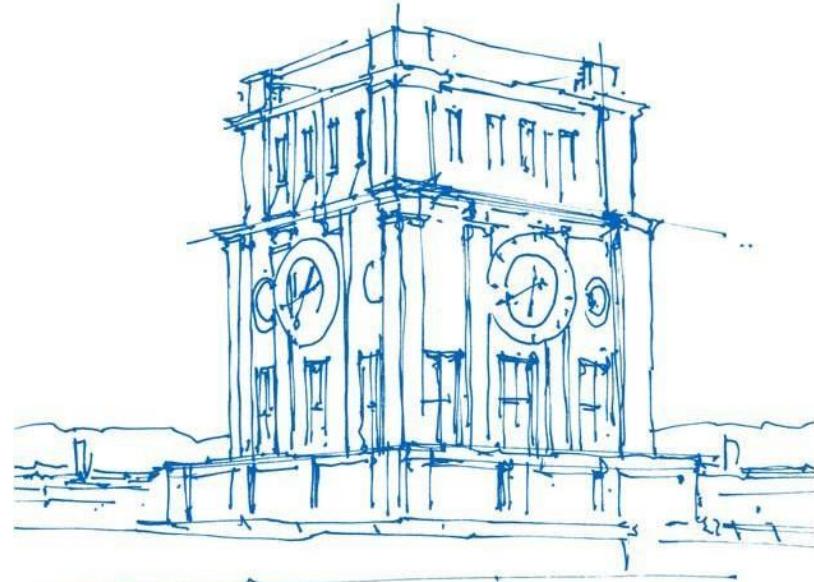
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Chapter 1

Business ethics in the age of globalization

1.1 The phenomenon of globalization



Globalization and Business Ethics

What is globalization?

What are the assumed effects of globalization on normative concepts?

What do empirical studies say concerning the effects of globalization?

What are the causes for problems associated with globalization?



What is globalization

Value-free perspectives:

- Globalization is “the extension of social relations across world-space.” (Paul James)
- Other definitions include not only economic but also political, technical and cultural phenomena (Giddens, 1999)

Value-laden perspectives:

- Globalization is “a doctrine for the promotion of neoliberalism” (Chomsky, 2006).
- “A scam perpetrated against everyone by powerful groups.” (Wallerstein, 2000)



The Characteristics of Globalization

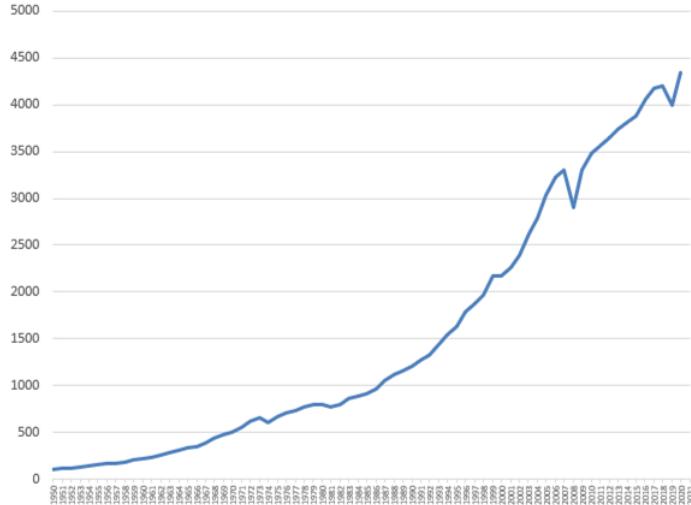
To eliminate potential biases, we take a step back and define globalization as:

“Increase of commercial and social ties on a global level.”

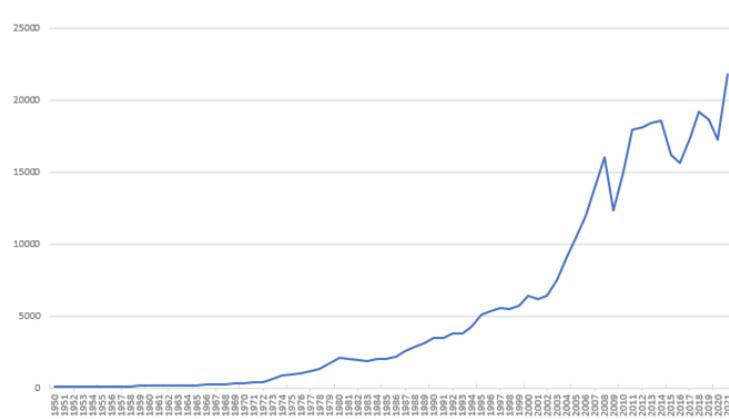
The ethical judgement of “the increase of commercial ties between different economic actors” depends on the assumed properties and effects of globalization and on the “models of mind” we employ to judge these effects and properties.

Evolution of world trade, 1950-2021

Volume index, 1950 = 100



Values, Billion uSD



Source: WTO, 2022

The properties of globalization

- *Denationalization*: The borders of nation states are becoming more permeable to **goods, travel and financial transactions**.
- *Deterritorialization*: Culture (e.g. food, music, fashion) is **less tied to geographical areas or nation states**.
- *Reduction of spatial and temporal distances*: New technical developments (Internet, mobile telephony, high-speed trains, air traffic) **minimize spatial distances**.
- *Interconnectedness*: **People interact across borders** and increasingly exchange.



Source: Wikimedia Commons

The first wave of globalization

Milestones of the modern phase of globalization:

- First multinationals (Dutch East India Company; 1602-1799)
- Discovery of mass production (economies of scale) and population growth → increased demand for consumer goods
- Temporary peak of globalization before World War I.

Implication:

We should not regard globalization as a completely unique phenomenon in history, but rather as expression for higher levels of global integration.



Source: Wikimedia Commons



The current wave of globalization

After World War II and in the wake of de-colonialization, the current wave of globalization began:

- Conferences in Bretton Woods and Dumbarton Oaks (1944): Foundation of the United Nations, the World Bank, and the International Monetary Fund.
- Collapse of the USSR (1989-1991) and Economic Opening of China (1978-1990)
- New technological achievements (such as digitization) strengthen the interconnectedness of the global economy (“the extension of social relations across world-space”)
- Globalization is a comprehensive phenomenon and rests on economic, political, ecological and cultural pillars.



Chapter 1

Business ethics in the age of globalization

1.2 The implications of globalization for business ethics



Cultural Aspects

Cultural Diversity and Globalization:

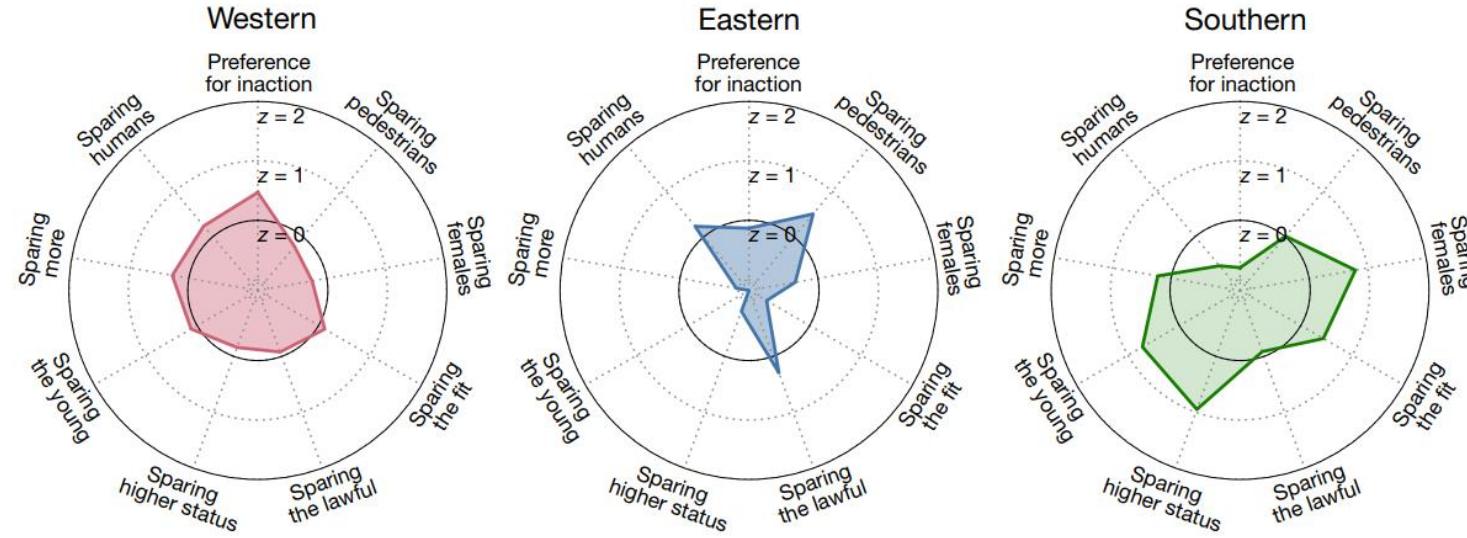
- Diversity within nation states increases [150 million migrant workers worldwide (ILO, 2003)]
- Diversity among nations states decreases [e.g. increasingly similar business practices, dominance of the English language, global brands such Apple, BMW, Starbucks, Subway (presence in 119 states) etc.]

Implications:

- Likelihood for cultural clashes rises (even within the same national culture)
- Increasing modernization and multi-culturalism might be tougher challenge which developed more rapidly than Western countries. → “overarching values” are likely to play a more pronounced role in future.

Cultural Aspects

Value pluralism and its challenge for virtue ethics



Source: Awad et al. 2018



Political Aspects

Emergence of international organizations:

Regionalization and new political organizations (EU, ASEAN)

Tendency towards Global Governance (United Nations, WTO, OECD)



Consequences:

Declining number of war casualties since the end of the Cold War. (Peace Research Institute Oslo)

International Labor Migration: As early as 2003, 150 million migrant workers worldwide (ILO, 2003)

Implication:

International organizations and economic globalization reinforce each other. Without international agreements trade would be much more difficult. More trade leads to a higher demand of standardization.



Economic Aspects

Main factors of economic integration:

Foreign trade and investment → outsourcing and offshoring [Trade as part of world GDP: 19,8% (1960) vs. 53,3% (2008)]

Increase in number of multinationals worldwide [9,000 (1990) vs. 65,000 (2000); 30% of world trade is company-intern]

Regulatory changes:

The global average tariff rate has fallen from 45% to 5%. (Fifka, 2013)

285 regional trade agreements worldwide. (Statista, 2018).

Implication:

Closer economic interaction drives global standardization and regulation processes (interdependences create institutions).



Ecological Aspects

Negative externalities and overuse of resources:

Negative externalities of “interconnectedness”: Increase of CO2 emissions (number of passenger kilometers has increased one hundredfold from 1950 to 2008) → driving factor of climate change.

Problem of scarcity: Crude oil consumption increased from 60 million barrels per day (1980) to 99.6 million barrels per day (2018).

Consequences:

Environmental Kuznets Curve Hypothesis postulates an inverted-U-shaped relationship between CO2 emissions and per capita income (environmental pressure increases up to a certain level as income goes up; after that, it decreases).

Growing polarization over environmental policies (industrialization in developing countries) and different interests (maybe also perceptions) concerning environment protection.

Emergence of a global civil society and globally acting NGOs (e.g. Greenpeace)

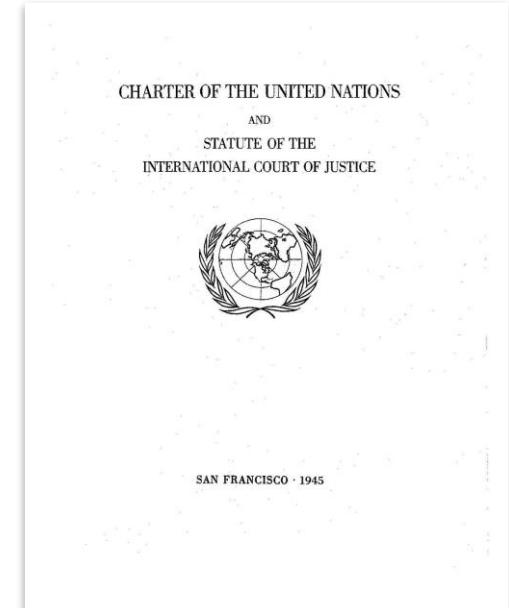


Globalization: Finding Collectively Binding Norms

Finding collectively binding norms is also more difficult than in the case of nation state legislation:

- American/Western unilateralism vs. multipolar vision of international affairs (BRICS)
- Sovereignty vs. human rights
- Sanctions as a legitimate part of economic statecraft?
- Humanitarian interventions

International law as we know it today is influenced by Western elites and based on European experiences (e.g. Balance of power, secularism, human rights and interventionism)





Globalization: Norm Enforcement

Prisoner's dilemmas in international relations appear not only in trade conflicts but also in other areas such as protectionism, nuclear proliferation (cf. Iran, North Korea), environmental issues and intellectual property legislation.

- In difference to the nation state level, it is more difficult to find a common ground for international governance, due to power asymmetries, conflicting interests and clashing norms.
- From an institutional ethics perspective, anarchy (the lack of common institutions, which are able to legislate and realize norms) is one of the key problems of globalization.



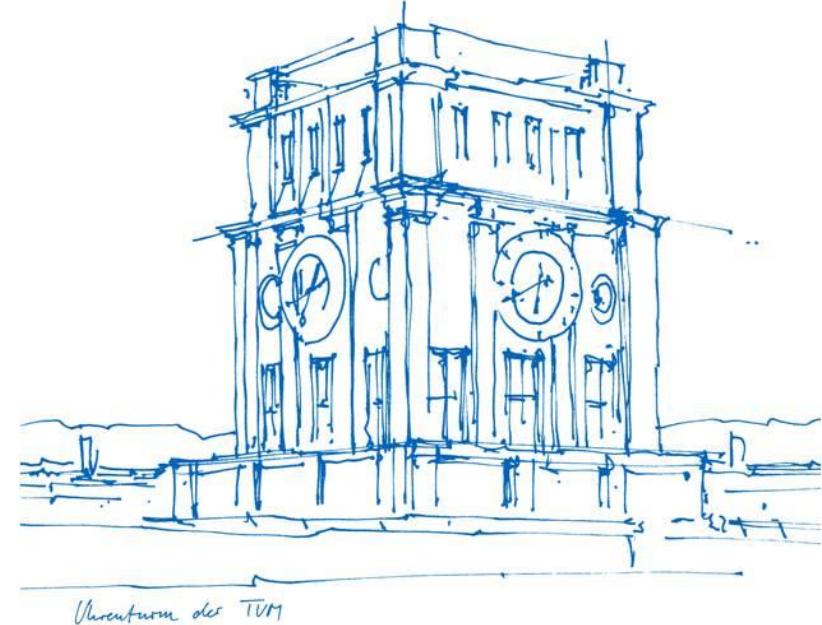
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Chapter 2

Basic Concepts

2.1 Problems in Business Ethics as Interaction Problems

Robinson Crusoe and Friday



Robinson Crusoe alone on an island:
Daily struggle for survival
Scarcity as biggest problem
Producer and consumer at the same time →
"Robinson Economics"

FRIDAY COMES INTO PLAY

Two individuals are competing for limited resources
Scarcity becoming a problem of social interaction
→ Interaction problem as economic problem



Basic Elements of Problems in Business Ethics

1st Element:
At least two actors

2nd Element:
An environment of scarcity

- **Scarcity leading to conflicts**
- Focus on interaction of individuals
 - Individual problems becoming social problems
 - How to respond to conflicts? Possibilities: fighting, sharing, cooperating

- **Business Ethics begins when Friday arrives on the island**



Cooperation as a Solution to Scarcity Problems (1/2)

There are two approaches to think about scarcity problems

1. Criterion of **Distributive Justice**: How should a given cake be split?

Existing quantity of goods is given

Distribution based on rules

Criterion is usually to get a result as **equitable** as possible

- Distributional issues treated in isolation, however: problem of scarcity itself is not addressed and persists



Cooperation as a Solution to Scarcity Problems (2/2)

There are two approaches to think about scarcity problems

2. Criterion of **Allocative Justice**: How can we improve the supply of goods quantitatively or qualitatively to satisfy more demand than before?

Best possible allocation of scarce production factors (labor, raw materials, capital, etc.) is crucial, in order to increase yields

Determine which scarce production factors should be allocated and used to satisfy demands

- Gains from cooperation mitigate the problem of scarcity



Allocation Problems in Economics (1/2)

Scarcity problems should be understood as allocation problems to counteract scarcity problem

Connection to economics

Interdependence of production and distribution; have to be discussed simultaneously. (different distribution of "cake" influences its size)

Shareholders invest in the production of goods or services and anticipate return on their investment

- Efficient allocation of means of production through redistribution that causes little distortions in incentive mechanisms



Allocation Problems in Economics (2/2)

Example: Economic Policy

Governments redistribute wealth and income by levying taxes and social security contributions including the payment of social benefits

Which criteria (equity, equality etc.) do we use to arrange redistributions?

Which combination and distribution of produced goods does maximize productivity?

How can we prevent undesired effects such as free-riding or negative externalities?

➤ Institutional design determines whether gains from cooperation can be achieved



Limits of Individual Moral Actions

Example: The virtue-ethical question "What should I do?" makes Robinson to give up half of his stocks to Friday.

Result: Nobody gets enough to eat.

“It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.“

(Adam Smith, "Wealth of Nations", 1846, p. 26)

➤ **Decoupling** of motive and result → **morality** is interpreted as an **unintended result of intentional action**



Outcome for Business Ethics

Solution: Business Ethics should not be based on actions and their motives, but on the **conditions** under which actions are carried out.

Reasons

1. Individual virtues cannot overcome structural problems
2. Problems in Business Ethics are by nature **interaction** and **interdependence problems**
3. Conditions of the modern world:

Rising degree of complexity in economic relations

Prevalence of mutual interdependences between individuals, firms and nation states



Chapter 2

Basic Concepts

2.2 Ethics and Economics –
Definitions and Methodological Deductions

Classification of Philosophy (1)

- Theoretical Philosophy

What does exist? (Ontology)

What is the order of the world? (Metaphysics)

What can I know? (Epistemology, Philosophy of Science)

What is the relation of language and reality?

(Philosophy of Language) ...

- Practical Philosophy

What should I do? (Ethics)

What is the best means to achieve an end? (Economics)

What is the best order of society? (Political Philosophy)

- History of Philosophy



Source: tetrakty.de



Classification of Philosophy (2)

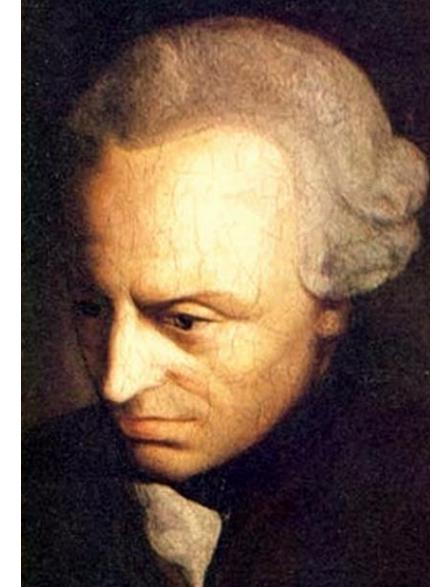
Immanuel Kant

1724 – 1804

German philosopher

According to Kant, philosophy ultimately aims at answering three questions:

“What can I know? What should I do? What may I hope?”



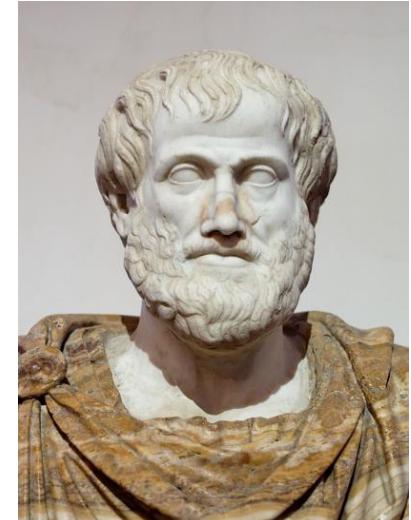
Source: Immanuel-kant.net

Ethics and Ethos

Basic idea of "ethos":

- "ἔθος" = originally: Space of living, position, horse stables, then also: habit, custom, tradition
- "ἦθος" = Character, disposition, custom, tradition, habit

Aristotle: Triad of politics, ethics and economics



Source: wikipedia.org

Ethics and Morality (1/2)

Since Cicero: Ethos/Conventions = "mores," → Morality

Colloquially often used interchangably:
"Ethics" instead of "morality"

Philosophical usage:

- **Morality** as a complex of rules and norms that determine people's actions in practice
- **Ethics** as theory of morality (reflecting on morality)



Source: wikipedia.org



Ethics and Morality (2/2)

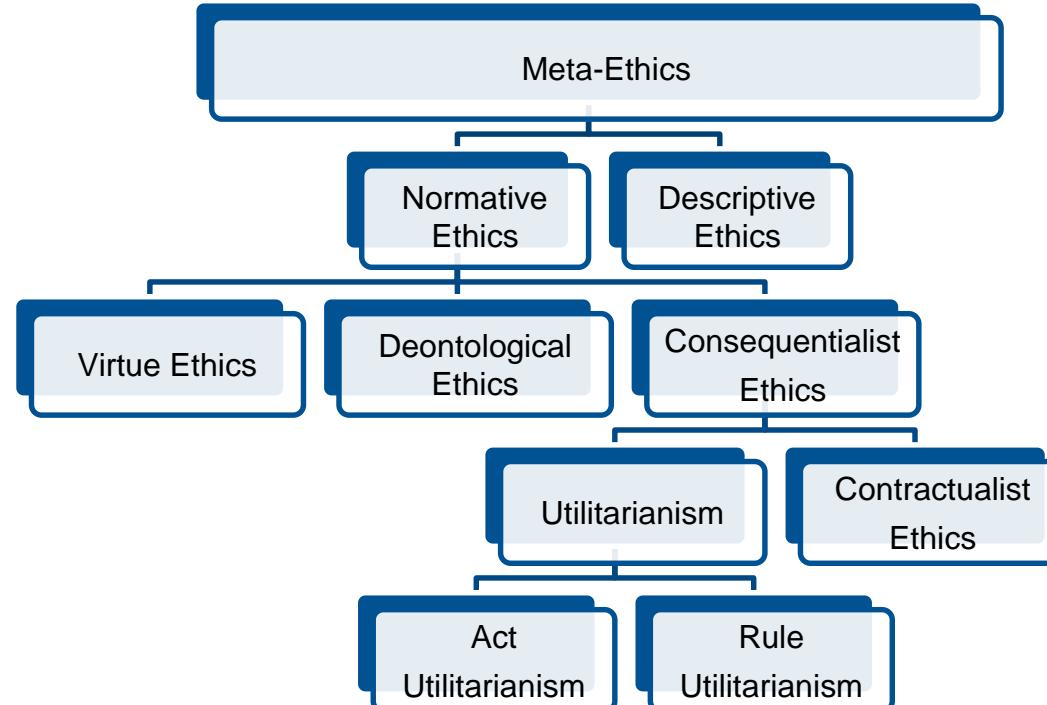
Morality:

Aggregate of rules of action, standards, norms, values, conceptions of significance that guide or ought to guide the actions of human beings

Determines actions or *ought* to determine actions

Violation leads to violations of oneself and/or others

Ethics - Overview





Descriptive, Normative and Meta-Ethics

Descriptive Ethics:

- Description, systematization und explanation of normative systems
- e.g. ethnology, moral psychology, evolutionary biology, behavioral economics

Normative Ethics:

- Ethics is the analysis of human conduct from the perspective of "good" and "bad" respectively "morally right" and "morally wrong"
- Similarly, evaluation of an economic order as "just" or "unjust"
- Different from psychology and humanities

Meta-Ethics:

- Focuses on nature of morality, often relies on semantic analysis of moral judgments
- Second-order theory examining the metaphysical, epistemological, semantic presuppositions of ethics such as difference between cognitivism and non-cognitivism (can moral statements be true?)
- Not directly related to content of rules or norms



Meta-Ethical Questions

According to Richard Garner and Bernard Rosen

(1967: *Moral Philosophy: A Systematic Introduction to Normative Ethics and Meta-Ethics*)

1. Moral Semantics:

What is the meaning of moral terms or judgments?

2. Moral Ontology:

What is the nature of moral judgments?

3. Moral Epistemology:

How may moral judgments be supported or defended?



Example: Different Levels of Ethics

"Human dignity is inviolable." (Article 1, German Constitutional Law)

Descriptive:

- According to the German Constitutional Law human dignity is inviolable.

Normative:

- No one, not even public authorities, ought to compromise human dignity. (Human rights!)

Meta-Ethical:

- What does "is" mean? Does the statement imply a normative meaning? Is an embryo a "human"? What about a corpse? What does "dignity" imply? Can it be reduced to physical integrity?

Different Types of Normative Ethics

Moral judgments based on...

Action as such

Purpose of action

Rationale behind action
(mens rea)

Conse-
quences of
action

Utility of action

...to be continued in the lecture on 10.01.2023!



Economy and Economics (1/2)

Economy

"Household": Domain of the discipline economics

Economics

Traditionally: Science of the domain "Economy"

- Meanwhile it comprises also phenomena such as culture, political offices, elections, education, family, phenomena of addiction, health

Nowadays rather characterized by certain methodology



Economy and Economics (2/2)

Economics

DEFINITION OF ECONOMICS

ECONOMICS DEALS WITH THE EXPLANATION AND DESIGN OF THE CONDITIONS AND CONSEQUENCES OF INTERACTIONS ON THE BASIS OF INDIVIDUAL BENEFIT / DISADVANTAGE CALCULATIONS.

(following Gary S. Becker, 1930 - 2014)

Sometimes described as "economic imperialism", initially understood in negative sense, later on adopted by representatives (such as Gary Becker) themselves



Business Ethics (1/2)

Two Concepts

1) Business Ethics as "Hyphenated Ethics"

Ethics "for the economy"

Just like Medical Ethics, Bioethics, Media Ethics, Engineering Ethics, ...

2) Business Ethics as ethics with economic method

Ethics viewed from a certain perspective:

- Implementation of norms: transfer of rules into (social) world

Morality is reconstructed by economic means



Business Ethics (2/2)

DEFINITION OF BUSINESS ETHICS

BUSINESS ETHICS IS A DISCIPLINE OF PRACTICAL PHILOSOPHY THAT EXPLORES WHICH NORMS CAN BE ESTABLISHED AND BROUGHT TO BEAR UNDER CONDITIONS OF MODERN SOCIETY.



Chapter 2

Basic Concepts

2.3 Situating Business Ethics in Philosophy



Ethics and Economics

Fundamental Contrast or Two Sides of Same Coin?



Two Options for Theory in Business Ethics (1/11)

Dualistic vs. Monistic Business Ethics

What ought to be done in light of conflicting demands for action?

e.g., shareholders vs. stakeholders

Fundamental contrast of

- Morality and Business
- Ethics and Economics



Two Options for Theory in Business Ethics (2/11)

Dualism vs. Monism

Dualism

Calls for decision on one position or at least "mediation" between both positions

Final aim: "domestication" of economy

Proximity to everyday intuitions of many if not most people



Two Options for Theory in Business Ethics (3/11)

Dualism vs. Monism

Dualism

Examples:

- Morality OR Economy
- Altruism OR Egoism
- Solidarity OR Competition
- Ecology OR Economy
- Common Welfare OR Self-interest
- Common Welfare OR Efficiency



Two Options for Theory in Business Ethics (4/11)

Dualism vs. Monism

Dualism

- Close to perception of human beings (shareholder's benefit from mass dismissals)
- Consequences: Appeals to conscience and postulation of values (prioritization of "moral values")
- Attribution of blame, search for culprits dominates discussion
- Question of norm implementation plays subordinate role



Two Options for Theory in Business Ethics (5/11)

Dualism vs. Monism

Examples for Dualistic View (1/2)

Karl Kraus (ca. 1920)

"You want to study Business Ethics? Then you have to decide on either Business or Ethics!"

Ulrich Döring ("Allgemeine BWL", FAZ 2010)

Making profit is ethical: Shareholder approach is right; morality in the economy is simply dysfunctional

„The Stakeholder approach tries to make entrepreneurs act morally via collective decisions at the round table. In business practice the discourse-ethical approach is doomed to fail. Customers, suppliers, investors, staff, and the public have conflicting concerns.“



Two Options for Theory in Business Ethics (6/11)

Dualism vs. Monism

Examples for Dualistic View (2/2)

Erich Fromm (1976)

"To Have or to Be"

Leaving the realm of "possession"; aiming towards an attitude of "being":

"True needs of the human being" vs. "Requirements of economy"

"Exploitation of nature by man" vs. "Cooperation between man and nature"

"Mutual antagonism between man" vs. "Solidarity"

"Maximum consumption" vs. "Reasonable consumption" (for benefit of human beings)

Two Options for Theory in Business Ethics (7/11)

Limit of Dualistic Approach: Problem of Implementation

Actors involved agree that postulated goal (e.g., implementing environmental protection) is desirable



Actors in competition comply with moral requirement

Reason:

If actors follow moral appeal, they are vulnerable to exploitation and expect to suffer competitive disadvantages



Two Options for Theory in Business Ethics (8/11)

Dualism vs. Monism

Monism

"Economics as a continuation of ethics by other means"

Central normative criterion:

Mutual improvement

Therefore, all parties can agree on certain rules

- Morality and Economics are considered two sides of the same coin.
Basis: modern understanding of economics



Two Options for Theory in Business Ethics (9/11)

Dualism vs. Monism

Monism

- Ethics can't make individuals work constantly against their own interest.
- Ethics has to show that acting according to moral rules is in the aggregate (not in an individual case!) more advantageous than breaking these rules



Two Options for Theory in Business Ethics (10/11)

Dualism vs. Monism

Monism

Correspondence with **David Hume's** (1711-1776) view:

Finally, it is the aim of moral philosophy to show that all its demands are in the interest of the individual

Only with (general) advantages can one expect people to act according to moral norms in everyday life



Source: wikipedia.org

Two Options for Theory in Business Ethics (11/11)

Dualism vs. Monism

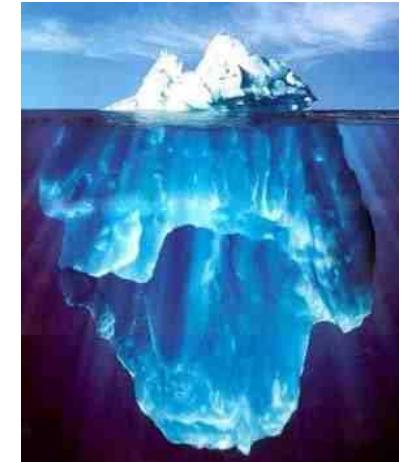
Monism

Morality is surface

(In daily life) ethical phenomena are just surface

Underneath (mutual) advantages are hidden

Nine tenth of iceberg are under water surface



What if competition does not lead to mutual benefits and does not increase benefits on aggregate level?



Term "Business Ethics"

German term "Wirtschaftsethik" without adequate equivalent in English

English:

"Business ethics"

"Economic ethics," → very uncommon

Corporate Social Responsibility = CSR

French:

"Éthique des affaires"

"Éthique de l'économie," → very uncommon



Ethics and Economics: Two Sides of Same Coin

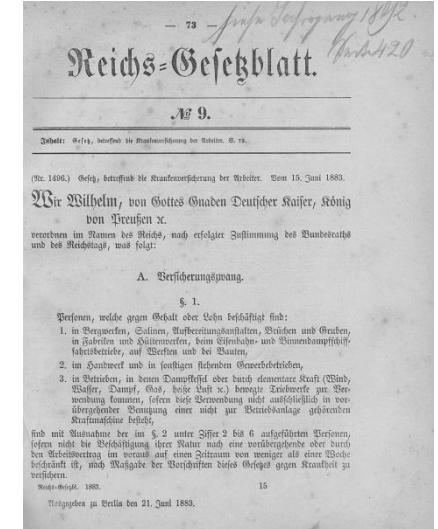
Coincidence of ethics and economics can be illustrated with debate over introduction of universal health insurance in USA

Ethical argument

Right to general primary health care regardless of income

Economic argument

Bad health conditions of working population are detrimental to economy as whole and create high opportunity costs



Source: wikipedia.org



Moral Quality of Economics

- Economics does not maintain its moral quality through individual moral acts – its moral quality is in overall system
- To understand and induce changes in system, actors (e.g., managers) need to be modelled as self-interested beings
- Moral concept of solidarity has to be implemented through suitable order framework



Relevance to Corporate Ethics (1/2)

Ideal:

Perfect economic condition/ framework (all actions fixed in details) →
Business ethics is systemically relevant

Real:

"Complete" framework is practically impossible due to dynamic nature of global markets → Corporate ethics is complementary to business ethics



Relevance to Corporate Ethics (2/2)

Consider for example: **Theory of Incomplete Contracts**

Starting point

Assumes that human interactions are governed by contracts, formal (e.g. codified laws) and informal (e.g. promises)

Problem

These contracts are incomplete in number of ways (for example: performance and consideration are not precisely defined) →

Incomplete contracts thus increase uncertainty

➤ Goal of Corporate Ethics:
Recommendations for actions in face of incomplete contracts



Oliver Hart (*1948) and Bengt Holmström (*1949):
Nobel Memorial Prize in Economic Sciences in 2016



Parallelism of Corporate Ethics and Business Ethics

Two important aspects:

1. Business ethics (level of regulation) and Corporate ethics (level of action) must not be in conflict with each other
2. Dualism vs. Monism

What is relationship between profits and morality?



If companies and business partners anticipate that a company will be protected from insolvency due to its systemic relevance, the market risk premiums lose their significance and incentives are created for taking large risks at the expense of the general public.

➤ If morality is *systematically* implemented at the expense of profits, does it then have a realistic chance in the long run?

Risk of a Dualistic Corporate Ethic

Example: Klaus Stielmann (1929 - 2009)

German businessman who founded company "Klaus Stielmann GmbH & Co. KG" in 1958

Company evolved due to a strategy of low prices to one of the main players in Europe

Globalization put the company under strong pressure to lower costs starting from the 1990s

Stielmann kept his German staff despite their higher labor costs

Bankruptcy in 2006 could only be avoided because of a take-over by the Italian manufacturer "Radici-Group"



Source: wikipedia.org



Corporate Ethics as Risk Management (1/2)

Monistic Corporate Ethics:

Postulate of incentive-compatible implementability

Importance

Moral actions have to be reconstructed as self-interested actions

Moral missteps can involve high risk for the company's success

Example: Consumer boycotts

Result

Morality is part of entrepreneurial calculus

Moral behavior and pursuit of profit become two sides of the same coin



Corporate Ethics as Risk Management (2/2)

Reputation

- Goal: Represent yourself as reliable producer/trading partner
- Signaling reliability through collective or individual action
- Therefore, customer loyalty and maintenance of business contacts in absence of specific contracts
- Reputation serves as check on Opportunism





Three Types of Responsibility

Behavioral responsibility

Companies are responsible for their actions and resulting consequences.
(Compliance, product responsibility, advertising methods, etc.)

Regulatory responsibility

Entrepreneur is obliged to participate in improvement of the social or political order.

Discourse responsibility

Companies are called upon to participate in public discourse on social and political foundations of global society.



Introduction to Business Ethics: Historical-economic Background

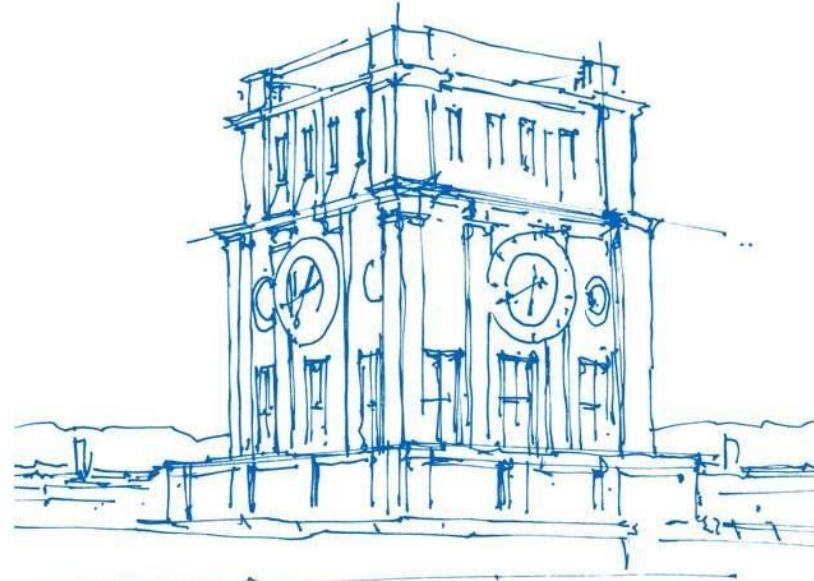
20./21. December 2022

Prof. Dr. Christoph Lütge

Peter Löscher Chair of Business Ethics

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Winterterm 2022/23



Uhrenturm der TUM



Overview of Lecture:

Introduction

Chapter 1: Business Ethics in the Age of Globalization

Chapter 2: Basic Concepts

Chapter 3: Historical-economic Background: Premodernity and Modernity

Chapter 4: Foundations and Tools of Business Ethics

Chapter 5: Problem Areas of Business Ethics

Chapter 6: Corporate Ethics



Economic Conditions and Moral Norms

The validity of moral norms in business ethics depends (above all) on the prevailing economic conditions

- ❖ We can observe a strong change in the economic conditions and structures:
Premodern and modern worlds are systematically distinguished from each other
- ❖ Ethical concepts from philosophies of the past century are not easily transferable, as the historical developments of the last 200 years are unique
- ❖ Earlier ethical concepts were not wrong in themselves, but moral thought could not catch up with developments sparked by **technological and economic progress**



Economic Conditions and Moral Norms

Premodern societies are characterized by the following structural features:

1. Belief in a **predetermined** and unchangeable social order
2. **Societal organization according to estates** until modern times
3. Focus on **economic survival** and not on economic growth
4. **Low degree of social mobility** (e.g. slavery, guildes and castes)

In the following, we explore some of the features of **premodern society** in detail.

Historical Background (1/2)

Small communities and only a few isolates cities

(until 1000 AD: Only 10 cities with more than 100,000 inhabitants):

Rome (the largest city around 100 AD)

Cordoba (around 1000)

Beijing (from 1500 – 1800)

London (around 1900)



Low interregional communication options (Lütge, 2005): Interactions mostly among known individuals.

Adherence to moral norms is monitored through face-to-face control.

Source: Leo von Klenze, wikipedia.org

Historical Background (2/2)

External factors contributed to a high risk aversion:

- Strong reliance on agriculture for peasants and nobility
(cf. Garnsey et al., 2015)
- Objectives of the political economy: Self-sufficiency and protection from natural forces (risk aversion)
- Economy as a private affair (oikos = house; nomos = law)
- Premodernity saw famines with exceptionally high death tolls



Source: wikipedia.org



Social Classes in Antiquity

Moral values have supported and reinforced the **notion of an unchangeable and predetermined social order:**

"All of you in the city are certainly brothers,' we shall say to them in telling the tale, 'but the god (sic!), in fashioning those of you who are competent to rule, mixed gold in at their birth; this is why they are most honored; in auxiliaries, silver; and iron and bronze in the farmers and the other craftsmen."
(Politeia, 442, a-c)

- Ranking of professions and exclusion of particular groups from political / economic participation (guilds and casts)
- Belief in inherent class differences of human beings by nature



Economy and Growth in Antiquity

Moreover, the prevailing socio-economic conditions reinforced perceptions of the economy as a **zero-sum game**:

- ❖ Lack of economic growth throughout antiquity
- ❖ Winners of income distributions are either the "poor" or the "rich"
- ❖ Static income distribution: "The profit of one is the loss of another"
- ❖ Political consequence: Distribution struggles and political instability



Ethics of Behavior (1/2)

The prevailing conditions of premodernity heavily influenced moral norms:

Prevailing moral norms of premodern society

➤ Perception of society as zero-sum game:

"By being rich, I make others poor I may not even know."

(Giovanni Ruccelai, 1475 -1525)

➤ Virtue of moderation in consumption (as you might hurt others)
➤ Risk aversion (dependency on agriculture)
➤ Pivot to ethics of behavior (as you cannot change society)

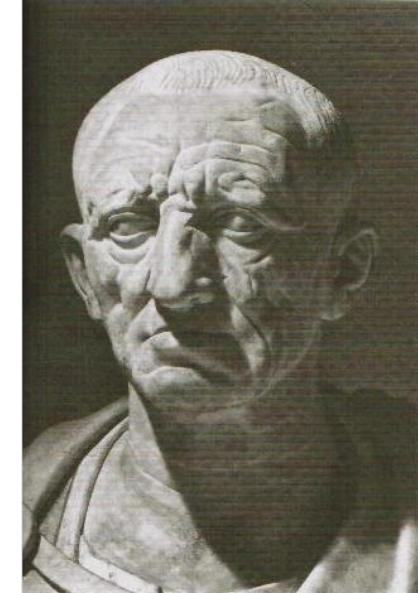


Source: wikipedia.org

Risk Aversion in Antiquity: An Example

"It is true that to obtain money by trade is sometimes more profitable, were it not so hazardous; and likewise money-lending, if it were as honourable. Our ancestors held this view and embodied it in their laws, which required that the thief be mulcted double and the usurer fourfold; how much less desirable a citizen they considered the usurer than the thief, one may judge from this. And when they would praise a worthy man their praise took this form: "good husbandman, good farmer"; one so praised was thought to have received the greatest commendation."

(Cato the Elder, De agricultura)



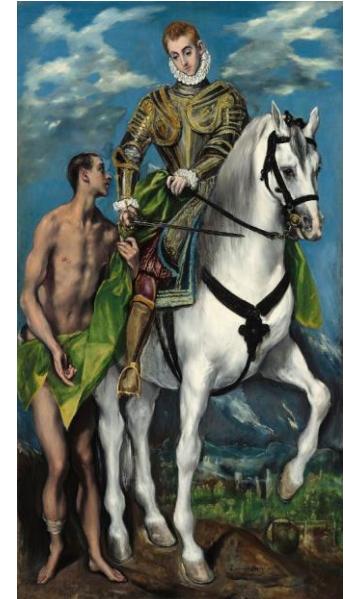
Source: wikipedia.org

Ethics of Behavior (2/2)

A famous example of the ethics of behavior is the story of St. Martin who slices his coat into two parts with his sword, giving one half to the freezing beggar

- This altruistic act is frequently considered to be the epitome of a good deed
- In the domain of the ethics of actions, this example can be viewed from two angles
 - Altruism is the epitome of a good deed
 - Conceived as improvement of individual's character

Ethics of condition: Problem is not solved on a structural level both are freezing



Source: wikipedia.org



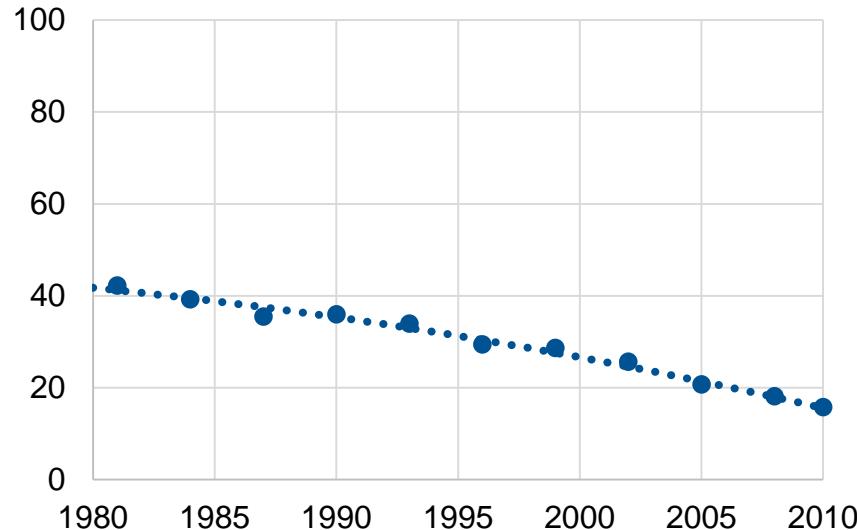
Changed Structures of Modern World (1/2)

Fundamental differences

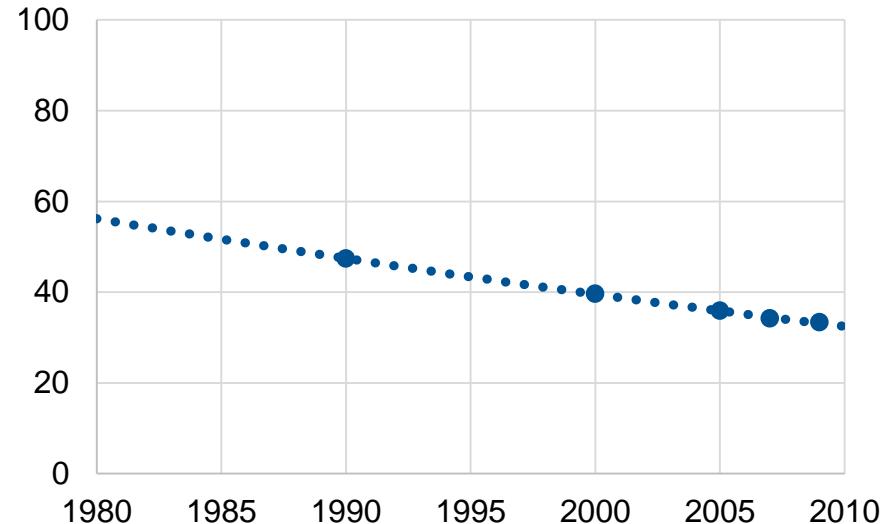
1. People can influence their behavioral conditions (for example: participation in the political / economic sphere), limited degree of predetermined order of things and lack of a universally recognized external authority → **multitude** of different goals and beliefs
2. Strong increase in individual mobility in geographic, social, cultural, and professional dimensions: **Multiculturalism and Pluralism**
3. The **material wealth of humanity** saw an exponential growth since the Industrial Revolution that has intensified since 1945

Economic Growth and Extreme Poverty

Percentage of world population (%) that has less than 1.90 USD (KPP 2011) per day



Share of world population (%) living in slums



Source: Worldbank 2018



Changed Structures of Modern World (2/2)

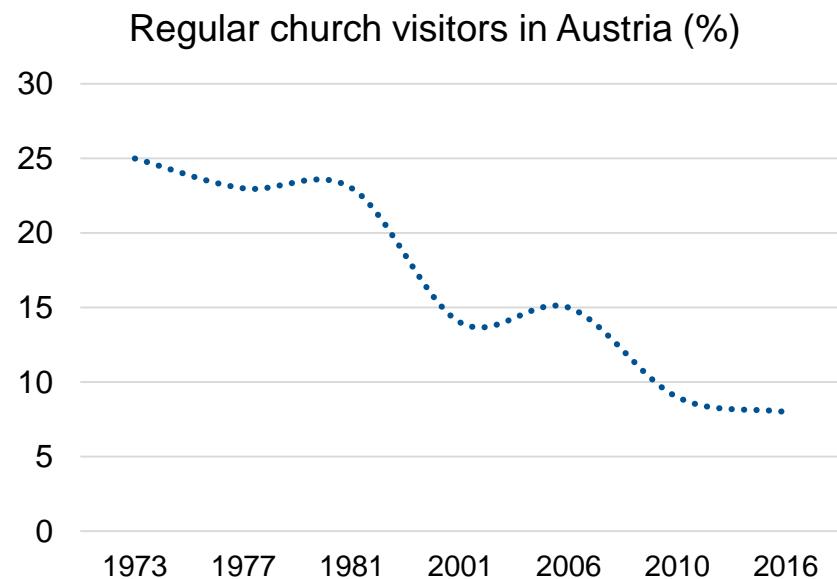
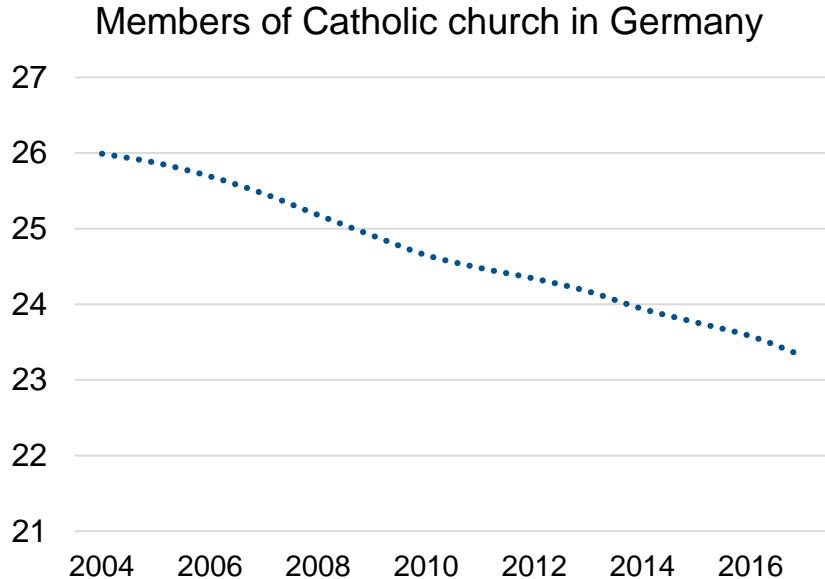
4. Modern society is characterized by the fact that individuals can escape direct "moral" control relatively easily, because social norms are **not enforced by face-to-face control** (excommunication, outlawing, moral appeal)
-

Premodern society: Ethics of behavior = improving the behavior of individuals
vs.

Modern society: Ethics of conditions = improving the conditions for individual behavior

- Change from premodern to modern societies requires a change from “ethics of behavior” to “ethics of order” (Lütge and Uhl, 2021)

Erosion of Traditional "Moral Monopolies"





Causes of Economic Growth in Modern Age

This change was sparked by several coinciding factors:

- ❖ Technological progress (navigation, steam engine) and gain of scientific knowledge (Galileo Galilei, Isaac Newton)
 - ❖ Increasing economies of scale by implementing new technologies
 - ❖ Introduced competition & increasing international trade
 - ❖ Since 1990: Economic transformations in China, India, Russia and Vietnam and the transition to modern market economies
- 1 billion people have been liberated from extreme poverty



Solidarity and Competition

Is there a fundamental conflict between competition and solidarity?

Modern societies are not zero-sum games, due to economic growth:

"Social interaction for the benefit of all, including the disadvantaged" (Homann, 2003)

Competition enables growth and growth increases the size of the cake

Market economy and competition explain the economic growth after the industrial revolution

Does competition promote solidarity more than sharing?



Economic Order (1/3)

Competition is not "war of all against all"

Conditions and rules of competition:

- ❖ Enabling prosperity enhancing competition
- ❖ Prohibit certain types of behavior (violence, fraud, tax evasion)

New (ethical) goal: Performance competition

- Preferences of customers in center
- Quality and cost of the products

→ **Conditions of actions** in focus and not the motivation



Economic Order (2/3)

Causes of re-evaluation of competition and individual striving:

1. Elimination of Social Control

- Premodern: Social control via face-to-face mechanisms → Strong deterrent potential
- Modern: Ever-changing cooperation partners, complex causal connections and effects of actions (externalities)
- Self-control/conscience of the individual leads to competitive disadvantage in competition



Economic Order (3/3)

Causes of re-evaluation of competition and individual striving:

2. Self-interest as a "modern form of charity"

- Crucial: Suitable framework promotes prosperity and induces people to produce what benefits their fellow human beings
 - Self-interested action at the expense of others should be prevented
 - Preferences do not only refer to monetary or material advantages
 - Modern ethics of investment instead of premodern ethic of moderation
- Under this view, traditional conflict between "good" altruistic behavior and "bad" egoism is no longer valid.



Ethical Quality of Competition (1/2)

The following applies if competition takes place in an appropriate regulatory framework:

- Self-interests can be directed in such a way that they bring the greatest benefit to fellow human beings and society
 - Exploitation must be prevented by rules
 - Uncertain consequences of enforcing ethical values irrespective of framework conditions are avoided
 - Recognizing the complexity of contemporary socio-economic systems
- Competitive market economy as systemic approach of business ethics

Ethical Quality of Competition (2/2)

Example of shortcomings of traditional ethics of behavior:

- Burning 105 tons of confiscated ivory in 2016
- Goal: fight against illegal poaching

Ethical perspective:

- Poachers hunt for high profits
- Burning 105 tons reduced supply, but increased prices
- Demands stay constant, price of ivory increased → higher profits attract more poaching



If systematic connections are overlooked, even well-intentioned acts can often lead to unforeseen and above all unwanted consequences



Chapter 3

Historical-Economic Background: Premodernity and Modernity

3.2 The Benefits of the Market and Competition



Competition (1/3)

What does competition mean?

Competition is state of “competitive striving”

“It is merely a metaphor to call competition competitive war, or simply, war. The function of battle is destruction; of competition, construction.” (Mises, 1922, p. 291)

The linguistic distinction between competition and struggle is important

- Struggle: Natural and "without rules"
- Competition: Without a suitable set of rules, competition as an artificial structure can quickly lead to a "ruinous competition." (Hobbes, 1642)



Competition (2/3)

Conceptual history and linguistic usage:

- Latin: *competere* = "trying to achieve something at the same time," → abiding by rules vs. *concurrere* = "collide, converge," → refers to direct combat, not abiding rules
- English: *Competition* = Rivalry → competition from *competere*
- German: *Wettbewerb* → key concept of liberal economics and social science - put into other contexts (for example: Political competition, biological competition, etc.)



Competition (3/3)

Six that are inseparably linked to the success story of market economies:

1. Market as an instrument for the use of distributed and local knowledge
2. Market as a method of discovery
3. Market as an engine of innovation
4. Market as a control mechanism
5. Market as an instrument of disempowerment
6. Market as an instrument of self-discipline



The Market as a Method for the Use of Knowledge

The market as an instrument for the use of distributed and local knowledge

Economist and Nobel Prize laureate Friedrich A. Hayek describes economic relations and human needs as “a complex and spontaneous order”

Planned Economy:

Describe complex social structures and optimize by way of general laws

General production quotas and prices are set

Market Economy:

Human needs and conditions are constantly changing

Market processes dispersed knowledge of all individuals in the price



The Market as a Method for the Use of Knowledge

The market as an instrument for the use of distributed and local knowledge

- Fire in South American copper mine → interruption of production → supply volume is decreasing → price of copper is rising (with steady demand)
- German medium-sized companies using copper can react to this and replace copper with other precious metal that is now cheaper
- Optimization of limited resources
- The price as an indicator of the shortage of a good contains information that can be reacted to without understanding nature of price changes



The Market as a Method of Discovery (1/2)

- Input: Knowledge of millions of people (swarm intelligence); Output: Unimagined market solutions
- Competition: the constant exchange of information and the constant pressure of competition
- Creation of goods, concepts, services and convictions that can not be sensibly controlled
- Findings may not only affect products or services, but also spheres of human coexistence in general



The Market as a Method of Discovery (2/2)

Competition works as an engine for innovations and improvements in products and services

Joseph Schumpeter (1912 - 1950)

"Dynamic entrepreneurial type" and genius cult of the 19th century.

The process of "creative destruction," → improvement and new development of products

William Baumol (1922 - 2017)

Rule-based market economy with competition itself brings forth this type of entrepreneur; incentive systems

Premodern: competition was often suppressed or obstructed in some way (e.g.: guilds)

Feedback: innovations and competition results give rise to a feedback effect



The Market as a Control Mechanism

- Control Mechanism in the Premodern period

Face-to-face control

Social control in small communities

- Modern: control function of the market
- Cost and duration weaken the effectiveness of legal processes
- Instead: companies are subjected to control from outside and inside
 - a) Externally: control over stakeholder relations and discipline of the market
 - b) Internally: Shareholders control mechanism (for example, via the Supervisory Board)



The Market as an Instrument of Disempowerment

Due to its structural features, the market serves as an important instrument of disempowerment

- Impartiality of the market
- Market mechanisms reward only what meets demand
- Automatically, limitation of power positions as they are threatened by competition
- No abuse of power

E.g., Microsoft in the late 1990s: Even companies with a large market share and thus a certain power position can never be sure that they will not have competitors

The Market as an Instrument of Self-Discipline

Success is possible only through cooperation with other partners

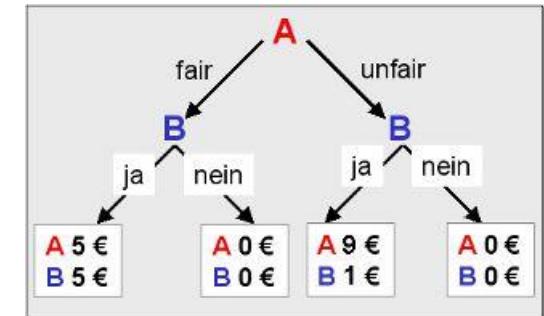
Business transaction occurs if both parties believe that they benefit from the exchange,
competing companies need to reconcile their own idea of advantage with that of their future
partners

Does competition generate fairness?

Ultimatum Game: (9/1) is rejected, which is irrational under
traditional assumptions of money maximization

Empirically: Fair distributions especially among participants from
cultures of competition

Reason: interaction with strangers; reputation building





Chapter 3

Historical-Economic Background:

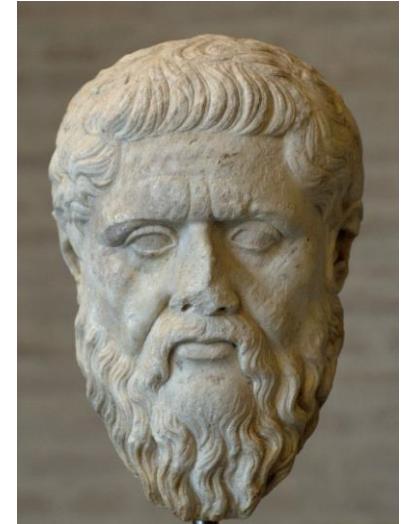
Premodernity and Modernity

3.3 The Fair Price

The Fair Price – Antiquity (1/4)

Economics and ethics from the perspective of Platonic philosophy:

- Main objective: state-sponsored pursuit of virtue (Plato, *Nomoi*)
- Rejection of profit and utility maximization
- Call for an upper limit on ownership
- Special regulations for economic transactions:
 - A fixed daily price per good
 - Profit only in modest margins, as a modest premium on the "value" of a good
 - Seller knows "value" of goods, does not have to charge premium



Source: wikipedia.org

The Fair Price – Antiquity (2/4)

Economics and ethics from the perspective of Aristotelian philosophy:

- Theory of Price: Principle of Equalizing Justice:

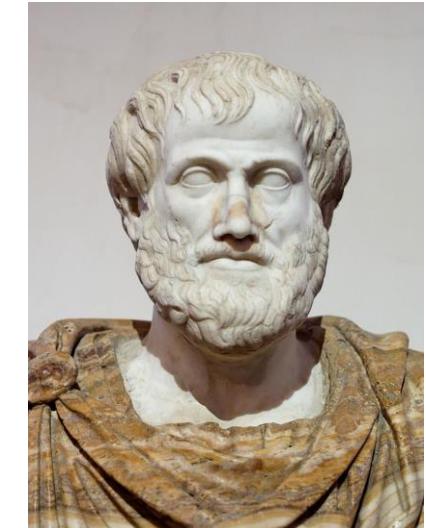
Proportionality of the price depends on need

Assessment of work performance depends on social position

- Economics and Chrematistic:

Economics (Art of house-keeping) takes place within clear limits and is therefore morally permissible

Chrematistic (The study of wealth) as enrichment at the expense of others is immoral (Zero-sum game)



Source: wikipedia.org



The Fair Price – Antiquity (3/4)

Cicero's view on the price mechanism

„During a famine on Rhodes, a trader conveys grain from Alexandria to the island. He knows that more ships with Egyptian grain are under way to the island, but his dilemma is: should he share this information or should he sell at the highest price possible?“ (De Officiis, III, 13, 57.)

- Pro argument: The grain belongs to the dealer (freedom of action and ownership)
- Contra argument: The community of all people forbids exploiting such knowledge. Because there is a "right value" of a good that every person actually knows.
- Objective valuation is typical of antiquity



The Fair Price – Middle Age (1/2)

Morality and economy in the Old and New Testaments

Assumption: The "fair" price is in place: Moses already made the clear demand that no one should "take advantage of his brother" in a transaction (3 Moses 25,14)

An a-priori suspicion: "A merchant can hardly keep himself from doing wrong, or a huckster from sin." (Sir 26.29)

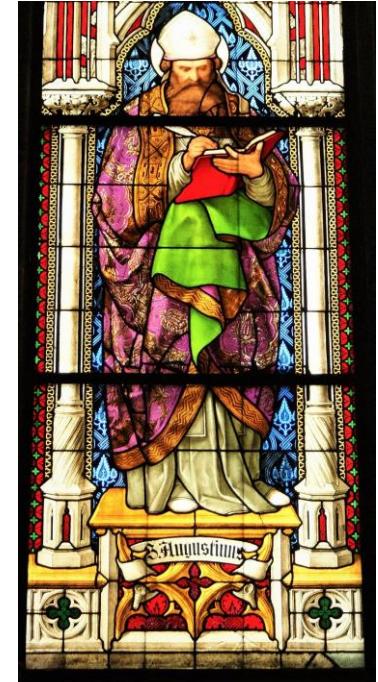
Gospel of Matthew: "No one should go too far" and take advantage of his or her trading partner. (Mt 6,24)

Notion of the Last Judgment: Do not endanger security through wealth

The Fair Price – Middle Age (2/2)

Morality and economy for Augustine (354 - 430)

- Theory of Values and Ranking of These Values (*De Civitate Dei*)
- The purchase price, however, is based exclusively on human needs
- Ranking of human needs from experience: thus an objective value theory
- Augustine does not see trading gains as something bad per se (although he also points out the moral dangers).



Source: wikipedia.org



Chapter 3

Historical-Economic Background:

Premodernity and Modernity

3.4 The Prohibition of Interest and Usury

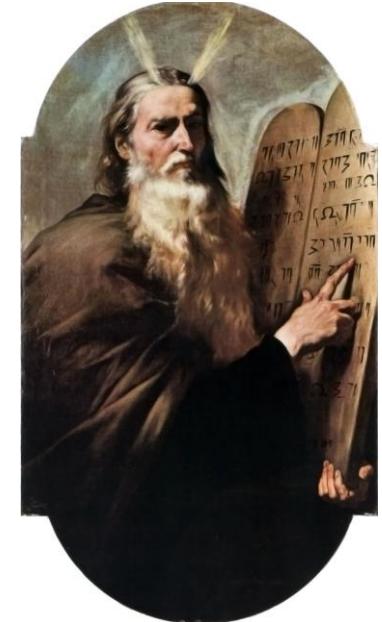
The Prohibition of Interest and Usury in Antiquity

"If your brother becomes poor and cannot maintain himself with you, you shall support him as though he were a stranger and a sojourner, and he shall live with you. Take no interest from him or profit, but fear your God, that your brother may live beside you. For thou shalt not lend him thy money in interest, nor victuals for an additional charge." (5 Moses 23,19f)

- ❖ Clear prohibition of interest
- ❖ Duty to help among relatives
- ❖ Not applied to: behavior towards outsiders

You may charge interest to a foreigner, but to your countrymen you shall not charge interest, so that the LORD your God may bless you in all that you undertake in the land which you are entering to possess." (Deuteronomy 23:19)

- Moral rule that can be maintained in small groups or face-to-face societies



Source: wikipedia.org



The Prohibition of Interest and Usury in Ancient Greece (1/2)

In Plato's "Nomoi":

- Great assets through interest = power that can undermine the laws of the state
- Contrast between state and capital (analogy to Karl Marx)

The State = highest moral good

Plato rejects lending money for interest because it can destroy the social order

In Plato's "Politeia":

- General intuition: interest is perceived as evil
- Credit trade increases number of poor in the state



The Prohibition of Interest and Usury in Ancient Greece (2/2)

In the Nicomachean Ethics and Politics of Aristotle the profit generated through interest is "unnatural".

Reason: It does not come from work, but from the money itself

"There are two sorts of wealth-getting, as I have said; one is a part of household management, the other is retail trade: the former necessary and honorable, while that which consists in exchange is justly censured; for it is unnatural, and a mode by which men gain from one another. The most hated sort, and with the greatest reason, is usury, which makes a gain out of money itself, and not from the natural object of it. For money was intended to be used in exchange, but not to increase at interest. And this term interest, which means the birth of money from money, is applied to the breeding of money because the offspring resembles the parent. Wherefore of all modes of getting wealth this is the most unnatural."

(Aristotle, Politics)



The Prohibition of Interest and Usury in Christian Doctrine

Council of Nicaea (325 AD):

- Ban on money lending against interest
- Emperor Constantine translated decisions into laws
- Trading in loans against interest was punished with infamy

Other Councils that emphasized the prohibition of interest:

- Lateran Council 1139
- Council of Lyons 1274
- Council of Vienne 1311

Pope Pius VIII announced in 1830 the lifting of the interest ban



The Prohibition of Interest and Usury in Islam (1/2)

The prohibition of interest in the Qur'an and Sharia

- Interest prohibition (Arabic: Riba) applies to the demand and the payment of interest
- Interest as non-Muslim, because it is acquired without "achievement"
- Interest is understood as a premium for which there is no consideration
- "But those who devour interest become like the one whom Satan has bewitched and maddened by his touch. This because they said, "Selling is the same as taking interest." But Allah has allowed selling and forbidden taking interest (Sure 2, Verse 275)
- The waiver of consumption is not recognized as consideration



The Prohibition of Interest and Usury in Islam (2/2)

Islamic banking as an alternative?

- Lender participates in the profit and loss of a credit financed company (equals equity)
- Profit only if risk of loss is also borne
- Problems:

No distinction between equity and debt. Borrowing is usually less risky (priority) and therefore important for many companies

Many social policy instruments rely on interest

all kinds of insurance policies are rejected in Islam according to the traditional understanding if they are not based on donations