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Working Paper

Responsibility and economics

Diskussionspapier, No. 2007-6

Provided in Cooperation with:

Martin Luther University of Halle-Wittenberg, Chair of Economic Ethics

Suggested Citation: Beckmann, Markus; Pies, Ingo (2007) : Responsibility and economics, Diskussionspapier, No. 2007-6, ISBN 978-3-86010-900-7, Martin-Luther-Universität Halle-Wittenberg, Lehrstuhl für Wirtschaftsethik, Halle (Saale), <https://nbn-resolving.de/urn:nbn:de:gbv:3:2-1174>

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Markus Beckmann and Ingo Pies

Responsibility and Economics

Diskussionspapier Nr. 2007-6

des Lehrstuhls für Wirtschaftsethik
an der Martin-Luther-Universität Halle-Wittenberg,
hrsg. von Ingo Pies,
Halle 2007

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ISBN 978-3-86010-900-7
ISSN 1861-3594 (Printausgabe)
ISSN 1861-3608 (Internetausgabe)

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Abstract

Empirically, responsibility is a concept increasingly made use of in order to address societal issues. At the same time, it is a concept mainstream economics has, so far, hardly touched on. The paper shows that the application of economic reasoning to the responsibility concept can instruct a twofold learning process: First, the very tradition of economics allows to better understand and elaborate the semantics of responsibility. Here, the paper develops the concept of *ordo-responsibility* that differentiates between the initial basic game and the related meta-games. The focus thus shifts to the rule-setting processes and rule-finding discourses for which the actors can accept governance responsibility and discourse responsibility, respectively. Second, the rational-choice analysis of the responsibility concept also produces important insights for mainstream economic theory. Building on a simple model that delineates the responsibility aptitude of an actor, the paper explains why standard economics tends to attribute the rule-setting function exclusively to state actors. Yet, as the underlying nation-state paradigm depends on social determinants that are not universally given, such economic theory shows a double blind spot. Against this backdrop, the paper sketches out how to broaden the conventional perspective and identifies policy recommendations for state actors and business corporations.

JEL Classification: A11, A13, D02, D63, M14

Responsibility and Economics

Markus Beckmann and Ingo Pies

This paper is about responsibility and economics. In public discourse, responsibility is a concept increasingly made use of in order to address a broad range of societal issues. At the same time, it is a concept that mainstream economics, so far, has hardly touched on. This paper shows that the application of economic reasoning to the responsibility concept can instruct a twofold learning process: Not only does the very tradition of economics provide a powerful perspective to better understand and elaborate the semantics of responsibility. Moreover, a rational-choice analysis of the responsibility concept also produces important insights for mainstream economic theory and allows new policy recommendations.

The argument will be developed in three steps. The first step shows that there is an *empirical* case to focus on the concept of responsibility. The paper highlights that public trust in the institution of free markets, in business corporations and their guiding principle of profit maximization is dramatically eroding. As a result, there is a growing need to frame policy questions in normative terms such as “responsibility”. A key example is the movement for corporate social responsibility (CSR). Yet, while the CSR-movement has gained wide support, there is a mismatch between the rising need to call for responsibility and an only vague understanding of what responsibility could possibly mean in the context of competition and free markets.

The second step focuses on *theory*. This step comprises two sections that illustrate how economics can serve to reflect (section 2.1) and improve (section 2.2) the concept of responsibility. Section 2.1 specifies the *diagnosis* as to why potential misunderstandings arise when the idea of responsibility is applied to societal problems. Here, the following thesis will be developed: The conventional responsibility concept comes from a tradition of individual ethics. It invokes individual moral duties that call on the addressee to behave in such a way that he can justify his actions. From an economic point of view, the chance of success for such obligation semantics is bound to particular implementation conditions, primarily the criterion of individual outcome-control. One can only be held responsible for that over which one has control. A systematic reconstruction shows, however, that there are also situations where the particular social structures lead to outcomes that no individual can directly control. An indiscriminate *extension* of the ascription of responsibility to situations of this kind leads to an *overextension* of the responsibility concept: Social structure and semantics then drop apart.

Section 2.2 uses the perspective of institutional economics to develop a *therapy* proposal. This therapy aims to categorically update the responsibility concept in order to overcome the diagnosed discrepancy between social structure and semantics. The thesis here can be formulated as follows: Situations without (individual) outcome control make it necessary on a semantic level to adjust from “action responsibility” *in* the game to an “ordo-responsibility” *for* the game. Ordo-responsibility describes the responsibility for the context of one’s own action and is found on two levels. On the first level, ordo-responsibility is about a process of setting rules in which one, through individual and collective self-commitment, accepts responsibility for governing the joint game (governance responsibility). At the second level, ordo-responsibility is about participation in a discourse aimed at identifying shared interests in mutually advantageous rules

(discourse responsibility). The core idea is then, on the basis of an economic analysis of social structures, to identify those process levels of social interaction for which a sensible attribution of ordo-responsibility as a governance or discourse responsibility is possible.

The focus of the third step lies in *policy application*. It uses the ordo-responsibility concept to delineate in economic terms the responsibility aptitude of an actor. Here, a simple model explains why standard economics tends to attribute the rule-setting function exclusively to state actors. Yet, as the underlying paradigm depends on social determinants that are not universally given, economic theory based on the nation-state paradigm shows a double blind spot. Against this backdrop, the paper sketches out how to broaden the conventional perspective and identifies policy recommendations for state actors and for business corporations.

1. The Empirical Case: Eroding Trust and the Call for Responsibility

(1) “All in all, the German public considers the economic forces to be evil.”¹ This heading by the German Stern magazine summarised the results of a number of German opinion polls in 2005. In effect, public levels of trust towards the market economy and business corporations have plummeted in Germany to low points unprecedented in recent years. In 1994, 53% of the German population held a favourable view of the social market economy. In 2005 this number had fallen to 25%.² One in two Germans now believes that the market economy unavoidably leads to greater social injustice.³ By the same token, companies are facing mounting criticism: Public trust in business corporations has fallen to less than 30%; 77% expressed that large companies have too much political influence; and 58% felt that companies’ “greed for profit” puts in danger the “future of democracy”.⁴

With regard to Germany’s crippling economy and high unemployment, these results might well be interpreted as a pronouncedly German phenomenon. However, empirical data reveals that quite the opposite holds true. In fact, levels of trust towards business corporations and the market economy have been declining for years now on a global scale.⁵ While opinion polls prove that only a minority would prefer to outright abolish capitalism, a growing majority believes that markets only work best in society’s interest when accompanied by strong government regulations. In 2005, this view was held by 59% of Americans, 68% of Germans and 69% of British polled.⁶ As for companies, favourable opinions of business corporations are at their lowest point in decades – falling for example from 70% of US voters in 1995 to 45% in 2005.⁷ In Britain, only 41% now feel trust in multi-national corporations; while 80% believe that companies have too much political influence.⁸ At the same time, long-term polling data confirms a

¹ Guessgen (2005, 2006).

² IfD Allensbach (o.J.).

³ Piel (2005; p. 21).

⁴ Cf. Noelle-Neumann and Koecher (2002; p. 619), GlobeScan (2006; p. 2) and ZDF Politbarometer (2005, 2006).

⁵ Cf. GlobeScan (2005, 2006).

⁶ GlobeScan (2006; p. 4).

⁷ Pew Research Center for The People & The Press (2005; p. 11).

⁸ In other countries, this number is even higher such as in the US (85%) and France (86%). Cf. GlobeScan (2006; p. 4).

growing suspicion that private profits fail to serve society at large. Figure 1 illustrates how the British public perception of private profits has dramatically changed during the past decades. By now, the public by two-to-one disagrees that the profit of large companies indicate that also their customers benefit from that business.⁹ All in all, there is now a situation in which three out of four people polled worldwide assert that there should be more government regulation on large companies to protect the environment or the rights of workers and consumers.¹⁰

“The profits of large companies help to make things better for everyone who uses their products and services.” Do you agree or disagree? (Source: MORI Institute)

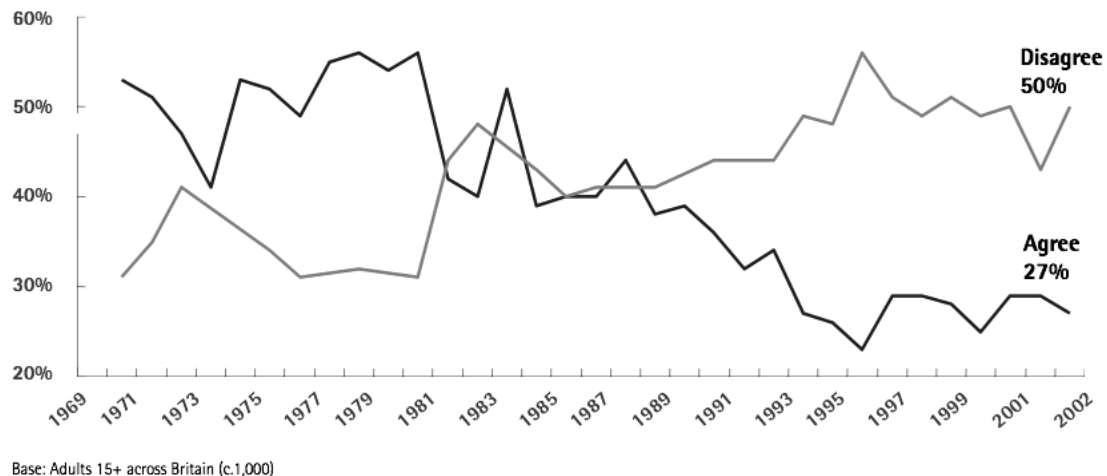


Figure 1: Changing perception of private profits in Britain

(2) While opinion polls indicate ever more negative attitudes towards capitalism and business corporations, empirical evidence also points to a corresponding change in public discourse. An analysis of selected British print media shows that the number of newspaper articles that make use of the terms “business” and “ethics” has tripled from 1998 – 2005.¹¹ A similar trend can be found in US newspapers¹² as well as in German print media.¹³ Generally speaking, there is an observable need to increasingly address societal issues in normative terms. This trend consists both of the revival of traditional semantics such as “solidarity” or “social justice”¹⁴ and of the advent of new normative

⁹ According to the long-term polling data of the British MORI institute, for example, the British public – when polled in the late seventies – by two-to-one agreed that the profits of large companies benefited also their customers. By now, the public by two-to-one disagrees. Cf. Lewis (2003; p. 3).

¹⁰ GlobeScan (2006; p. 6-8).

¹¹ In 1998, there were 104 articles published in the Financial Times, the Times or the Economist that used both the term “business” and the term “ethics”. This number had risen to 186 in 2000, 302 in 2003 and 323 in 2005. For a more detailed quantitative analysis of the public debate in Germany, Britain and the USA cf. Beckmann (2007b).

¹² In the full text edition of New York Times and Wall Street Journal, the number of articles using “business” and “ethics” has gone up from 210 in 1985 to 524 in 2005. Cf. Beckmann (2007b).

¹³ Based on the full text edition of Germany’s SZ, FAZ, HB and Zeit, between 1996 and 2005 the number of newspaper articles making use of the term “Wirtschaftsethik” (ethics of the economy) has more than tripled. Cf. Beckmann (2007b).

¹⁴ Cf. Beckmann (2007b).

categories such as “sustainability”.¹⁵ What this paper focuses on, however, is the semantic category of “responsibility”. In light of the movement for *corporate social responsibility*, it has gained particular prominence.

The idea of “corporate social responsibility” (CSR) had already been at the core of a US-American debate in the 1960s and 70s. A comparative newspaper analysis shows, however, that at this time CSR was of essentially no significance for the public debate in Germany or the UK. This picture has drastically changed. As trust in markets and companies declines, CSR has gained major public attention by the media, governments, NGOs and companies alike. In the media, CSR turned within a few years from a non-issue into a recurring theme in the US, Germany and especially the UK.¹⁶ Here, the Labour government appointed a special UK minister for CSR in 2000.¹⁷ A year later, the European Commission presented the Green Paper ‘Promoting a European Framework for Corporate Social Responsibility’ followed by a number of communications such as the 2006 communication with the aim of “making Europe a pole of excellence on corporate social responsibility”.¹⁸ As for civil society, NGO networks like the British ‘Corporate Responsibility Coalition CORE’ or the German alliance ‘Corporate Accountability CorA’ lobby governments to make (more) corporate responsibility mandatory for all business corporations.¹⁹ Finally, companies themselves not only promote the CSR idea through a multiplicity of international, European and national business initiatives.²⁰ They also dedicate substantial resources to special CSR programmes and, increasingly, set up additional CSR reporting. In Britain alone, the number of separate CSR reports published by the top 100 companies (as ranked by revenue) increased from 49% in 2002 to 71% in 2005.²¹

(3) As a Times commentator put it in September 2006, business corporations are developing a “new sense of responsibility”.²² Yet, a 2005 survey on CSR points out that for many companies it is far from clear what “responsibility” actually means.²³ In effect,

¹⁵ For a discussion of how the concept of sustainability has become a new normative point of reference and of how economics can contribute to the sustainability debate, cf. Pies (2004).

¹⁶ To illustrate: In 1998, of articles published in the Financial Times, the Times and the Economist only one single article referred to “corporate social responsibility”. This number rose to 30 articles in 2000, 116 in 2001 and 155 in 2005. A similar development can be found in the German and US-American media. For more details, see Beckmann (2007b).

¹⁷ Merrell (2000; p. 25).

¹⁸ European Commission (2006).

¹⁹ The CORE network – founded by NGOs such as Amnesty International, Friends of the Earth and Christian Aid – comprises today more than 50 British NGOs. Cf. CORE - The Corporate Responsibility Coalition (2003). For the German NGO coalition “Corporate Accountability – Netzwerk fuer Unternehmensverantwortung“, cf. CorA - Corporate Accountability (2006).

²⁰ Prominent initiatives include, for instance, the World Business Council for Sustainable Development, the Global Corporate Citizenship Initiative of the World Economic Forum, CSR-Europe or the British initiative Business in the Community.

²¹ A similar trend can be pinned down in almost any other industrialized country. Among the Global Fortune 250 companies, 52% published separate CSR reports with an additional 12% giving account of their CSR performance as part of their annual report. Cf. KPMG (2005; p. 9-10).

²² Seib (2006; p. 63).

²³ The study by KPMG (2005; p. 3) concludes that although CSR is gaining prominence, “corporations are still busy finding their way in managing corporate responsibility, which might mean something different for each company.” Similarly, the Global Corporate Citizenship Initiative of the World Economic Forum acknowledges that companies are “still in the early stages of defining” what their responsibilities are and what corporate citizenship ultimately means. Cf. World Economic Forum (2002).

there are competing – and: conflicting – conceptions of what CSR ultimately is (to be). On the one hand, NGOs, politicians, and also businessmen argue that CSR should sustain a “legitimate” balance between shareholder interests and stakeholder concerns. Here, CSR is understood as a “necessary corrective” or “counterweight” for the profit motive.²⁴ On the other hand, CSR is presented as an “enlightened” instrument to maximize profits and shareholder value in the long run.²⁵ At the end of the day, there is a discrepancy between the asserted importance generally given to the idea of “responsibility” and the conflicting understandings of what it ultimately means.

In sum, the empirical problem can now be formulated as follows. Public trust in markets, in the profit motive and in business corporations has significantly declined in recent years. This development goes hand and hand with an observable tendency to increasingly frame business, social and policy issues in distinctively normative terms. In particular, there is a strong movement that calls for “responsibility” and, specifically, “corporate social responsibility”. However, there are only vague and conflicting notions of what “responsibility” and “corporate social responsibility” can possibly mean. Ultimately, this semantic issue translates into real life repercussions. For if the concept of responsibility is incompatible with the functioning of a market economy, then the CSR rhetoric might trigger public expectations that companies simply cannot meet. In effect, as an international GlobeScan survey illustrates, there is an increase across the world in the public demand for CSR. Yet, although companies engage more and more in CSR activities, there are steady decreases in perceived CSR performance ratings of business corporations.²⁶ Thus, vague or even misleading notions of (corporate social) responsibility might eventually reinforce widespread misconceptions and mistrust of the market economy.²⁷ This points to a critical challenge: On the one hand, there is a substantial need to make use of the responsibility concept in public discourse. On the other hand, the prevailing notions of responsibility lack the conceptual precision to effectively instruct societal learning processes. It is the genuine objective of the social sciences to generate conceptual frameworks that promote such social learning. The following chapters demonstrate that economics can contribute important insights to such processes.

2. A Theory of (Ordo-)Responsibility

According to a common view, economics is defined as the branch of science primarily concerned with the production, consumption, and transfer of wealth.²⁸ By this logic,

²⁴ See, for example, David Varney, chairman of mmO2 and chairman of ‘business in the community’, who argues that “a consciousness of CSR and a commitment to enacting its values serves as a corrective to the harshness of the profit motive. CSR is a mechanism that alleviates some of the conflicts. It’s a counterweight. It’s a necessity.” Cf. Varney (2004, 2006). By the same token, the EU Commission claims that “CSR is also about ... set[ting] the trade-offs between the requirements and the needs of the various stakeholders into a balance, which is acceptable to all parties.” Cf. European Commission (2002; p. 4).

²⁵ Cf., for example, to World Business Council for Sustainable Development (1999).

²⁶ Cf. GlobeScan’s 2001, 2003, and 2005 Corporate Social Responsibility Monitor surveys.

²⁷ In 1970, Milton Friedman already stressed this point. He argued that the rhetoric of “social responsibility” “helps to strengthen the already too prevalent view that the pursuit of profits is wicked and immoral and must be curbed and controlled by external forces.” Friedman therefore criticises the CSR agenda because it plays into public sentiments that call for stronger market regulation and government control. Cf. Friedman (1970; p. 125).

²⁸ This definition, for example, is taken from the “New Oxford American English Dictionary”.

normative concepts such as “responsibility” seem to have little to do with the economic agenda. Yet, economics is a research programme that originally derives from the Scottish tradition of moral philosophy. Based on this tradition, economics evolved as a genuinely *social* science – not defined narrowly as a science (only) for the economic sphere but as a specific *approach*. It was Adam Smith who advanced this economic perspective as an instrument to better discuss and implement moral objectives.

One exemplary element of Adam Smith’s work serves to illustrate how the Scottish economic tradition can inspire the endeavour of updating the responsibility concept. A moral objective dealt with at the time of Adam Smith is the question as to how to help the poor. The contemporary discourse tried to address this problem in terms of the “*caritas*” idea. In “*The Wealth of Nations*”, Smith develops a careful analysis of the social structure and the logic of markets. Based on this analysis, he lays the groundwork for understanding that the moral idea of “*caritas*” gives only inadequate advice to help the poor. Instead, Smith demonstrates that free markets are far more effective to generate wealth and lift the masses out of their poverty.²⁹ Thus, he transcends the “*caritas*” idea by offering a more productive framework to achieve its underlying moral objective. In other words, Smith first shows that, given free markets, the “*caritas*” semantics no longer fit to the relevant social structures. Smith then develops a conceptual framework that is compatible with these social structures.

The following two sections are modelled after Adam Smith’s methodology. Section 2.1 develops an analysis of social structure and clarifies why conventional notions of responsibility (can) run into problems. Based on this analysis, section 2.2 then seeks to categorically differentiate the responsibility concept so that it is again compatible with – and thus applicable to – modern social structures. The economic perspective as advanced by Adam Smith serves in both sections as the systematic framework of analysis.

2.1 Analysis of Social Structure as Diagnosis

An analysis of the social structure provides a more specific diagnosis of why conventional notions of responsibility run into problems. This diagnosis will be developed here in three steps. The first step uses an economic perspective in order to differentiate between two sets of situations: action-based situations dominated by individual action and interaction-based situations determined by social interaction. The second step shows that the conventional responsibility concept derives from a tradition of obligation semantics whose implementation requirements can be determined from an economic perspective. The outcome of these reflections is that an appropriate attribution of responsibility is systematically possible only for action-based situations. The third step shows which problems occur as a result of the extension of – strictly speaking action-based – responsibility categories to interaction-based situations.

(1) When one considers the connection between actions and their outcomes, paradigmatically two situations emerge. The first situation can be described as *action-based*. Here, the outcome ensues as the *result of individual action*. The central feature of this situation is individual outcome control. In this case, an actor not only intends but also directly causes a particular outcome through his individual behaviour. Regarded sys-

²⁹ For this interpretation, see Priddat (1990). Priddat describes Smith’s economic approach as the “complete inversion of the *caritas*-economy” (p.18). According to Priddat, Smith transforms the seemingly distributive problem of poverty into a “problem of investment” (p.17).

tematically, the outcome of the action is also its cause: The prospect for the (individually induced) outcome is the reason for the choice of a particular behaviour. An example is the use of gas heating in winter. The action which is of interest is the turning up of the thermostat. The direct consequence of this behaviour is that the temperature in the house rises. This outcome is controllable and intended by the person heating - and thus is the reason for turning up the thermostat. From this perspective, the use of heating describes an action-based situation.

The second situation is different. The interaction-based situation is characterised in that the outcome examined is not determined by the action of an individual actor but rather through the interaction of many. Individual control of the (interactive!) outcome is not possible here. The difference compared with an action-based situation can once again be made clear with the example of using gas in winter. If we do not concentrate our interest directly on the warming of the room, but rather on the warming of the earth's atmosphere as a result of the release of greenhouse gases, the situation changes. Global warming is certainly also a result of individual actions. However, the aggregate (!) outcome "climate change" is neither controllable nor intended by a single individual. Rather, here we see an unintentional interaction outcome of the social behaviour of many. This outcome does not occur because it is actively sought, but rather it is a side effect of individual actions which are carried out with very different aims in mind.

In order to better understand the logic of both situations, one may first reflect on the role they play in the economic – i.e. rational-choice based – method of clarifying social phenomena.

When viewed superficially, it seems as though the action-based situation is at the centre of the economic rational-choice model. This model interprets the behaviour of a representative actor in a pattern of aims and means (figure 2).

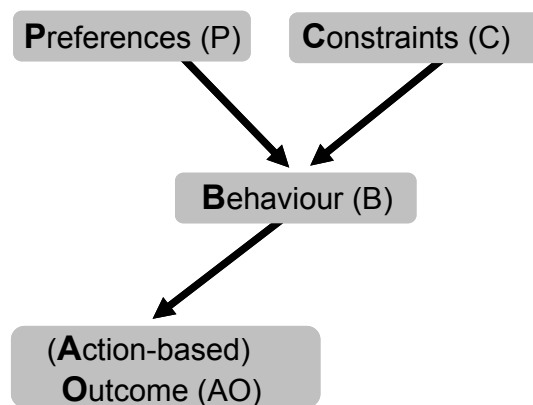


Figure 2: Action-based consequences in the rational-choice model

The assumption of rational behaviour serves to model the actor as seeking to fulfil his individual aims (preferences – P) as well as possible. In order to do so, he chooses the behaviour (B) which – based on existing limited means, i.e. the constraints (C) – brings about the subjective best possible outcome achievable through one's own actions (action-based outcome - AO). Therefore, the focus of the rational-choice model lies in the optimisation of an individually controllable outcome, i.e. on *action-based* consequences.

To be sure, economics uses the analysis of action-based situations for modelling the level of *individual* behaviour. The real research interests of economics as a genuine social science focus, however, on the explanation of phenomena on a *social* level. The analysis of *interaction-based* outcomes of human behaviour (IO) is of interest here. The focal point is the explanation of social rates and above all the explanation of the *change* of social rates (ΔIO).³⁰ Here, the preferences are set to be constant; rate changes are attributed to constraint changes and accordingly declared as *unintentional* consequences of intended actions. It is this specific problem focus on macro-phenomena as well as the micro-oriented strategy of problem solving that constitutes the methodical significance of the rational-choice model (figure 3). The economic explanandum of interaction-based outcomes is explained by the use of an action-based explanans.³¹

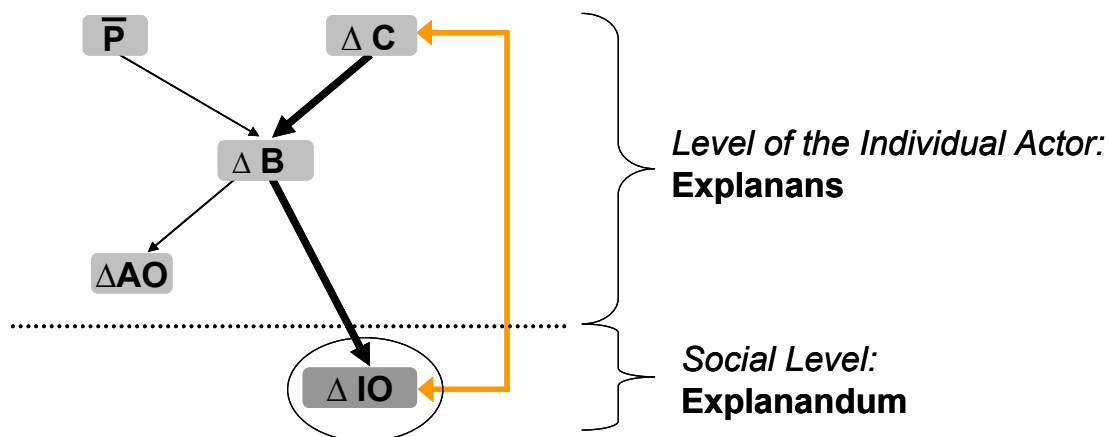


Figure 3: The economic research programme

(2) With regard to social structure, it is possible to differentiate between action-based and interaction-based consequences by using the criterion of *individual outcome control*. Individual outcome control is also the central requirement of meaningful responsibility attribution: One can only be (made) responsible for that which one has in one's own control.³²

From the perspective presented here, the moral substance of the responsibility concept – in the sense of obligation semantics – lies in its heuristic value to inspire prudent behaviour in action-based situations. The suggestion to act in such a way that one can

³⁰ For example: A criminal act causes a marginal increase in the crime rate; the decision to have a child causes an increase in the birth-rate; when a person is employed, the unemployment rate decreases. But in none of these cases can we assume that the change of rate is the cause of the particular action. The actor only consciously seeks the action-based outcomes (ΔAO) but not the interaction-based outcomes: Actions come about as a result of individual advantages which the actors subjectively anticipate. However, they usually do not come about due to the social effects that result in the aggregate. It is not the social but the individual consequences that drive individual behaviour.

³¹ The assumption of stable preferences does not pretend to portray “true human nature” nor to explain how humans “really” are, but rather reflects methodically – as a powerful “as-if” construction – the specific question of the economic research programme. Use of this methodology can be traced back to Gary S. Becker. Cf. Pies (1993; chapter 3).

³² It would be wrong to hold someone responsible for something which he cannot influence. This idea can be traced back as far as to the roman Corpus Iuris Civilis. Around 100 A.D. Aulus Celsus Cornelius writes in the Digest (50, 17, 185): “Impossibilium nulla obligatio est.” Cf. Spruit (2001; p. 985). However, the classical Latin term of this idea that nobody is bound beyond ability, is much more established: To say one should implies one can – *ultra posse nemo obligatur*.

be called to account by others for one's action leads one to consider the consequences of one's own action with a view to their social and temporal dimensions. The idea of responsibility points to the risk of no longer being considered a trustworthy cooperation partner because of irresponsible actions thus causing the loss of any benefits from future cooperation. From an economic point of view, responsibility points toward a particular cost category: towards the depreciation costs which occur when one forfeits one's ability to cooperate. For example, a car dealer may be faced with the option of not declaring a broken part known only to himself when selling a car. This deception would certainly be lucrative in the short-term, but "irresponsible". The idea of responsibility shows that future and social consequences should be taken into account: e.g. having a guilty conscience or the threat of compensation claims by customers, the lack of motivation among one's own colleagues or the erosion of trust and the loss of a good reputation as a dealer. From this perspective, the concept of responsibility formulates – generally speaking, an abbreviated – investment argument. It can be sensible to accept short-term disadvantages to make long-term advantages possible.

The responsibility concept is usually used in the sense of obligation semantics that invoke individual moral duties. This usage, however, can also be reconstructed as the special case in which "responsibility" serves as the condensed idea of an economic conception of what it would be prudent to do. In many cases the (implicit) heuristic value of the responsibility concept is so internalised that it no longer needs to be named explicitly.³³ Such a shortening can be sensible if it helps to effectively reduce complexity. At the same time, it is certainly possible to reconstruct the potential heuristic impact of the traditional responsibility concept in the economic pattern of preferences and constraints (figure 4). The idea of responsibility summarises the question of whether an outcome (AO) induced through one's own behaviour (B) really is the best possible way to reach one's own aims – also under the consideration of poorly discerned consequences (effects on others, long term consequences for a reputation etc.). If the idea of responsibility generates further knowledge about the relevant ways of achieving aims, then the (information) constraints of the actor also change (ΔI) – and can in this way become effective on behaviour (ΔB).³⁴ From this diagnosis an important demand on the *form* of a potential therapy can be pointed to: Responsibility is to be developed not in the form of a moralistic appeal but rather as a heuristic device for prudent behaviour in accordance with the relevant social structure. At the same time, the indispensable requirement for the use of the traditional responsibility conception is, however, the criterion of individual outcome control. Any appropriate attribution of responsibility therefore systematically requires the social structure of action-based outcomes.

³³ With a reference to Friedrich August von Hayek, "responsibility" as a heuristic advise can be understood as a generalised rule of how to first think about a problem. According to Hayek (1976; p. 20), such rules can be a highly rational adjustment to the "inescapable ignorance of most of the particular circumstances which determine the effects of our actions". For Hayek (1967; p. 11), such rules are useful because they "serve to abbreviate the list of circumstances which we need to take into account in the particular instances, singling out certain classes of facts as alone determining the general kind of action which we should take. At the same time, this means that we systematically disregard certain facts which...it is rational to neglect because they are accidental partial information which does not alter the probability that, if we could know and digest all the facts, the balance of advantage would be in favour of following the rule."

³⁴ In this reconstruction, the economic method offers a scientific approach to questions of normativity which – through positive analysis – can bring about a value-free approach to values. Cf. Pies (1998).

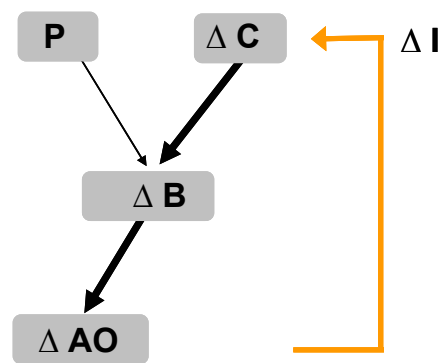


Figure 4: Responsibility as prudence heuristics

(3) The diagnosis now specified by rational-choice analysis can be summarised as follows: The (conventional) responsibility concept – though suitable as such! – causes misunderstandings if it is indiscriminately extended from action-based to interaction-based consequences and thus overextended. This is true for natural persons but also for corporations who are held responsible for social problems such as environmental damage, unemployment or climate change. These phenomena represent social interaction results which are neither controlled nor intended by single actors. In this sense, no single individual or corporate actor is (to be made) responsible for these problems. If one transfers the action-based semantics of individual responsibility to these – interaction-based! – group problems of society, then social structures and semantics drop apart. The usual responsibility category is then no longer able to properly explore the problem.

The attribution of responsibility to consequences which the individual actor cannot (personally) control, therefore, tends to be misleading. An illustrative example is once again the contribution of an individual's heating habits to climate change. If one wanted to change one's behaviour here and for the sake of "responsibility" do without heating, it would mean accepting significant disadvantages without necessarily observing any change in the aggregate interaction outcome of global warming. With no advantages to speak of which could (over-)compensate for individual disadvantages, the demanding of responsibility is only possible in the form of moral appeal to the actor to change his preferences (ΔP) – which, in the case of corporations, would mean to abstain from maximizing profits. Yet, in this way, the responsibility concept does not only lose its heuristic quality; it also loses its moral quality. It is simply not moral, and even goes against human dignity, to place (excessive) demands on the individual whose capabilities they systematically exceed.³⁵ And with regard to companies, such a notion of corporate responsibility is simply not sustainable: A company that – individually! – accepted to continuously realise less profits than its competitors will eventually be driven out of the market.³⁶ As a consequence, if one wants to systematically avoid these problems, an important *consistency requirement* must be observed in any therapy for the responsibility concept. The necessary differentiation of the responsibility concept can only be

³⁵ This overextension of the concept of responsibility leads to forms of moral communication which invite criticism – from a moral point of view! The fallacy of wrongfully assuming outcome control can easily lead to the moral attribution of guilt to the individual. It is insinuated that the individual could behave differently, but *chooses* not to do so – as he is egoistic, inconsiderate and lacks solidarity. Systematic problems hence are addressed ad personam. To put it pointedly, this form of moralising responsibility appeal qualifies for being disqualified as irresponsible.

³⁶ Cf. Homann (1990, 2002).

compatible with the social structure in the long run if responsibility is consistently attributed to (individually) controllable – i.e. action-based – consequences of behaviour.

2.2 *Ordo-Responsibility as a Therapy Proposal*

Global warming, long-term mass unemployment or demographic change are only a few examples of social challenges which are caused by the interaction-based consequences of human behaviour. In such contexts the use of action-based semantics of individual responsibility is based on a category mistake and is therefore misleading. The morally desirable task of making the acceptance of responsibility accessible to these social problems requires a categorical differentiation of the responsibility concept. The above diagnosis shows the (1) content, (2) form and (3) consistency requirements of the necessary therapy.

Firstly, the *contextual focus* of the therapy proposition which is to be developed emerges from the economic explanation pattern of interaction-based consequences (figure 3). This shows that it is first and foremost the *constraints* that systematically channel the outcome of social interaction. By this logic, these constraints constitute the *order* of the joint game. A responsibility concept for the change of interaction-based consequences can therefore only be thought of as a responsibility for order. In terms of the economic approach proposed here, the issue is a change in perspective from responsibility *in* the game to a responsibility *for* the game. In other words, the systematic approach for responsibility in interaction-based situations does not lie in the individual *moves* of the game, but rather in a change of the *rules* of the game.³⁷ Secondly, it is necessary, in terms of the *form* of the therapy proposition, to introduce responsibility in interaction-based situations not as a moralistic appeal but rather as a heuristic device to improve the perception of one's own situation (ΔI) (figure 4). The idea is to provide information about those conditions under which it is possible to contribute to an improvement of order out of self-interest. Thirdly, the *consistency requirement* should be observed whereby responsibility is only applicable for those consequences for which individual outcome control is possible (figure 2).

Building on these reflections, this section develops the heuristic conception of *ordo-responsibility*.³⁸ This concept provides information about the conditions under which it can be advantageous to accept responsibility for the general conditions of one's own actions.³⁹ Here, one can differentiate between two levels. Firstly, it may be sensible to accept, either alone or with others, governance responsibility for the process of rule-setting. Secondly, it may be advantageous to accept discourse responsibility for those discussions that could contribute to the finding of joint (rule) interests.

³⁷ This paper, thus, draws on the perspective of constitutional economics as developed, among others, by Brennan and Buchanan (1985).

³⁸ *Ordo-responsibility* – as “order responsibility” – focuses on the responsibility for the institutional order in which one interacts with others. The Latin term “ordo” is used here as a reference to the rich tradition of ordoliberal thought. Ordoliberals such as Walter Eucken or Wilhem Roepke have forcefully pointed to the critical importance of *ordo* – i.e. the institutional order – for the functioning of both democracy and free markets in modern society. The specific term “ordo-responsibility” thus seeks to re-establish this institutional focus in current political processes and public discourse.

³⁹ Similar ideas can be found in Homann (2006) and Vanberg (2006).

2.2.1 Governance Responsibility in the Meta Game

From the perspective of institutional economics, it is possible to reconstruct any interaction as a *game*. The nature of the game is defined by its particular order: i.e. the constraints that channel behaviour. The concept of ordo-responsibility reflects that these general conditions of action – all of the existing rules and knowledge available – are not unchangeably given but rather can be interpreted as the result of a social meta game (figure 5). This meta game is about setting the incentives that *govern* the basic game – and, from a constitutional perspective, about setting them in a mutually advantageous way. The acceptance of order responsibility in the meta game can therefore be referred to as *governance responsibility*. Yet, with a consistent responsibility concept in mind, one must be careful to note whether the results of this meta game ensue as an action-based or rather as an interaction-based consequence. Two cases should be differentiated:

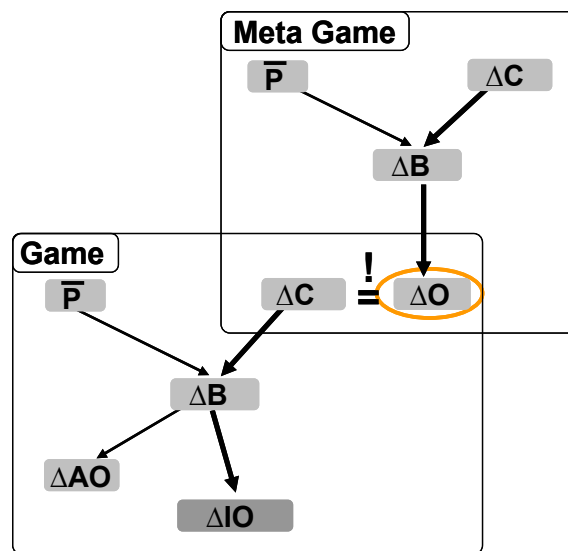


Figure 5: General conditions of a game as the consequence of a meta game

(1) In the first case, the rule (re-)construction in the meta game can be conceived as a result of an action-based situation: The rule-setting is made possible by a single actor. The one-sided prisoners' dilemma offers the paradigm for this constellation. Here, mutual cooperation does not come about due to the *asymmetrical* opportunity for exploitation.⁴⁰ The failure to cooperate shows an interaction-based outcome in the original game. None of the players intended this outcome, quite the opposite is true: Each individual would prefer the cooperation with its advantages for all parties. However, none of the players has control over the outcome: No single person has the ability to enforce

⁴⁰ In the one-sided prisoner's dilemma, two players are faced with the decision of cooperating with one another – although one player must begin. The second player then is able to take unfair advantage of this investment by withholding his own contribution. This opportunity to exploit the other becomes a common problem for *both* parties involved. For if the second player cannot convincingly demonstrate that he will not take advantage of the other player, the first player anticipates this risk and will withhold his own investment. The result: A mutually advantageous cooperation in which each player would improve his position does not occur although – or, more precisely, because – each actor behaves rationally. Cf. Kreps (1990).

the preferred outcome of mutual cooperation. Rather, in order to facilitate successful cooperation, a rule reform in the meta game is necessary. In the one-sided prisoners' dilemma, the player with the opportunity to bring about an asymmetrical exploitation of the other can also bring about a change in the rules. Through an *individual (self-)commitment*, e.g. by paying a deposit, he can make the exploitation strategy so unattractive for himself that his offer of cooperation becomes credible for others. The individual commitment in the meta game thus establishes a new rule which favourably governs the joint game for both parties: Cooperation becomes possible.

(2) On the other hand, if establishing rules requires (coordinated) action by many actors, the outcome of the meta game also demonstrates an interaction-based consequence. The paradigm for this second case is found in the many-sided prisoners' dilemma. This dilemma describes the *symmetrical* interaction between n players whose cooperation fails because of the reciprocal opportunity for mutual exploitation, so that the group remains below its potential. This collective self-harming is shown as an interaction-based consequence in the game that is neither intended nor controlled by any individual player. A change in this interaction outcome requires a reform of the rules that provides all players with changed incentives (ΔC). An individual commitment is insufficient here. If one player obliged himself to absolute cooperation, it would be even more advantageous for the others to exploit this first move and withhold their own cooperative contribution. The deciding factor is therefore the institutional link of committing all players simultaneously to a rule which ensures the cooperation of each individual by applying sanctions, thus making their willingness to cooperate credible. The solution to the problem therefore requires a *collective* commitment. Ascribing responsibility is now only appropriate in the exceptional case in which the individual cooperation of one actor honours the conditional willingness of all others to cooperate and thus makes cooperation possible: If the willingness of the others to cooperate were unconditional, it would be lucrative for the individual actor to exploit their cooperation as a free rider. In this case, it is no longer possible to argue that cooperation is in the self-interest of the individual actor. However, if the willingness of the other players to cooperate is conditional, i.e. bound to the condition that the individual really cooperates, a mutually advantageous position can only be enjoyed if he gives up his free-rider strategy. A rational argument for the acceptance of individual responsibility can only be formulated in this latter particular case.⁴¹

(3) The possibilities and limits of governance responsibility can now be clearly defined. Governance responsibility offers a categorical differentiation of the responsibility concept. It extends the responsibility concept by a new dimension which takes into account the acceptance of responsibility in rule-setting processes. By extending the categorical framework of the responsibility concept around the possibility of initiating a meta game, it becomes possible to reflect upon responsibility in a new way. This extended perspective can serve to transform two cases of interaction-based situations into

⁴¹ One can see that everything depends on taking the relevant alternatives into account. The differentiation of the responsibility concept proposed here can also be developed in the discussion of Thomas Hobbes (1651, 1998; p. §36, 105). In chapter 15 of his *Leviathan* he differentiates as follows: In a dilemma, the absolute obligation to cooperate is valid only *in foro interno*, not *in foro externo*. It is thus only valid in thought, not in action. Individuals cannot be expected to cooperate if all other players defect. If, however, all cooperate, the individual is also obliged to cooperate. With this argument, Hobbes misses the case differentiation in the text as to whether the others cooperate conditionally or unconditionally. He declares the abstention from free riding a moral obligation. Thus Hobbes blurs the line between moralistic appeal and prudence-oriented argumentation. Cf. Pies (2006).

action-based situations, thereby making them accessible for the allocation of responsibility. The first case are one-sided dilemma structures, which can be overcome in the meta game through individual commitment. The second case can occur in many-sided dilemma structures which require a collective commitment to be overcome. If all other players are willing to commit themselves, one's own contribution makes the setting of joint rules possible.

Governance responsibility describes a form of accepting ordo-responsibility in the meta game which fulfils the therapy requirements for the responsibility concept. *Contextually*, governance responsibility turns the interest towards a further development of order by participating in the rule-setting process. With regard to the *form*, governance responsibility does not express a moralistic appeal, but rather presents a discursive offer with a substantial heuristic value. It informs about the conditions under which individual and collective commitments can be considered as suitable means of playing better games. Finally, responsibility strictly refers to action-based consequences. The *consistency* of the responsibility concept remains thus unscathed.

At the same time, the limit of governance responsibility becomes clear. Only in the exceptional case that a conditional commitment of all other players exists, can the formation of a collective self-commitment through one's own contribution be reconstructed as an action-based consequence that is characterised by individual outcome control. Beyond this exceptional case, the collective self-commitment in the many-sided prisoners' dilemma poses an interaction-based outcome. In order to insure that the attribution of responsibility in these situations is nevertheless possible, a further differentiation of the responsibility concept is necessary.

2.2.2 Discourse Responsibility in the Meta-Meta Game

Overcoming unwanted interaction outcomes requires a change in the current rules of the game through a (re-)formulation of the rules in the meta game. In the many-sided prisoners' dilemma, however, the structure of the basic game duplicates itself in the meta game (figure 6). The result of the rule-setting process then also proves to be an interaction-based consequence for which no individual is (to be made) responsible. If a joint rule-setting agreement cannot be reached, it is analogously the constraints of the meta game that take centre-stage. These can again be reconstructed as the outcome of a meta-meta game. Yet, simply extending governance responsibility to also cover this meta-meta game would be bound to fail. Because of the symmetrical game design, the dilemma structure would be reproduced in this and all other subsequent meta games.⁴² To avoid such an infinite regression, another responsibility dimension is necessary. Here, the idea is to explore the requirements of successful rule-setting processes without systematically overtaxing the individual.

⁴² Cf. Beckmann (2007a).

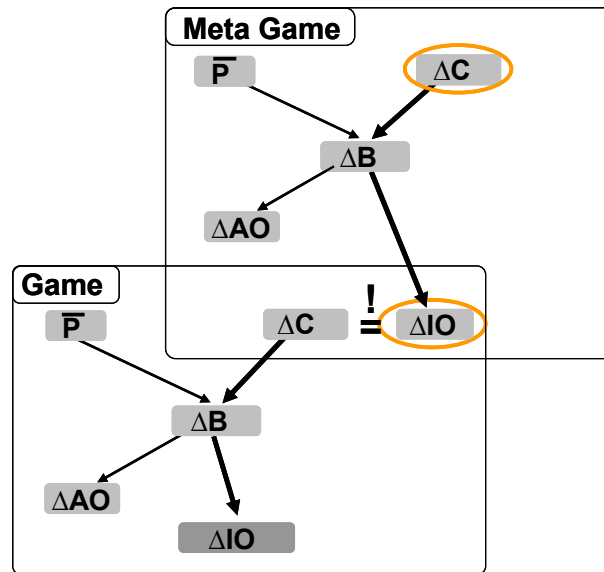


Figure 6: Dilemma structure in the game and meta game

Many-sided dilemma structures can, generally speaking, only be overcome through a collective commitment. The pre-requisite is that *every* player recognises the advantages of such a commitment and also knows that *all other* players are prepared and willing to (conditionally) commit themselves. The prerequisite for a successful rule-setting process is therefore a common interest – and the shared knowledge of this common interest! Responsibility can therefore also mean the participation in a *discourse* aimed at identifying common interests. This notion adds a new conceptual dimension to the idea of ordo-responsibility and brings the following differentiation into play.

In those cases in which the process of rule-setting fails due to a dilemma, the idea of *discourse responsibility* makes it possible to think about initiating a discourse of *joint rule-finding*. The introduction to discourse can be facilitated through the sending of a dual signal with two statements. The first statement is: I have good reasons to believe that we have a common interest in cooperation and therefore a common interest in a common collective commitment without which no cooperation would be possible. The second statement describes a conditional willingness to cooperate: I am willing to accept a collective commitment as long as all others are willing to do so. This dual signal can initiate a rule-finding discourse as a meta-meta game and thus serve the exploration of common aims. The issue is the identification of joint rule-interests and thus their activation: The recognition of a common interest – which had previously not been seen in this way! – symmetrically changes the information constraints for all players in the meta game. This new information (ΔI) can (potentially) alter the perceived incentives in the meta game thus motivating cooperative behaviour and making joint rule-setting possible.

The conception of discourse responsibility systematically takes into account the three therapy requirements for the responsibility category. *Contextually*, it specifies the concept of order. The order of a game refers to the prevailing rules as well as to the knowledge that channels behaviour. While governance responsibility provides information about the ways of accepting responsibility for joint rules, discourse responsibility

focuses on common knowledge.⁴³ As for the *form*, discourse responsibility disregards the mode of a moralising appeal and instead informs how one can begin a rule-finding discourse in one's own interest with a dual signal.⁴⁴ The argument here is of a pragmatic nature: The costs of such a signal are limited.⁴⁵ Finally, the *consistency* of the responsibility concept remains unscathed. Discourse responsibility aims towards a joint rule-finding discourse. The success of this discourse, i.e. a successful search for common interests, is certainly an interaction-based consequence. No single person alone can determine the outcome of this discourse. You cannot dictate consensus. The *introduction* to the discourse through a dual signal is, however, single-handedly possible. The initiation of a rule-finding discourse as a meta-meta game shows thus an action-based consequence. The idea of responsibility can again be brought into play.

The system of the concept of ordo-responsibility can be summarised as in figure 7:

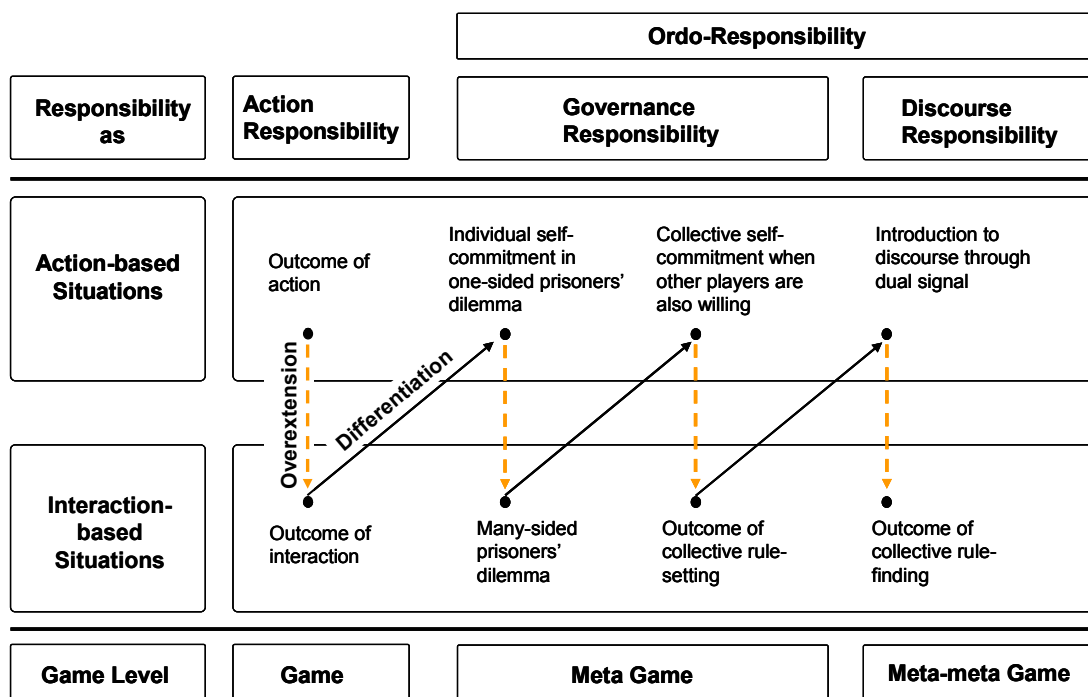


Figure 7: The systematic concept of ordo-responsibility

The fundamental requirement for the appropriate attribution of responsibility is the criterion of individual outcome control, which is only fulfilled in the case of action-based situations. The extension of the usual responsibility concept to cover interaction-based

⁴³ To put it pointedly, both responsibility dimensions can be reduced to the following two views: “Institutions matter!” and “Ideas matter!”. Governance responsibility refers to the first notion; discourse responsibility refers to the second. Together, both dimensions lead to a differentiated acceptance of responsibility for the order of the game and hence constitute “ordo-responsibility”.

⁴⁴ Some strands of *philosophical* ethics approach ‘responsibility’ from what could be described as ‘ought-paradigm’: The idea is to philosophically justify moral obligations that *ought* to be fulfilled. In this paradigm, normativity is introduced exogenously from outside. In contrast, ordo-responsibility is located in the ‘will-paradigm’ that constitutes the methodological approach of *economic* ethics. This perspective conceptualises normativity as an endogenous variable within the social process. By this logic, ordo-responsibility provides information about prudent ways to achieve what one *wants*.

⁴⁵ The discourse is conceptualised here as the arena in which problems can be solved particularly cheaply. It can facilitate an agreement to change incentives in a mutually advantageous way.

consequences leads to its overextension – and, thus, inevitably to misconceptions. In order to avoid such conceptual disorientation, we propose the extension of the line of thought through a methodically controlled categorical differentiation. The aim is to establish an action-based starting point in an interaction-based situation, thus identifying a basis for the acceptance of responsibility. The concept of ordo-responsibility forms differentiated heuristics for this process. It provides information about the conditions under which individual and collective commitments and the dual signal of a conditioned willingness for mutually advantageous cooperation show appropriate means of using responsibility to ensure that better games can be played.

3. Applications in Theory and Policy

The previous chapter has shown that the economic perspective provides valuable insights for updating the concept of responsibility. It allows differentiating responsibility in a way so that its semantics is compatible with the social structures of modern society. This form of theory-formation not only has the advantage that it can empower the responsibility concept to systematically support social learning processes. The following chapter demonstrates that these reflections also produce important insights for mainstream economic theory and policy recommendations.

This argument is organised in three steps. The first step develops a simple economic model that captures the relevant factors that determine the ability of any actor to be responsible. The second step applies this model to mainstream economic conceptions of governance. Here, governments are usually seen as the only legitimate actor with a social rule-setting function. The paper claims that this notion relies on cheapest cost considerations that take for granted a specific political and social set-up. Therefore, this conventional economic perspective shows a blind spot in those cases that do not fulfil these conditions. The third step examines the ramifications of this analysis for policy application. The process of globalisation influences the ability of state and non-state actors to carry social responsibility. The paper identifies strategies that companies and government can deploy in order to strengthen responsibility out of self-interest.

3.1 The Economic Model of Ordo-Responsibility

The concept of ordo-responsibility calls attention to the possibilities of overcoming (moral) conflicts by using meta games and meta-meta games for suitable changes in the rules of the game. This does not imply, however, that self-interested actors will necessarily play only those meta games that will further common interests. Rather, viewed from an economic perspective, rational actors will choose to engage in rule-setting processes and rule-finding discourses if they expect to benefit *individually* from doing so. Therefore, two cases of ‘ordo-activities’ aimed at changing rules need to be differentiated.

In the first case, the playing of meta games is detrimental to the common good. In this case, rational actors seek to change the order of the game for their individual advantage, yet at the expense of others. Paradigmatic examples include rent-seeking activities, collusion and cartels. Here, exclusive rule-setting serves to benefit some but is of disadvantage for others. This case will be focussed on again in more detail in section 3.2.

In the second case, the playing of meta games is beneficial for the common good. Here, rational actors participate in meta games and meta-meta games in a mutually advantageous way. This case is characterised by the interdependence of the players that makes it rational to consider the interests of others. Therefore, the focus in the according meta games lies on reaching an agreement on rules that would work for the players' mutual benefit. This logic is at the core of the concept of ordo-responsibility. It shows how the participation in rule-setting processes and rule-finding discourse makes it possible to address and to solve conflicts in a way that is self-interested, yet oriented towards systematically taking into account the interests of others. By this logic, responsibility could be translated as 'responsAbility': the ability to respond to the interests of others in a prudent – mutually advantageous! – way.

The following simple model serves to identify the factors that determine this ability to be responsible. From an economic perspective, responsible behaviour can only be sustainable if it does not imply putting up with permanent disadvantages. Otherwise, responsibility could not be evolutionary stable in the long run. In other words, the acceptance of responsibility proves to be rational as long as the long-term advantages thus achieved outweigh or at least compensate the disadvantages. Therefore, the responsibility aptitude depends on the net benefit of responsible behaviour. If this benefit – the *responsibility premium* π_R – is greater than or equal to 0, a rational actor will engage in responsibility taking.

$$\pi_R \geq 0 \tag{1}$$

The three-level framework that distinguishes between basic games, meta games and meta-meta games helps to identify three factors that play into the underlying individual cost-benefit calculation.

Firstly, the *responsibility revenue* r summarises the expected advantage of ordo-responsibility. It is defined on the level of the basic game. Here, r denotes the subjective benefit that would derive from playing a better game. Thus, r is the difference between one's pay-off in the basic game of the status quo ante and one's pay-off in the improved game after a change in rules. If this change in rules brought about by ordo-responsibility allows solving a particular problem in the basic game, then the responsibility revenue r amounts to the corresponding *avoided problem costs*. Put differently, problem costs in the basic game constitute the incentive to try to play a better game. They may derive from negative externalities caused by all players, from the (potential) damage of one's own reputation or from reduced benefits because of underprovided public goods. The larger such problem costs *in* the game, the more advantageous it is to do what one can to create a better game. In short, if ordo-responsibility leads to better rules that either help to avoid problem costs or to reap benefits so far unrealised, there is a responsibility revenue r . Hence, the higher the problem costs in the game, the greater is the advantage of ordo-responsibility – and thus the higher is the responsibility premium π_R .

Secondly, the *commitment costs* c are the first part of the *disadvantages* of ordo-responsibility. They are defined on the level of the meta game and comprise the individual costs occurred in the process of rule-setting. Thus, c describes the cost of governance responsibility and refers to the individual cost contribution to establishing a suitable rule. Here, c depends on at least two sets of variables. On the one hand, individual commitment costs depend on the structure of the relevant game: whether it is a pure coordination or a mixed-motive game; a one-sided or a many-sided dilemma; a

small or a big group of players etc. On the other hand, c is determined by the commitment technologies available in the meta game. If such technologies and social institutions facilitate establishing and enforcing commitments, c decreases. In sum, the higher the commitments costs c in the meta game, the greater is the disadvantage linked to governance responsibility – and thus the smaller is the responsibility premium π_R .

Thirdly, the *discourse costs* d are the second part of the disadvantages of ordo-responsibility. They denote the costs of discourse responsibility. These costs are defined on the level of the meta-meta game and comprise the individual costs occurred in the rule-finding discourse. Here, d depends on the characteristics of the discourse processes available. These define not only one's own signal costs. They also determine the probability of finding a joint rule (interest) through the initiation of discourse.⁴⁶ In sum, the higher the discourse costs d in the meta-meta game, the greater the disadvantage of discourse responsibility – and thus the smaller is the responsibility premium π_R .

The breadth of the responsibility aptitude of an actor is consequently influenced by three factors.

$$\pi_R = f\left(r, \underset{+}{c}, \underset{-}{d}\right) \quad (2)$$

At this point, this simple model serves only as a rough sketch that helps to explore the logic of ordo-responsibility. From an *individual* perspective, the concept of ordo-responsibility spells out a form of heuristics that generates arguments for the self-interested acceptance of responsibility. Their breadth is, however, not fixed but changes depending on the relevant costs. The higher – nota bene: from a *subjective* point of view – the individually carried costs of socially undesirable consequences in the game (and, consequently, the greater the responsibility revenue) and the cheaper the commitment technologies and discourse processes in the meta game and meta-meta game, the greater is an actor's capability of being responsible, even and in particular in competitive conditions.

This idea invites a change in perspective. So far, this paper has focussed on reconstructing responsibility as individually rational heuristics. Yet, the *individual* cost-benefit calculation critically hinges on *social* determinants. After all, the costs of governance and discourse as well as the perceived problem costs depend on the system of social institutions. Against this background, the conception of ordo-responsibility can be understood as working towards an economic theory of social self-organisation. From this angle, it encourages comparing different institutional arrangements for allocating and organising responsibility. The following section demonstrates that this perspective produces important insights for standard economic theory.

⁴⁶ Discourse responsibility is shown to be not only advantageous when the expectation of providing a solution to the problem in the actual game is higher than the signal costs within the discourse. In addition, it is also important to consider how one's cooperative contributions generate a (positive) reputation that can lead to future advantages in interaction beyond the initial basic game. Therefore, it would not be prudent to base one's cost-benefit calculus on too narrow a perspective.

3.2 *Ordo-Responsibility and Economic Theory*

(1) In the standard paradigm of economic theory, ordo-responsibility is a task exclusively reserved for the government domain. According to this perspective, it is the primary role of the state to promote the common good through an adequate institutional order. Hence, state government is seen as the only (legitimate) rule-maker that sets rules and asserts them. In contrast, civil society organisations (NGOs) and business corporations are conceived of as mere rule-followers.⁴⁷ Against this backdrop, economists have been highly sceptical about companies getting involved in public policy.⁴⁸ According to their perspective, the exertion of corporate influence on (political) rule-setting processes can only be understood as rent-seeking: as (illegitimate!) lobbying at the expense of third parties.⁴⁹ In short, government is seen as the systematic domain to promote public interests whereas companies are defined as pursuing private interests.

The fact that most economists oppose business corporations exerting political influence does not mean that the economic perspective assumes that political actors are fundamentally different from business or civil society actors. Rather, the rational-choice approach conceptualises all actors as self-interested players. Politicians and government officials are consequently modelled as also seeking to fulfil their individual aims. Why is it then that the standard economic paradigm allocates the “social responsibility” for rule-setting processes exclusively to the state – and none to business or other civil society actors?

(2) The model of ordo-responsibility can explain the conventional nation-state paradigm with a cheapest-cost-argument. The well-being of a society critically hinges on its ability to play constructive meta games. This ability depends on two lexicographic factors. First, there is the need to make sure that meta games are played in a mutually advantageous way. In other words: in a way that promotes common interests. Second, the playing of mutually beneficial meta games needs to be as inexpensive as possible. Only if meta games can be played in a cost-effective way, will rational actors make full use of them.

In light of these two requirements, governments have acquired a remarkable comparative advantage when it comes to taking ordo-responsibility. Historically, the (Western) nation-state has developed highly successful mechanisms for rule-finding and rule-setting processes. Compared to other actors, the state is in a special position with regard to problem, commitment, and discourse costs. In a democracy, the government depends

⁴⁷ There are many examples of prominent economists exclusively attributing the function of rule-setting to state actors. To illustrate: Jensen (2001; p. 16) argues: “[R]esolving externality and monopoly problems is the legitimate domain of the government in its rule-setting function. Those who care about resolving monopoly and externality issues will not succeed if they look to corporations to resolve these issues voluntarily.” By the same token, Sundaram and Inkpen (2004; p. 355) claim that the protection of stakeholder-interests does not lie within the responsibility of corporate management, but rather genuinely rests with the legislation and regulation by the state. Similarly, Viktor Vanberg (2006; p. 8) points to a “divided responsibility” which implies that “it is the market players’ responsibility to seek their advantage within the (formal and informal) rules of the game, and that it is the government’s and legislature’s responsibility to establish and enforce formal rules that guide the players’ advantage-seeking behavior”. Finally, Milton Friedman (1962; p. 15) also conceptualises “government [as] essential both as a forum for determining the ‘rules of the game’ and as an umpire to interpret and to enforce the rules decided on”.

⁴⁸ See for example Milton Friedman (1970).

⁴⁹ For rent-seeking theories, cf., for example, Buchanan et al. (1980).

on voter satisfaction. A complex institutional arrangement of checks and balances such as party competition, standards for due-process, parliamentary investigation committees, the “civilising force of hypocrisy”⁵⁰, or pluralist media ensure that, in an ideal democracy, government actors face powerful incentives to advance the common good and to refrain from rent-seeking activities.⁵¹ Also, as voters award government actors for solving societal problems, there is a much higher responsibility revenue r for state actors than for non-state actors. Thus, $r_{\text{state}} \gg r_{\text{non-state actor}}$. By the same token, states can make use of a sophisticated set of highly effective commitment technologies. They can draw on the monopoly on force for – inexpensively – setting and enforcing rules. For example, they can tax citizens in order to overcome the free-rider problem in providing public goods. Here, $c_{\text{state}} \ll c_{\text{non-state actor}}$. Finally, state actors have key access to the institutionalised discourse of (parliamentary) democracy. In comparison to other groups, actors from the government domain can initiate more cheaply discourse processes that facilitate joint rule-finding. Hence, discourse costs of government actors are much lower than, for example, discourse costs of corporate actors ($d_{\text{state}} \ll d_{\text{non-state actor}}$). Thus,

$$\pi_{R \text{ state}} \gg \pi_{R \text{ non-state actor}} \quad (3)$$

The ordo-responsibility concept thus deciphers the underlying logic of the standard paradigm of the nation-state. In the democratic process, there are institutional safeguards to prevent the abuse of rule-setting power and to set a premium on the orientation towards the common good. With regard to this ideal (Western) nation-state, self-interested government actors have a markedly greater ability to be “socially responsible”: They experience greater problem costs and lower costs in governance and discourse processes. Thus, they have a specialised ability to respond to the interests of others and to take into account notions of the public good when installing and enforcing rules.

(3) The blind spot(s) of the conventional nation-state paradigm that implicitly characterises mainstream economics can now be delineated as follows. Figure 8 develops a two-by-two matrix that illustrates the standard distinction between state- and non-state actors. The column dimension distinguishes whether an actor’s exertion of (political) influence in rule-setting processes leads to changes in the rules of the game that are mutually advantageous – or to the disadvantage of others. The row dimension differentiates between state actors (government) and non-state actors (e.g. business corporations). The paradigm of standard economics often focuses almost exclusively on the upper-left and the lower-right box of this matrix.

In the upper-left box, governments are assigned the quality of promoting the public good. In the lower-right box, business corporations are conceived of as pursuing private interests. The underlying assumption is that companies have no or only little incentive to be “socially responsible” in rule-setting processes.⁵² This perspective has generated

⁵⁰ Cf. Elster (1998; p. 111).

⁵¹ Similarly, Viktor Vanberg (2006; p. 23) argues: “It is exactly the purpose of the elaborate legislative procedures ... to assure that rule-proposals are carefully examined in regard to their predictable impact before they are adopted”.

⁵² It was Adam Smith who already argued forcefully that business actors have an inclination to collude at the expense of the common good. In the *Wealth of Nations*, Smith (1776, 1976; p. 145) claims: “People of the same trade seldom meet together . . . but the conversation ends in a conspiracy against the publick, or in some contrivance to raise prices.” Accordingly, Smith (1776, 1976; p. 493) is a fervent critic of business exerting political influence on government because of “the mean rapac-

important policy recommendations. As private and business interests groups are perceived as posing the threat of rent-seeking, public policy seeks to restrict corporate influence and to keep companies from playing rule-setting meta games. By this logic, a number of institutions such as anti-trust law, competition authorities or open markets serve to hinder companies from using or gaining too much influence for changing rules to their private benefit. Thus, in order to prevent undesired changes in the rules of the market game, these institutions systematically try to raise the transaction costs of commitment (*c*) and discourse (*d*) for private actors.

		State actors	Non-state actors
Pursuit of self-interest in meta games and meta-meta games leads to changes in the rules that are...	...mutually advantageous	Ideal of the nation-state	New governance mechanisms; Self-regulation
	...at the expense of others	Rent-seeking state actors	Rent-seeking companies

Figure 8: The symmetry between state and non-state actors

Given the functioning institutions of an ideal nation-state, the strict separation between political and market actors can serve as a useful approximation or heuristic device that helps to reduce the complexity of social processes. Yet, problems arise as soon as economic theory fails to reflect that this nation-state paradigm is actually an idealisation of a historically contingent special case. This special case takes for granted a number of highly sophisticated institutions that are far from being universally given. On the contrary, both historically and geographically, the Western nation-state represents rather the exception than the rule. Therefore, if states and private actors are seen – ontologically! – as fundamentally different with regard to their capacity of fostering common interests, then theory has a double blind spot and misses two relevant cases.

The first case is to be found in the lower-left box. It points to the possibility that self-interested states and government actors may use rule-setting processes in a way that does *not* serve the general public good. To illustrate:

- States can be rent-seekers when it comes to rule-setting processes on the international arena. Even if state actors are held accountable by their domestic constituencies, they might not act in the interest of the people affected by their decisions outside their nation-state. EU negotiations on farm subsidies may serve as a case in point.

ity, the monopolizing spirit of merchants and manufacturers who neither are, nor ought to be the rulers of mankind”. Facing the reality of the mercantilist system of government intervention at his time, Adam Smith could only conceive of corporate participation in rule-setting as in the box to the lower right.

- In many regions of the world, statehood and democratic institutions are underdeveloped. The record of neo-patrimonial rulers, military regimes, or warlords underlines the dramatic shortage of good state governance in those countries. Here, state actors use political processes for domestic rent-seeking.
- Even in Western nation-states, many societal problems have become so complex that traditional mechanisms for accountability are coming up against their limits.⁵³ In this situation, civil society organisations are lobbying the state to consult a broader range of stakeholders in rule-setting processes.

The second blind spot is in the box to the upper right. This box is about the possibility that private actors might have an incentive to engage in rule-setting processes that are mutually advantageous. In other words, this box is about non-state-actors' capacity to take ordo-responsibility. In recent years, there is ample evidence for new modes of governance that demonstrate how business corporations as well as non-profit civil society organisations already do contribute to creating (better) rules and institutions. To illustrate:

- When it comes to creating norms and standards, private actors are playing an increasingly important role. One example is "Responsible Care", a global voluntary initiative of the chemical industry. This private initiative has created environmental, safety and other standards that multinationals have pledged to comply with even if such standards are not required by national legislation. Similarly, NGOs such as Transparency International now play an important role with regard to shaping policies in international institutions, local governments and corporations.
- Public-private-partnerships have emerged as a new mode of governance. Here, actors from business and government are not only pooling resources. They are also creating new procedures for jointly providing public goods.
- Cross-sector cooperation also serves to settle disputes and to create commonly accepted rules beyond nation-state legislation. A prominent example is the World Commission on Dams (WCD), a forum set up by the World Bank and the IUCN, the World Conservation Union.⁵⁴ The WCD brought together representatives from NGOs, the private sector, governments and international organisations with the aim of jointly developing internationally acceptable criteria, guidelines and standards for large dams.

Thus, economic theory based on a narrow nation-state paradigm needs to broaden its perspective to capture these important phenomena in order to explore the potential for governance by non-governments.

If corporate influence on rule-setting is seen as generally negative, then the only possible question is to ask how corporate political influence can be limited. The acknowledgement that both government and non-state actors can use rule-setting processes in desired as well as undesired ways allows asking a more productive question. The key issue then is under what *conditions* can we as society agree or even wish to grant non-state actors such as companies and NGOs the right to participate in rule-setting processes and rule-finding discourse? These reflections therefore suggest a dif-

⁵³ Cf., for example, Brunnengraeber and Beisheim (2006).

⁵⁴ Cf. <http://www.dams.org/>.

ferentiated approach to dealing with corporate (political) influence. In those circumstances in which there is the risk of rent-seeking, public policy should seek to raise the cost of commitment and discourse. Yet, in instances in which the inclusion of corporate actors can strengthen good governance, the aim is to lower c and d as well as to raise r .

More generally speaking, the concept of ordo-responsibility sheds new light on the process of social self-organisation. It shows that – in principle – *all* participants (may) accept responsibility for the joint game. From a normative point of view, the key question then points to a double challenge. The first challenge is how to ensure that social meta and meta-meta games promote mutual benefits. The second is how to play these games in the most (cost-)effective way. To address this double challenge, it is imperative to be able to critically compare different governance arrangements. In this situation, economic theory exclusively based on the Western nation-state paradigm shows two important blind spots. The model developed here not only provides a starting point for illuminating these blind spots. As section 3.3 shows it also serves to generate new policy recommendations.

3.3 Policy Applications

(1) Section 1 of this article has shown that trust in markets and in business corporations has significantly declined. Empirical data reveals that the same trend holds true for governments and also NGOs. In short, institutional trust is eroding worldwide. The theory of ordo-responsibility outlined here offers a tentative explanation for this trend: The problem solving capacity of conventional governance mechanisms is increasingly challenged. Two aspects should be reconstructed in terms of the ordo-responsibility model.

(a) The responsibility aptitude of the nation-state has declined in a number of instances. Challenges such as global warming, international terrorism and organised crime, the outbreak of infectious diseases across national boundaries or the problem of perverse farm subsidies demonstrate the substantial lack of suitable rules needed to solve pressing societal problems. So, actually, there is a huge responsibility revenue r to be reaped here. Yet, as US policies on climate change or European policies on farm subsidies have frequently shown, voters in national elections not always award solving global problems – even if they ultimately benefited on average from doing so. Here, special interests that oppose reforms are often much better organised than the interests of the general public.⁵⁵ Also, solving global problems requires involving not only Western liberal democracies but also those countries in which democratic mechanisms are weak or almost non-existent. Here, poor accountability mechanisms decrease r . At the same time, with regard to global challenges, commitment costs ($c \uparrow$) and discourse costs ($d \uparrow$) rise as the problem focus moves to the transnational arena. In addition, the lack of institutional capacity in countries of limited statehood increases c and d as well. As a result, $\pi_{R \text{ state}}$ declines.

(b) In some contexts, the responsibility aptitude of non-state actors, in particular multinational corporations (MNCs), has increased for a number of reasons. Brand reputation, for instance, is becoming more important and also more vulnerable to social pro-

⁵⁵ Needless to say, as Mancur Olson (1965) has pointedly demonstrated, this is also the case within the nation-state. Yet, in the national political process a number of institutions such as ministries for consumer affairs, environmental protection agencies and so on seek to mitigate these problems. With regard to novel global challenges, such institutions are still in the process of evolving.

test. Thus, problem costs and the responsibility revenue r increases ($r \uparrow$). At the same time, the sheer size of large MNCs as well as new information technologies have significantly reduced communication and transaction costs. New institutions such as the World Economic Forum (WEF) or the United Nations' Global Compact (GC) provide new opportunities for joint rule-finding discussions. For companies, commitment and discourse costs have therefore declined (figure 9).

	Problem Costs and Responsibility Revenue	Commitment Cost	Discourse Cost	Responsibility Premium
Nation-state	$r \downarrow$: transnationalisation; global public goods; weak democratic mechanisms	$c \uparrow$: weak global institutions; no global mo- nopoly on force	$d \uparrow$: no world parliament, increased complexity	$\pi_{state} \downarrow$
Non-state Actors such as MNCs	$r \uparrow$: vulnerability of brand reputation; more transparency, consumer protest and NGO campaigns	$c \downarrow$: creation of net- works; business alli- ances	$d \downarrow$: communication and information technolo- gies, dialogue forums such as WEF or GC	$\pi_{MNCs} \uparrow$

Figure 9: Globalisation leads to changing responsibility aptitudes

In sum, the ability to carry ordo-responsibility has gone up for non-state-actors and gone down for state actors. This allows (policy) recommendations for business corporations (2) and governments (3).

(2) *Recommendations for companies:* According to the conventional paradigm of mainstream economics, the social responsibility of companies is limited to the maximisation of profits, while following the – given! – rules.⁵⁶ Yet, multinational companies increasingly operate in arenas in which functioning rules barely exist. In this situation, the ordo-responsibility concept advises companies that it might be in their self-interest to no longer concentrate on exclusively maximising profits under given conditions. In many cases, they could better serve their own interests if they actively accepted ordo-responsibility in rule-setting processes and rule-finding discourse.

This conception of Corporate Social Responsibility generates recommendations for a long-term CSR strategy. First, CSR is not about taming the profit motive but about empowering it to identify social win-win potentials. Second, the most effective point of leverage to do this is to invest into the social order, that is into better rules of the game. Third, the investment capacity is limited by the costs of commitment and discourse processes. A long-term CSR strategy seeks to lower these costs. Public-private partnerships, cross-sector alliances or business coalitions are instruments that lower the cost of commitment (c) and discourse (d). Finally, the most powerful instrument to lower c and d is to develop a culture of corporate integrity that goes hand in hand with good corporate governance. A corporate actor can only call itself a trustworthy, reliable and credible cooperation partner if the organisational structures, internal processes and intra-firm incentives are consistent with this aim. The company's integrity then becomes a central key to its social responsibility: The more credible a company is, the easier it is for the

⁵⁶ Cf., for example, Friedman (1962; p. 133).

company to create inexpensive (self-)commitment ($c\downarrow$) and to actively participate in those discourses needed to identify common interests ($d\downarrow$).

(3) *Recommendations for governments and the public*: The ability to be “socially responsible” is limited by a set of costs that critically hinge on *social* determinants. As a result, the level of these costs is not invariably given. Rather, the costs can be shaped through social institutions. If states are interested in improving the effectiveness of the overall governance system, a pronouncedly socio-political question comes to the fore: What can society do to influence the ability of self-interested actors to accept responsibility? In other words, what are societal strategies to raise individual problem costs and the responsibility revenue r and to lower the costs of (self-)commitment and democratic discourse?

A key strategy to raise the responsibility revenue ($r\uparrow$) is to strengthen civil society and good governance. Put pointedly: As responsibility derives from “to respond to” and means “being held to account” or “answering for”, then actors are necessary that first ask the corresponding questions. A critical public sphere, pluralist media, and NGOs as well as an independent judiciary represent social institutions that can transform potential *social* costs of self-interested behaviour into *individual* costs.⁵⁷

Mechanisms to reduce the costs of rule-setting ($c\downarrow$) and rule-finding ($d\downarrow$) include, for instance, the following: the building of negotiation capacities for poorer countries; support for new forms of cooperation through public-private partnerships; facilitating the formation of stewardship councils, roundtables, and policy networks; finally, the creation of dialogue and learning platforms.

Taken together, these strategies do not aim at curtailing the power and influence of national governments. On the contrary, at the point where usual government instruments lose grip effectiveness, states may ultimately realise their objectives in a more successful way. Here, instead of simply mandating problem solving, they can learn to initiate cooperative rule-setting procedures. To put it pointedly, the issue is a paradigm change from political subordination to coordination.

Summary and Outlook

The Scottish school of political economy has played a pivotal role in recognising, understanding and promoting the beneficial role of markets for the well-being of society. However, it was also Adam Smith who pointed out that markets do not operate in a social or institutional vacuum. Rather, markets critically depend on the effectiveness of a broad range of social institutions. A free and democratic society can only establish, advance and sustain such institutions if there is a general understanding of the functioning of markets.

This paper has shown that public trust in markets and business corporations has declined in many countries. At the same time, the public discourse increasingly turns to addressing societal issues in normative frames. In particular, the idea of responsibility

⁵⁷ By the same token, the threat of state regulation by the legislative functions in the same way: When used properly, it can raise the incentive for a decentralised self-regulation. For such a second-order approach to politics, which provides incentives for incentive-setting, cf. Pies and Sass (2006). In the end, it will be important to provide incentives and to attribute responsibility in such a way that it is clearly in the interest of the relevant social players to accept it.

and the concept of ‘corporate social responsibility’ have gained prominence. Yet, if notions of (corporate social) responsibility lack compatibility with the social structures of modern society, they might as well be part of the very problem they seek to address.

Against this backdrop, there seem to be two possible strategies for economists. The first is to altogether reject the responsibility concept, as it does not appear to be functional.⁵⁸ This strategy, however, fails to acknowledge the empirical fact that there is a strong public need to make use of the responsibility concept. This paper has therefore chosen a second strategy. The idea is to clarify the responsibility semantics and to restore its applicability for social communication processes in modern society.

To serve this end, this article has shown that the economic approach can instruct to pursue what could be called ‘economic ethics’.⁵⁹ This perspective provides a specific diagnosis which shows that the responsibility concept is systematically tailored to action-based consequences characterised by the criterion of individual outcome control. The responsibility concept runs the risk of causing confusion if it is extended – and indeed overextended – to cover interaction consequences. In order to make the acceptance of responsibility accessible to these interaction-based consequences characterised by the absence of individual outcome control, a categorical differentiation of the responsibility concept is necessary.

This paper has developed the concept of *ordo-responsibility* as a suggested therapy. This semantic innovation extends present responsibility semantics gradually by two conceptual dimensions which open the possibility of taking responsibility for the conditions of one’s own actions. The order of a game includes the existing rules and the knowledge available. Analogously, the idea of *ordo-responsibility* can be differentiated to embrace a concept of governance responsibility and discourse responsibility. The category of governance responsibility shifts the focus of perspective to a rule-setting process in the meta game. It offers heuristics as to under what conditions one may use individual or collective self-commitments in order to (re-)form rules in a mutually advantageous way. If this is not possible, the category of discourse responsibility extends the line of thought towards the possibility of a rule-finding discourse in the meta-meta game. Discourse responsibility denotes heuristics under which conditions the signal of a conditional willingness to cooperate may initiate a discourse able to identify common (rule) interests.

Based on these reflections, the paper has shown that the responsibility aptitude of an actor hinges on the net benefit of responsible behaviour. This benefit – the responsibility premium π_R – depends on three different cost categories: The problem costs in the

⁵⁸ Bernhard Neumaerker (2004; p. 139), for instance, rejects the notion of corporate social responsibility because he sees the moral concept of “responsibility” as “alien to the system” of economic thinking.

⁵⁹ Economic ethics as understood by the authors of this paper continues the very tradition of economic thought: It is conceived here as an *economic* moral theory. Economic ethics thus chooses a principally different perspective to, for example, medical ethics or bioethics. These branches of ethics are constituted ontologically: as applied ethics for a specific subject area such as medicine or biology. In contrast, economic ethics is constituted methodologically: It is not defined narrowly as (business) ethics for the economic sphere but rather uses the economic method as a general approach to ethics. In other words, economic ethics is a specific *approach* to ethics that uses the power of rational-choice analysis to understand the significance of incentives for identifying, discussing and implementing normative objectives. For a comprehensive introduction to this economic approach to ethics, cf. Homann and Blome-Drees (1992); Homann and Pies (1994b); Homann and Pies (1994a); Pies (2000); Suchanek (2001); Homann (2002); Homann (2003) as well as Pies and Sardison (2006).

basic game determine the appeal to play a better game and thus the responsibility revenue r ; similarly, the commitment cost c in the meta game and the discourse cost d in the meta-meta game define the disadvantages of ordo-responsibility.

This simple model allows showing that the standard economic paradigm of exclusively attributing the rule-setting function to the state can be traced back to a cheaper cost argument. In the West, nation-state institutions have a strong comparative advantage to carry ordo-responsibility. However, the dominant role of the state relies on societal conditions that are not universally given. The model of ordo-responsibility illustrates that in a number of instances the social rule-setting function might as well be shared between state and non-state actors. Thus, this concept sheds light on innovative processes called “new governance” or “global governance”.

According to a popular saying, with rights come responsibilities. The ordo-responsibility model adds a new dimension to this adage. It shows that societal actors such as corporations and NGOs can take more social responsibility if they are granted specific rights to participate in rule-finding and rule-setting processes. This is why the idea of “corporate social responsibility” necessarily goes hand in hand with the idea of “corporate citizenship”. From a societal point of view, the conception of corporate citizenship acknowledges that corporations are important actors for a strong civil society. In many cases, their responsibility aptitude is greater than that of other actors. From a business point of view, the corporate citizenship concept advises companies that there are circumstances in which it is in their long-term interest not to concentrate exclusively on maximising profits under given conditions. Rather, it might serve them better if they actively accepted ordo-responsibility in partnership with others by participating in rule-setting processes and in rule-finding discourse.

This economic theory of responsibility generates policy recommendations not only for business corporations. It shows how society at large can strengthen new governance mechanisms in order to advance the process of societal self-organisation. It takes seriously the empirical need to critically address the moral quality of markets and business corporations. Yet, it avoids the misconceptions brought about by false notions of (corporate social) responsibility. Ultimately, it can serve as a starting point for a social learning process that helps to improve (global) governance and to restore trust in markets and corporations.

In the end, the theory of ordo-responsibility also sheds new light on the social role of economics. The economic approach – applied here as economic ethics – can help to initiate social learning processes by breaking categorical thought blocks. In the concept developed here, the outcome of such learning processes represents an interaction-based consequence. This is why economics – or economic ethics – cannot prescribe the result of this social process by invoking what it deems to be ‘right’. However, based in the Scottish tradition of moral philosophy, economics may share its comparative advantages and initiate the beginning of such discourse. Arguments put forward in the will-paradigm of economic ethics are much better equipped for this task than moralising appeals in the ought-paradigm. When taking these demands seriously, economics itself can play a constructive role in modern society by accepting discourse responsibility as a social science.

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*Discussion Papers*⁶⁰

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⁶¹ Free to download from <http://ethik.wiwi.uni-halle.de/forschung>.