

## **Peter Koslowski's Ethics and Economics or Ethical Economy**

A Framework for a research agenda in business ethics

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Peter Koslowski's Ethics and Economics or Ethical Economy: A  
Framework for a research agenda in business ethics

This paper presents the concept of ethical economy (*Wirtschaftsethik*) and the relation between ethics and economics on the basis of the work of the German ethical economist Peter Koslowski. The concept of ethical economy includes three levels: micro, meso and macro levels; and it also deals with the philosophical analysis of the ethical foundations of the economy. After the discussion of these elements of the ethical economy, the paper presents some possible research topics for a research agenda about economic ethics or ethical economy.

The discussion about ethics and economics and the focus on the idea of economic ethics or ethical economy was initiated by Peter Koslowski (1952-2012) who, over many years, worked on the relation between ethics and economics. In particular, he was interested in the principles of ethical economy, and later he also applied this discussion to the foundations of philosophy of management and corporations. Koslowski wanted to develop a philosophy of ethics and economics or ethical economy. In Peter Koslowski's book *Principles of Ethical Economy* (2008), we find the basis for such an approach to philosophy of management. Koslowski argued that ethics and economics must accept one another and unite themselves in a comprehensive theory of rational action (Koslowski 2008: 1). With the idea of ethical economy, Koslowski contributed to define the outline of the discussion of the relation between ethics and economy in German political economy, law and business ethics.

Koslowski was a rising star of business ethics in Germany during the 1980s. In particular, he focused on a purely ethical approach to the problems of economics and business. His starting point was here the hermeneutic positions of the German historical school based on Wilhelm Dilthey and Schleiermacher (Koslowski 1995). Koslowski was also strongly influenced by Aristotle (Koslowski 1979). Koslowski also opened up the business ethics approach by considering business ethics in the perspective of religious ethics and Catholic social teaching. But this was not really a Catholic social ethics; rather, the approach by Koslowski, who was a pupil of Spaemann, was an attempt to found business ethics in a Catholic religious philosophy.

According to Koslowski's ethical economy that combined hermeneutics with (Catholic) social theory in relation to the conceptualization of market and society, there is a close interaction between culture, ethics and economics in the definition of the basis for economic markets. According to the definition of Koslowski, economic ethics or ethical economy is a theory of the economy *and* of ethics. As an ethical economy, it unites ethical and economic judgments and constitutes the complement of political economy. Ethical economy and political

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economy are linked to macro-economic and economic theory of rational action. But we can also make a connection between ethical economy (and business ethics) and philosophy of management. In this sense, the relation between ethical economy and the philosophy of management and corporation is that the ethical economy proposes the analysis of the institutional and economic frame of the reflections about philosophy of management and corporations.

Following Koslowski's approach to ethics and economics, we can propose a general definition of general approach to philosophy of management and corporations (Koslowski 1988). This approach would focus on issues like the ontology and epistemology of organizations, including issues of business ethics and practical philosophy of management. But we can also say that it opens for reflections on business ethics in the framework of hermeneutics and reflective judgment. In such a hermeneutical perspective, Koslowski's approach to ethics and economics is not only hermeneutic and Aristotelian—as well as inspired by Thomas Aquinas' view on economics—but it also implies a Kantian view on the legitimacy of business ethics. We can say that Immanuel Kant's distinction between theoretical, practical, and aesthetic reason and judgment helps to define the basis for economics and ethics applied to corporations, firms and organizations.

From this philosophical viewpoint, the ontology of organizations includes questions like: What is organization? How do we define organizational identity and personhood? What are the foundations of different organizational systems? Likewise the problem of the epistemology of organizations includes questions like: What frames our knowledge and what are the categories of our understanding and reason and the limits of our conceptions of the world? Accordingly, from the framework of ethical economy we can argue that philosophy of management and economics deals with issues of the role of ethical responsibility in economics, individualism and altruism in economic ethics, the role of ethics in economic rationality, the interactions and tensions between ethics and economics.

This framework for the work on business ethics and philosophy of economics is summarized by Koslowski with the following definition of the ethical economy:

*Economic ethics or ethical economy is, accordingly, on the one hand, an economic theory of the ethical and of economics and of ethical institutions and rules, and, on the other hand, the ethics of the economy. Like political economy, it has a double meaning. It is the theory of ethics that uses economic instruments of analysis, a theory of ethics oriented towards economics, just as political economy is a political theory that uses economic instruments of analysis. But ethical economy or economic ethics is also a theory of the ethical presuppositions of the cultural system of the economy, a theory of the ethical rules and*

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*attitudes that presuppose market coordination and the price system in order to function. The component of the ethical economy, which is more strongly oriented toward application, is called here "economic ethics" (Wirtschaftsethik), although the terms "ethical economy" and "economic ethics" merge and the present work also attempts to deal with fundamental and applied questions of ethical economy and economic ethics. The term "ethical economy" (Ethische Ökonomie) goes beyond the research objectives of economic ethics, understood as the ethics of the economy, to achieve an integration of ethical theory and economic theory. Ethical economy must be more than simply "economics and ethics" (Koslowski 2008: 3).*

But in an opposite way, ethical economy can also be understood as the economic theory of the ethical or ethics oriented towards economics. Here, we face the economic theory of ethics.

Koslowski argues that economics and economic theory can help to clarify ethical dilemmas and maximization of economic calculations in ethical decisions. It is important to emphasize that the economic theory of ethics helps to understand the role of self-interest and maximization in the solution of ethical dilemmas. Thus, with this definition, we can say that Peter Koslowski opens for the analysis of business ethics as a practical philosophy of management. This includes the investigation of themes like corporate social responsibility, values-driven management and corporate citizenship in the framework of an ethical economy. In the perspective of Koslowski's approach, we can argue for a cultural and historical approach to the economy that includes an approach to ethical judgment between law, economics and politics.

In Koslowski's definition, ethics is about the good and human virtues while economics concern the design of human institutions based on self-interest and economic rationality. Both disciplines are based on human action and both disciplines work with a concept of rationality (Koslowski 2008: 1). According to Koslowski, a comprehensive theory of economics cannot be based only on self-interest, but must include a broader theory of the good. However, ethics must also have a realistic economic dimension, being aware of the rationality of economic self-interested maximization. Accordingly, as a general concept of political economy, ethical economy unites economic and ethical judgments in a unity. It is important to emphasize that this theory benefits from the general instruments of economic theory (micro-economics, macro-economics, economic analysis) while at the same time also using insights from ethical theory to analyze the goodness of norms and institutional arrangements (Koslowski 2008: 1).

According to Koslowski, pure economic theory is an important instrument for analysis of rational action in order to assure efficient pursuit of objectives and social efficiency.

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Political economy generalizes this method to be the economic theory of the political and of the economic dimensions of the political and of the cultural and political dimensions of the economy. With reference to Adam Smith's *Wealth of Nations*, Koslowski argues that there has been a close link between responsible management, political liberty and political coordination of the economy with the combination of political and economic measures (Koslowski 2008: 2).

Accordingly, ethical economy can basically be defined as the theory of the ethical presuppositions of the economy and of economic ethics. This is acknowledged by the new institutional economics that states that market actors and economic markets are not independent of social, institutional and cultural arrangements in society (Koslowski 2008:3). Political economy examines the social, legal and institutional foundations of the market economy (price mechanism, market interaction, supply & demand, profits, ownership, contracts, rights, justice), while ethical economy investigates the ethical norms and principles of these foundations based on implied ethical understanding (e.g. trust) and ethical norms of justice of the institutions of the economic system (Koslowski 2008:3).

But this dialectical relation between ethics and economics must not forget the point of view of ethical economy as a "material or substantive" concept of ethical economy *qua* normative theory of the relation of ethics and economics in the concept of goods (Koslowski 2008: 4). There is an interaction between economic and aesthetic concepts of values that necessitates a cultural concept of economics, looking at the cultural dimensions of economic institutions, management and political economy.

So Koslowski considers that the ethical economy consists of three fundamental areas of analysis: 1. The theory of the ethical presuppositions of economics; 2. The economic theory of ethics; and 3. The economic and ethical theory of goods and value-qualities of culture. Together, this can be said to form an ethical economy of human institutions (Koslowski 2008: 4).

Koslowski considers this ethical economy as a return to the older practical philosophy, founded by Aristotle, Kant and Adam Smith. It is the task of ethical economy to reintegrate this approach in economic thinking. Ethical economy aims at reintegrating ethics in economic theory in order to situate the abstract concept of "homo economicus" within the social and cultural sphere of society. This means that ethics should not only be abstract philosophical metaethics, but also concrete ethical reflection about human action in concrete social circumstances. Economic ethics in the ethical economy must be practical ethics dealing with concrete life situations of human action (Koslowski 2008: 5).

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Why do we need ethical economy today? What is the need to focus increasingly on the development of this economic ethics, expressed in political economy, business ethics and administrative ethics? Koslowski mentions three important reasons for developing such an ethical economy:

1) Consciousness of the increasing cultural and ecological side effects of our economic actions and need for their ethical accountability, 2) the rediscovery of the human element in technical economic science and the growing expectation of the accountability of leaders of the economy, and 3) the need to counteract a wider separation of the spheres of culture and especially the alienation of the economic world and intellectual and material culture (Koslowski 2008: 6)

The first reason is the problem of unintended side-effects of economic action (externalities). Side-effects are consequences for society, nature and culture of economic action. They are both problems and reasons for the need for economic ethics. Human power over nature is increasing, therefore practical ethical action and responsibility is important. In his analysis of side-effects Koslowski refers to thermodynamics and to the necessity of economic systems to adapt and cope with their environments. Our power to destroy the world due to unintended consequences of our actions necessitates ethical reflection about economic externalities (Koslowski 2008: 8).

The second reason of the rediscovery of the human person in the social sciences means that there is no autonomy of scientific and economic reason in economic sciences. There is always a human element. Economics cannot be a pure physical and natural science because it relies on human action and intelligence. Koslowski therefore talks about a human turn in economics, a "re-anthropomorphization" or "rehumanization" of economic scientific understanding of economic action in organizations and institutions. Koslowski argues that "anthropomorphism" is very important in the post-industrial economy because it is the human engagement in work and production that is essential for value-creation. In the post-material service and experience economy, "Bringing the mind back in" has become essential (Koslowski 2008: 8). A re-moralization of the economy is necessary to deal with the cultural influence of the economy which is expressed by the generalization of the human element in the economy and we can add because of our move to an "anthropocene" era of the relation of humanity to nature and to the Earth.

The third reason is that it is necessary to have a normative dimension of economic action because the economic element has been generalized to all spheres of society. When the economic system is generalized it brings with it the need to deal with the social and ethical elements of economic action. Koslowski argues that the differentiation of society has led to

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the generalization of one subsystem, namely the economic subsystem. At the same time there has been increased separation between the sphere of work and the sphere of leisure. But the economic and instrumental approach has also started to dominate the sphere of leisure. However, this cannot be accomplished without a concern for the cultural dimensions of economic action. Therefore, we need to integrate ethics and economics when we deal with the generalization of the economic approach to all spheres of society. A political and ethical economy is needed because of the extension of economics to all parts of society.

Indeed, Koslowski defines his ethical economy as a post-modern economy moving beyond the modernist economy of Hobbes, Mandeville and Adam Smith and also Marx, separating ethics and economic action. The attempt to make economics into a mathematical and mechanistic theory thus separating ethics and economics has failed. The attempts to separate ethics and economics, with personal ethics on the one side and economic rationality on the other side cannot be maintained in Koslowski's perspective of a postmodern ethical economy.

Accordingly, Koslowski was very open to postmodernism since he wanted to be open to new elements of ethics and economics (Koslowski 1988). It is therefore right to characterize Koslowski's position as an open historical-hermeneutic position of Aristotelian origins in ethical economy rather than a closed Catholic position, even though there are religious elements in Koslowski's point of view.

Jörg Althammer from the University of Ingolstadt follows Peter Koslowski in his development of an ethical economy as a general theory of political economy and a theory of the economic dimensions of society that is applied to social issues and family policies (Althammer 2000). Althammer criticizes the instrumental character of the framework conditions as it is proposed in the theory of order ethics. Instead we can say that the ethical economy searches to define the ethical basis for the economy as suggested by Koslowski. Ethics cannot be reduced to economics. Rather, it is necessary to define the correct ethical conditions for economic action with regard to definition of the good in relation to ethical decision-making in the economy. The instrumental economic approach is criticized by the ethical approach as not being sufficient for dealing with the ethical conditions of a good society. The order ethics approach, as suggested by Karl Homann on the basis of the US-professor Buchanan, does not take in account these ethical conditions of the economy.

The ethical economy approach is, according to Althammer, also critical to the principles of discourse within the theory of communication ethics. This approach is considered as contradictory since the communication dialogue without power is impossible. Moreover, the

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neutral moral point of view is not really possible. It is not possible to define the moral basis of this communicative approach to the ethical economy. Instead, Althammer proposes to base the ethical economy on natural law and a Catholic societal ethics. This approach looks at the natural-law foundations of the economy as based on individual rights and capabilities (i.e. following Amartya Sen). With this approach, the Catholic natural-law thinking tries to define the limits of the market economy in relation to the economic action of the market. This approach defines normative systems of economic order that go beyond the ethics of the market as suggested by the order ethics school of Homann and his colleague Ingo Pies. In contrast to the ethics of the market, with its criticism of the social state and of the welfare state, the approach of the Althammer's and Koslowski's school suggests ethical limits to the economic system based on social and political regulation of the market.

The capability approach, following Sen and Nussbaum, represents such a normative approach to the ethical economy within the welfare state. Concepts of corporate social responsibility, corporate citizenship and social entrepreneurship find their meaning within the framework concept of the social welfare state. Ethical economy is not only business ethics or managerial ethics, but it is rather the strong effort of the ethical economy approach to develop a general normative political economy to regulate the economic market. This economy focuses on the concept of the social welfare state in relation to the regulation of the economic market. The position of the ethical economy integrates philosophical reflections about the justice and constitutional foundations of the market in the reflections about ethics of economy. The aim of ethical economy is not only to study the ethics of the market, but also to look at the societal institutions of the welfare state and find the right relations between market and state. According to Althammer, this has to be based on a humanism of solidarity in contrast to an economic egoism of the market based on "homo economicus". One way to discuss this is the reflections about the minimum conditions of the social welfare state based on social support to individuals, for example in form of minimum basic income.

My question is, now: How can we set up a research program to reinitiate the ethical economy, for economic ethics to be operationalized? What would be the major tasks of research in ethical economy today? What is the "research gap" to be initialized for an ethical economy in contemporary research? Is there a room for a research project of ethical economy? Topics for the analysis in terms of ethical economy are: 1. The relation between economic ethics and formal philosophical ethics; 2. Definition of the principles of substantive ethics of ethical economy; 3. Ethical economy and cultural philosophy of the economy; 4. Ethical problems and dilemmas in relation to economic externalities and side-effects; 5. Economy, ontology, decision-theory and philosophy of management, including



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practical dimensions of decision-making; 6. Economic ethics and the market economy, including specific economic dilemmas of business ethics and economics of organizations; 7. The concept of justice and just price in economics and economic institutions.

We could define this research project with the following issues: 1) Identify the major dimensions of the ethical economy, based on literature review and analysis of the existing positions and literature in the field. 2) Identify major empirical areas of research in ethical economy, related to economic institutions, political decisions-making, corporate cultures and organizations 3) Propose solutions for actions and decision-models for economic ethics and ethical economy in different organizations and institutions.

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