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Folk economics and folk ethics as problems of moral reasoning: Ordonomic inspirations for business ethics

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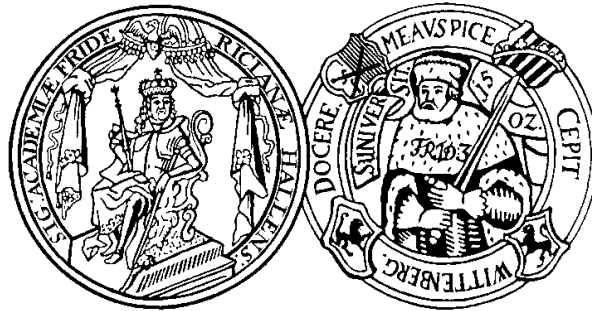
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Ingo Pies

Folk Economics and Folk Ethics as Problems of Moral Reasoning – Ordonomic Inspirations for Business Ethics

Diskussionspapier Nr. 2023-13

des Lehrstuhls für Wirtschaftsethik
an der Martin-Luther-Universität Halle-Wittenberg,
hrsg. von Ingo Pies,
Halle 2023

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Kurzfassung

„Folk Economics“ ist die Wirtschafts-,Theorie‘ und analog ist „Folk Ethics“ die Moral-,Theorie‘ des gesundes Menschenverstandes. Typisch für „folk-economic beliefs“ sind fehlerhafte Kausalattributionen. Typisch für „folk-ethical beliefs“ sind utopische oder dysfunktionale Bewertungsmaßstäbe. Die Hauptthese dieses Aufsatzes besagt, dass diese beiden Quellen positiver und normativer Desorientierung zu einem Forschungsobjekt der Business Ethics gemacht werden sollten, um – neben dem wichtigen Bereich *gerechtfertigter* Moralkritik an der Wirtschaft – auch den bislang vernachlässigten Bereich einer *un-gerechtfertigten* Moralkritik an der Marktwirtschaft wissenschaftlich zu bearbeiten. Zur Unterstützung dieser These wird anhand praktischer Syllogismen gezeigt, dass die wissenschaftliche Kritik und Korrektur von „folk-economic beliefs“ eine etwas andere Vorgehensweise erfordert als die wissenschaftliche Kritik und Korrektur von „folk-ethical beliefs“.

Schlüsselbegriffe: Business Ethics, Folk-economic Beliefs, Folk-ethical Beliefs, Praktischer Syllogismus

JEL-Klassifikation: A12, A13, B41, B52, L51

Abstract

“Folk economics” is the economic ‘theory’ of common sense, and analogously “folk ethics” is the moral ‘theory’ of common sense. Typical of “folk-economic beliefs” are erroneous causal attributions. Typical of “folk-ethical beliefs” are utopian or dysfunctional criteria for moral judgments. The main proposition of this article is that these two sources of positive and normative disorientation should be made an object of research in business ethics in order to scientifically work on the hitherto neglected area of *unjustified* moral critiques of the market economy – in addition and complementation to the important area of *justified* moral critiques of the market economy. In support of this proposition, practical syllogisms are used to show that the scientific critique and correction of “folk-economic beliefs” requires a slightly different approach than the scientific critique and correction of “folk-ethical beliefs”.

Keywords: Business Ethics, Folk-economic Beliefs, Folk-ethical Beliefs, Practical Syllogism

JEL-Classification: A12, A13, B41, B52, L51

Folk Economics and Folk Ethics as Problems of Moral Reasoning – Ordonomic Inspirations for Business Ethics

Ingo Pies*

Introduction

The academic literature of business ethics applies moral standards when it analyzes and evaluates the behavioral incentives and the behavioral outcomes of economic actors (= individuals and organizations). In this respect, it takes – quite rightly – a critical perspective when it makes the economy its object of research. However, as with all other disciplines, it is of constitutive importance for the scientific nature of the business ethics literature that it proceeds not only critically but also self-critically: that it reflects on the extent to which it meets its own requirements and to what extent these requirements are well founded.

A revealing example of scientific self-criticism is provided by John Boatright, who a quarter of a century ago raised the question of whether the literature on business ethics is based on a mistake.¹ Boatright introduces a fundamental distinction by differentiating between the paradigm typical of the mainstream of literature, which he calls the “Moral Manager Model,” and an alternative paradigm, which he calls the “Moral Market Model”. The mainstream paradigm deals with the problem of how a manager should behave morally within a corporate organization. The alternative paradigm, on the other hand, looks at how the market environment for corporate organizations could be designed in such a way that it becomes incentive-compatible for managers to behave morally. Boatright's basic thesis is: “[I]f the Moral Manager Model describes the aim of business ethics, then we are fighting a losing battle.”²

In this article, similar to Boatright, I will try to look at the business ethics literature from a self-critical point of view. Similar to Boatright, I'll start by introducing some basic distinctions.

My first differentiation concerns the critique of economic practice. Regardless of whether science empirically observes such a critique in societal discourses or whether it formulates such a normative critique itself, we can distinguish between *just(ified)* and *un-just(ified)* critiques. In my opinion, the academic literature on business ethics is predom-

* I would like to thank Markus Beckmann, Stefan Hielscher, Klaus Leisinger, Andrea Maurer, Gerhard Minnameier, Hans-Dieter Pies, Felix Schultz and Vincent Czyrnik for valuable discussions and helpful hints.

¹ Cf. Boatright (1999).

² Boatright (1999; p. 585). Cf. also the almost identical thesis (including its derivation and conclusion for the strategic direction of theorizing) by Homann and Pies (1994; p. 4, emphasis in original; translated by I.P.): “For us, it is a characteristic of modernity that moral concerns can only be realized if the so-called 'practical constraints' are not simply ignored. If, however, one approaches the theoretical conceptualization in such a way that moral concerns are fundamentally (and inescapably) be brought into play *against* the functional logic of the modern economy, morality is in a losing position from the outset. That is why we are striving for an approach that – for the sake of morality! – does not oppose this functional logic, but puts it at the service of moral concerns. Business ethics, as we understand it, must help not to override the competitive conditions of modern societies, but rather to shape them *in such a way that more morality becomes possible.*”

inantly concerned with supporting or producing a just(ified) critique of economic practice, whereas the mirror-image problem of rejecting unjust(ified) critiques has hardly been dealt with so far. There is a blind spot here. To illuminate it is an important task if one wants to free the literature from its one-sided imbalance and enable it to achieve greater *symmetrization* of its approach to research work.

My second differentiation points the way to the scientific rejection of *unjust(ified)* critiques of economic practice by identifying two different sources of error. On the one hand, critiques of economic practice can be misled by the fact that they are based on false assumptions about reality. On the other hand, they may also be misled by using an inappropriate normative standard in their assessment. Consequently, *a distinction must be made between positive and normative sources of error*. Figure 1 provides an overview.

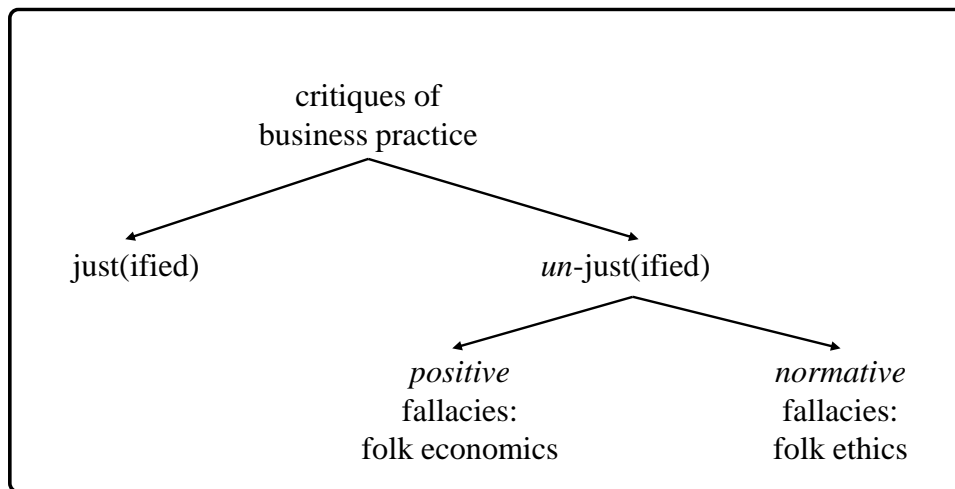


Figure 1: Two key distinctions

Among the positive sources of error, I am particularly interested in the tendencies of common sense to deviate from a professional-scientific impact calculation. This is what the term “Folk Economics” stands for. A concrete example is where – contrary to economic theory – it is feared that immigrant foreigners will fundamentally take away the jobs of natives, as if the volume of work were constant and therefore a pure displacement effect has to be expected.

When it comes to normative sources of error, I am particularly interested in the tendencies of common sense to deviate from the moral standards that a professional-scientific assessment would suggest. This is what the term “Folk Ethics” stands for. A striking example is where utopian expectations are placed on economic practice, so that it is categorically inevitable that a moral assessment must inevitably lead to condemnation – literally: to a prejudice in the sense of a pre-programmed mis-judgment.

The further procedure looks like this: In the first section, I fall back on the instrument of the practical syllogism to clarify that the scientific processing of positive sources of error requires a completely different direction of thought and argumentation than the processing of normative sources of error. In the second section, I explain the technical term “folk-economic beliefs” and show which research options for business ethics can be combined (or opened up) with it. In the third chapter, I proceed analogously with the technical term “folk-ethical beliefs”. This article concludes with a short conclusion and a longer outlook on the possible (and desirable) readjustments of business ethics.

1. Two argumentative directions within the practical syllogism:
downstream and upstream

The practical syllogism is used here as an analytical tool to study the logical derivation of normative judgments from normative and positive premises.³ Figure 2 makes it easier to get an overview. On the first level, normative premises establish a moral desideratum. Here, in a sense, a goal is formulated: a ‘will’. On the second level, positive premises provide information about the real space of possibilities. Here, statements are made about facts or about the causal relationships between facts. This identifies suitable means of pursuing goals. So this is all about the realm of capabilities: ‘can’. On the third level, the logical quintessence is drawn. From the first two levels of normative and positive premises, a normative conclusion is derived. It has the character of a conditional recommendation. This is a question of ‘ought’: in view of the relevant alternatives between which we can choose, the conclusion determines the means that we should usefully use to pursue the desired goal.

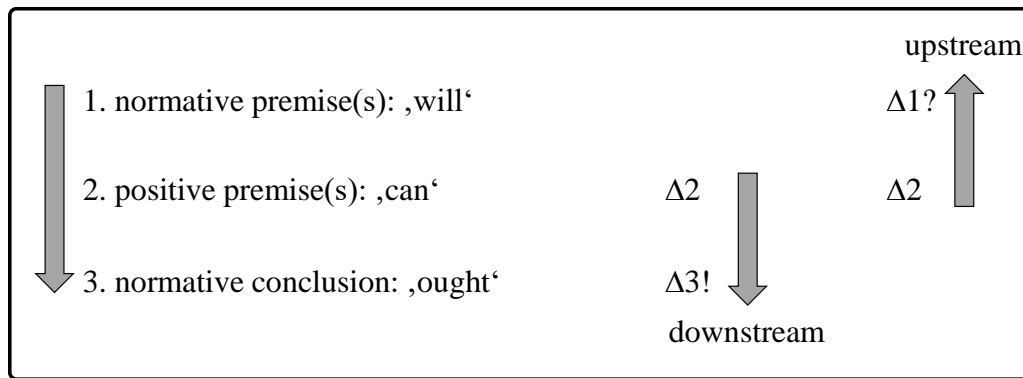


Figure 2: The practical syllogism

The practical syllogism creates transparency of justification. It shows how normative desire (“will”) and (cap)ability (“can”) lead to a preferable course of action (“should”) – or vice versa: how a normative “should” can be derived from considerations of expediency that can be traced back to a normative desire and certain available options. Therefore, this analytical tool is particularly suitable for the structured promotion of normative learning processes.⁴

The practical syllogism can be used for answering different questions. I distinguish between three tasks here: completion, criticism and correction.

(1) In public discourses – and sometimes also in scientific debates – normative evaluations are formulated, but not substantiated in detail. The underlying judgment – or more precisely, the mental assessment procedure – then remains at least partially implicit. In such cases, the practical syllogism can be used as an aid to explication for completing the argument: as a heuristic device for finding the relevant (normative and positive) premises from which the judgment can be logically concluded.

³ On the importance of the practical syllogism as a useful thinking tool for business ethics, cf. Homann and Pies (1994; p. 4), Schreck et al. (2013) as well as Zeyen and Beckmann (2018).

⁴ Drawing on the three levels of the practical syllogism, the conference topic can be reconstructed in a revealing way: The path from ‘is’ (2nd level) to ‘ought’ (3rd level) leads through ‘will’ (1st level). If this is not properly considered, normativistic or positivistic fallacies may occur. This will be explained in more detail in the text below.

(2) Such completions are particularly necessary and valuable where participants in the discourse make argumentative mistakes worthy of criticism.

- A *normativistic fallacy* exists where an attempt is made to derive a normative conclusion directly from normative premises, omitting positive premises, following the pattern: from (1.) without (2.) follows (3.).
- A *positivistic fallacy* (or in alternative terminology: a *naturalistic fallacy*) exists where an attempt is made to derive a normative conclusion directly from positive premises, omitting normative premises, following the pattern: from (2.) without (1.) follows (3.).
- A non-sequitur fallacy exists where a logical error is made in the derivation of the normative conclusion, so that the following applies: from (1.) and (2.) does *not follow* (3.).

(3) In addition to these three *formal errors*, however, also substantive *errors* can be made that are worthy of correction.

- A substantive error can occur in the *positive* premises if one is not properly informed about the facts or has misconceptions about the causal relationships that exist between facts. This is where scientific enlightenment can come in by starting at the second level with new findings – and drawing a new conclusion while retaining the normative premises. From a formal point of view, the argumentative direction can be described as “*downstream*” (see Fig. 2). The relevant pattern is: from (1.) and (Δ 2.) follows (Δ 3.).
- If one formulates a utopian goal or a goal that is feasible but not really desirable, a substantive error can also occur in the *normative* premises. Then scientific enlightenment can begin, again by starting at the second level, with new findings and from there questioning the normative premise. From a formal point of view, the argumentative direction can be described as “*upstream*” (see Fig. 2). The relevant pattern is: from (Δ 2.) follows the questioning (Δ 1?).

Downstream arguments are outperforming arguments. They have a high power of persuasion because they keep the goal – chosen by the addressees of the argumentation themselves – unchanged and direct the discussion to whether, for inter-subjectively comprehensible reasons, it might be more expedient to choose means other than those originally favored, because there is a superior alternative once you take into account new empirical findings and causal insights. In Figure 2, therefore, an exclamation mark is added to the downstream argument after (Δ 3.).

Upstream arguments, on the other hand, have a different discursive quality. These are irritating arguments that raise uncertainty and make people unsure about their normative desires. They do not give a new answer, but instead cast doubt on the initial question. In Figure 2, therefore, a question mark is inserted after (Δ 1.) for the upstream argument. Such an argument raises the question of whether the normative premise is really well-founded in the present context.

You can also put it this way: in the “downstream” direction, an argument is completed and closed. In the “upstream” direction, a (completely new) argument is opened up. The “downstream” argument terminates a train of thought, whereas the “upstream” argument starts a new train of thought.

“Upstream” arguments ask: “why?”. In this way, they can initiate learning processes, at the end of which there may be an enlightened agreement that another normative premise is preferable. This can then be reconstructed as a second-order “downstream” argument. We’ll come back to this later. Here, it suffices to note that “upstream” arguments can prepare second-order “downstream” arguments.

2. Folk-economic Beliefs

(1) We are born *Ptolemies*. Our “folk physics” suggests that the sun revolves around the earth – a view that is (seemingly) verified twice a day when we see the sun rise in the morning and the sun set in the evening. Since the Copernican revolution, however, scientific physics has been enlightening us that it is exactly the opposite: the earth revolves around the sun.

We are born *creationists*. We observe expediency in nature – eyes that are there to see; wings that are there to fly – and in the mode of a “folk biology” we tend to infer an underlying plan of creation. Since Darwin, however, scientific biology has been enlightening us that such phenomena can be explained in a completely different way: as the evolutionary result of mutation and selection.

We are born *intentionists*. It has become second nature to us to identify causal relationships between motives for action and the results of action – in both directions. In particular, in the mode of “folk ethics,” we often infer good results from good motives and, analogously, bad motives from bad results. Since the Scottish moral philosophy of the 18th century, however, science has enlightened us that in a modern society, many results of competitive functional systems (in business and politics, in science, in media and public discourse) come about as *unintended* consequences of intentional action, so that one commits causal attribution errors in the form of heroization narratives – and conversely, conspiracy narratives – if one is categorically blind to the fact that due to the strong effects of competitive pressure, good (system) results do not necessarily presuppose good intentions to act, and analogously bad (system) results do not necessarily presuppose bad intentions to act. Economically informed ethics does not attribute (systemic) outcomes to intentions, but to institutions: the functional or dysfunctional incentives that produce good or bad outcomes.

Generally speaking, “folk ethics” refers to the erroneous application of evaluation standards. This can include confusing ends and means, or mixing up the categories of life world and system. For example, Karl Marx's communist motto “From each according to his ability, to each according to his needs!”⁵ is a confusion of context. The motto may be suitable for small families, but not for large societies. We are dealing with a similar case if people normatively expect that market competition processes will allow all competitors to be equally successful, despite different resource endowments, different preferences, and numerous random influences. To put it in a nutshell: The defining characteristic of “folk ethical beliefs” is that they champion impossible (= utopian) or inappropriate (= dysfunctional) evaluation standards for moral judgments.⁶

⁵ Marx (1875, 1973; p. 21).

⁶ A prominent example of an economic ethics counter-argument against unjustified criticisms of the market system comes from Hayek (1976). He distinguishes between procedural justice and social justice in the sense of equality of outcome. On this basis, he argues that the application of the category of equality of outcome within market contexts leads to violations of procedural justice. He formulates an inconsistency

(2) A similar reasoning applies to “folk economics”. The term goes back to Paul H. Rubin⁷ and refers to a mismatch problem: Our categories of thought have emerged over evolutionary periods in largely static societies and do therefore not inherently fit the modern growth society. For Rubin, we humans are born *zero-sum thinkers* and therefore have an innate tendency to perceive societal phenomena in the tradeoff paradigm of win-lose, so that we suspect that we are worse off whenever others improve their situation. Against this background, he holds that economics scientifically clarifies that in many cases a mutual improvement in the sense of a win-win is possible. But unlike speaking, which is inherent in our nature, Rubin emphasizes that economic thinking must be explicitly taught and learned – analogous to reading, which in a likewise fashion is not inherent to our nature. He writes:

“Folk economics is the intuitive economics of untrained people. ... Naive people or those untrained in economics think of prices as allocating wealth but not as influencing allocation of resources or production of goods and services. In folk economics, the amount of a good traded-whether in aggregate or by each individual-is fixed and independent of price. Moreover, each individual is concerned with the distribution of wealth and income (with particular but not exclusive attention to his/her own wealth), not with any efficiency gains from economic activity. The world of folk economics is a zero-sum world, and the primary economic problem for each individual is to maximize his or her own wealth in this world. One of the goods traded is labor, so the number of jobs is also viewed as fixed. Thus, in folk economics, if one person gets a job someone else must lose a job.

I do not want to imply that people cannot learn about positive-sum interactions or about efficiency. ... But the point is that it must be learned; it is not an innate piece of knowledge. Speech is innate; all humans in normal environments learn to speak. Reading must be taught; it is not innate. Economics is more like reading than like speech. ... There is a good bit of evidence that we are hardwired to be very good at protecting our own interests and at detecting cheating in an exchange situation ... But being able to look out for our own interests is not the same as being able to detect social gains from exchange, and this is what is lacking in folk economics.”

The basic idea can also be expressed as follows: Zero-sum thinking was practically put into the human cradle as our first nature. We are born with it. But we are not fatefully at the mercy of our first nature. Thinking in non-zero-sum games can be acquired intellectually as a second nature, with the help of economic enlightenment. We have cultural techniques at our disposal – especially in the form of modern sciences – with which we are able to pull ourselves out of the swamp of innate prejudice structures by our own hair.

(3) Innate tendencies toward fallacious perception can be interpreted as systematically distorted patterns of thinking. In the scientific literature, one speaks of biases, i.e. presets (pre-programmations or literally pre-judices) that are likely to mislead common sense.

Bryan Caplan distinguishes four biases that are relevant to the (mis-)perception of business:

argument – Hayek (1976; p. 64 f.): “It has of course to be admitted that the manner in which the benefits and burdens are apportioned by the market mechanism would in many instances have to be regarded as very unjust if it were the result of a deliberate allocation to particular people. But this is not the case. Those shares are the outcome of a process the effect of which on particular people was neither intended nor foreseen by anyone when the institutions first appeared-institutions which were then permitted to continue because it was found that they improve for all or most the prospects of having their needs satisfied. To demand justice from such a process is clearly absurd, and to single out some people in such a society as entitled to a particular share evidently unjust.” Hayek thus states a category error, a kind of intentionalist fallacy, because a norm for the evaluation of conscious actions is brought to a process of institutionalized action coordination. However, he stops at the upstream argument that social justice is unjust. In this sense, he identifies social justice as a “folk-ethical belief”. However, he does not succeed in making an outbidding argument here. How this should have been structured – as a combination of first- and second-order downstream arguments – will be made clear in Section 3.

⁷ Cf. Rubin (2003).

- “antimarket bias”, defined as “a tendency to underestimate the economic benefits of the market mechanism”⁸
- “antiforeign bias”, defined as “a tendency to underestimate the economic benefits of interaction with foreigners”⁹
- “make-work bias”, defined as “a tendency to underestimate the economic benefits of conserving labor”¹⁰
- “pessimistic bias”, defined as “a tendency to overestimate the severity of economic problems and to underestimate the (recent) past, present and future performance of the economy”¹¹

All four biases are closely related to zero-sum thinking: Those who are unable to think of societal interactions in the win-win paradigm because they are biased or caught up in the win-lose paradigm

- cannot think of the act of exchange as a mutual betterment and therefore cannot think of the market as a societal arena of acts of exchange that are conducive to the common good
- cannot value strangers as cooperation partners, but will rather perceive them as a threat
- are categorically blind to the dimension of progress, which is to sustainably promote prosperity through efficiency increases (= labour savings), and instead will tend to assess political measures according to the criterion whether they promise that jobs are to be created
- will tend to perceive the present and the future as a process of stagnation or even decay, because they tend to dramatically underestimate how much the capitalist institution of the competitive market, in interaction with the capitalist institution of the business organization designed for long-term existence and rational management, can contribute to solving societal problems through innovation, i.e. through the generation and use of new knowledge

(4) Recent research suggests that not only zero-sum thinking, but also other psychological factors – partly independent of, partly in combination with the tendency towards zero-sum thinking – are likely to be responsible for the fact that common sense adheres to “folk-economic beliefs” that¹² do not stand up to scientific scrutiny based on theoretical and empirical economics.

For example, in the US, numerous regulations of the real estate and housing market are very popular – from the designation of areas where building houses is not allowed to restrictive building regulations and rent regulations. In this respect, one might be inclined to assume that this may be the result of a well-functioning democratic process. However, one becomes suspicious when one empirically observes that in many cases not only the apartment owners but also the tenants are in favour of political measures that make it more difficult to expand the housing supply.

⁸ Caplan (2007; p. 30, emphasized in original).

⁹ Caplan (2007; p. 36, emphasized in original).

¹⁰ Caplan (2007; p. 40, emphasized in original).

¹¹ Caplan (2007; p. 44, emphasized in original).

¹² The term goes back to Boyer and Petersen (2018). Cf. critically Bendixen (2019).

Against this background, the vignette study by Nall et al. pursues the hypothesis that building regulations are not popular with tenants *because* they benefit them, but *even though* they harm them.¹³ The authors identify the phenomenon of “supply skepticism”:

“[W]e show that about 30%-40% of Americans believe, contrary to basic economic theory and robust empirical evidence, that a large, exogenous increase in their region’s housing stock *would cause rents and home prices to rise*.”¹⁴

Many people in the US doubt that an expansion of housing supply will lead to rent reductions. Rather, they believe the opposite. Interestingly, however, this is not a universal phenomenon, but apparently a sector-specific one: In this study, many US subjects were able to correctly assess that an increase in new car production causes the price of used cars to fall, while they could *not* correctly assess that an increase in new residential construction causes rents for old apartments to fall in a completely analogous way.¹⁵

Furthermore, the authors observe a widespread tendency towards personalizing re-criminations, which are also selectively distorted:

“[W]e observe a very strong tendency to blame housing providers (developers) for high housing prices. Conversely, actors whose stock in trade is opposing new development (environmentalists, anti-development activists) are almost never blamed. Incumbent owners who rent out their property (landlords) are commonly blamed, whereas incumbent owners who occupy it (homeowners) are not, even though both groups have a similar economic interest in supply restrictions. The pattern of blame attribution is very similar for homeowners and renters, except that renters hold landlords more responsible and homeowners are slightly more likely to list developers in their top three.

All of this coheres with the notion that the mass public sees high housing prices and rents as caused by putative bad actors’ malevolence, rather than development restrictions and impersonal market forces.”¹⁶

Overall, the authors of the study were able to identify that – among other factors – a “folk-economic belief” can also help explain the popularity of the regulations. The authors identify “a ... public misunderstanding of housing markets”¹⁷ and explain the politically troubling implications of this finding as follows:

“[P]eople who want lower prices and rents (a latent supermajority) may fail to mobilize for pro-housing reforms because they do not believe that more supply would bring down prices.”¹⁸ “Supply Skeptics who want lower prices might well make self-undermining political choices”¹⁹. “[O]ur study suggests that the staggering inequalities that mark the American housing landscape may have resulted, in part, from poorly-informed voters backing policies that foreclose the outcomes they prefer.”²⁰

With regard to how to deal with this “folk-economic belief”, the authors give the following advice:

“We hope that our careful documentation of the prevalence and robustness of housing Supply Skepticism will spur future work in a causal-inference framework on its origins and consequences. That ordinary people have a firm grasp on how the supply of new cars affects prices for used cars suggests that it might be fruitful to try educating people about housing by analogy to cars.”²¹

¹³ Vgl. Nall et al. (2022). They formulate the following explanatory claim: (p. 41): “Our results suggest a new explanation for a behavioral puzzle observed in the local political economy literature, namely, that renters are not always supportive of new housing.”

¹⁴ Nall et al. (2022; p. 6 f.).

¹⁵ Nall et al. (2022; p. 28 and p. 30): “Do people think about housing in the same way they think about other markets? No.” “Housing is different.”

¹⁶ Nall et al. (2022; p. 40).

¹⁷ Nall et al. (2022; p. 4).

¹⁸ Nall et al. (2022; p. 6).

¹⁹ Nall et al. (2022; p. 36).

²⁰ Nall et al. (2022; p. 44).

²¹ Nall et al. (2022; p. 43).

Furthermore, one reads the following assessment:

“We thought Supply Skepticism would run together with generalized zero-sum thinking, but it does not.”²²

This assessment suggests that there is a need for further investigation, especially in the field of basic research, in order to clarify whether zero-sum thinking is the only source of “folk-economic beliefs”, whether there are other sources of equal rank, or whether it is rather the case that zero-sum thinking interacts with other (comparatively minor) factors that (co-)determine which concrete form the fallacy of thought takes.

(5) But even if there are still many unanswered questions here, it is already clear that empirical evidence exists that can be used to generate downstream arguments. The following argumentation aims at an illustrative sketch.

We begin by regimenting the “folk-economic belief” into a practical syllogism. In this way, we obtain a moral judgment that takes the form of a political demand (Figure 3).

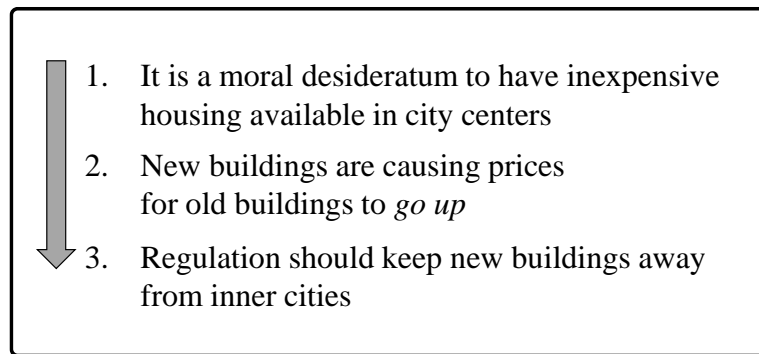


Figure 3: The “folk-economic belief” in the practical syllogism

The correction of the “folk-economic belief” can also be represented in the practical syllogism (Figure 4). For this purpose, the first element, the normative premise (1.), is adopted unchanged. The second element, the positive premise, is corrected. This is what “ $\Delta 2$ ” stands for: The supply skepticism is rejected. Instead, attention is drawn to the fact that, all other things being equal, rising supply causes prices to fall, and that this general economic insight also applies to the housing market. This correction of the second element then (necessarily) also entails a correction of the third element. The conclusion needs to be adjusted. This is what “ $\Delta 3$ ” stands for: Knowing the positive premise that new buildings do not increase the rent for old buildings, *but cause them* to fall, the normative conclusion must be reversed. New buildings are not morally questionable, but morally desirable because they contribute to the availability of affordable housing in city centers. Therefore, new buildings should *not* be kept out of city centers by regulation.

As you can see, it is precisely when one takes the moral concern of the normative premise seriously that one comes, with the help of scientific findings based on theoretical and empirical economics, to a different conclusion than the “folk-economic belief” would suggest. Here one can show that there is a superior means to effectively pursue the desired goal. In this sense, we are dealing with an *outperforming argument* that can trigger aha effects.

²² Nall et al. (2022; p. 42).

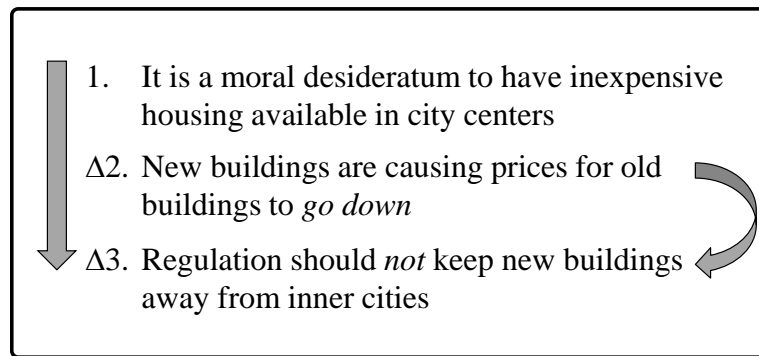


Figure 4: The correction of the “folk-economic belief” in the practical syllogism

With such outperforming arguments, business ethics could contribute to societal discourses in order to contribute, in the mode of scientific enlightenment, to ensuring that citizens do not inadvertently advocate measures in the field of economic policy that run counter to their joint interests in the common good. In this respect, I argue that the scientific handling of “folk-economic beliefs” would be a worthwhile field of activity for business ethics.

3. Folk-ethical Beliefs

The scientific handling of “folk-ethical beliefs” is comparatively more complicated. While science, with its direct access to facts and to causal relationships between facts, can immediately enter competition with the positive premises of common sense, this direct access is blocked with regard to the normative premises of common sense, if one takes Max Weber's postulate of freedom from value judgment seriously. While “folk-economic beliefs” can be clarified directly, this is only possible indirectly with “folk-ethical beliefs”. But it is possible.

To illustrate this, I proceed in three steps. In the first step, I will briefly show how business ethics can deal with the issue of price gouging when tackling a “folk-economic belief”. Subsequently, I will show in contrast how business ethics can deal with the topic of price gouging when tackling a “folk-ethical belief”. The second step explains how to generate an upstream argument. Building on this, the third step shows how the impulse of this upstream argument can be constructively processed by formulating downstream arguments (of second and first order) that can function as intellectual orientation offers on how “folk-economic beliefs” can be corrected in an insightful and inter-subjectively comprehensible way.

(1) Price gouging is an old topic. But it can evoke strong emotions over and over again. This is due to the fact that many people see a sharp price increase, especially in times of need, as a *problem*. Economic theory, on the other hand, suggests that strong price increases that occur in times of need in competitive markets should be regarded as a constitutive contribution to solving the problem, because higher prices push back demand and expand supply, so that the societal problem of crisis-intensified scarcity is better countered.

Common sense reasoning can be reconstructed in the practical syllogism as follows (Figure 5).

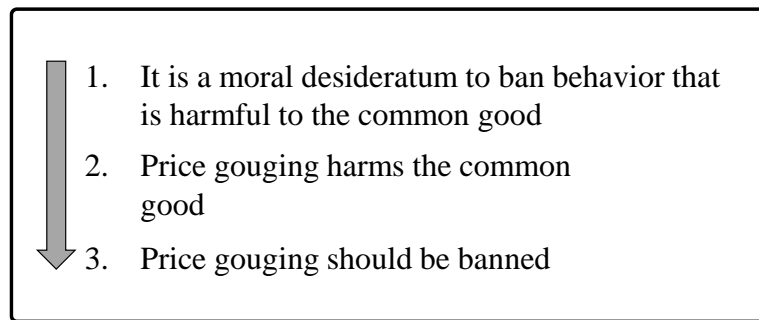


Figure 5: The popular argument against price gouging in the practical syllogism

The economic impact assessment can be used as a downstream argument against this, according to the pattern: from (1.) and (Δ 2.) follows (Δ 3.) (Figure 6).

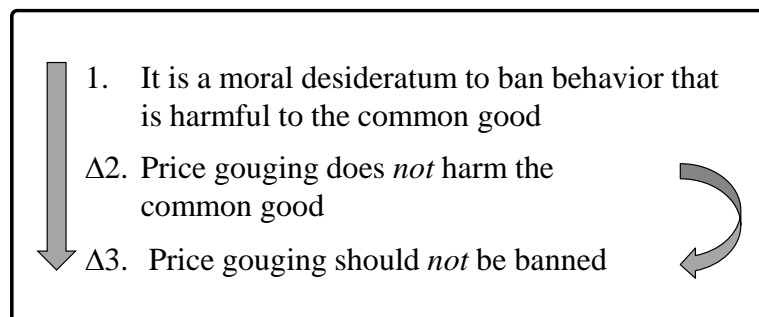


Figure 6: The downstream economic counterargument in the practical syllogism

(2) In order to be able to deal with the topic of price usury as a problem of “folk-ethical beliefs” that are in need of correction, the following background information is helpful.

During the Corona pandemic, it was observed in the US that many people were outraged by “price gouging” in the face of rising prices, while at the same time there was public celebration that nurses in New York, for example, were able to push through considerable wage increases.²³ This raises the question of why facts that belong to the same category from the perspective of economic theory are categorically sorted differently by common sense and then evaluated differently. In short: Why is price gouging valued differently than wage gouging?

To answer this question, Jauernig et al. conducted an experimental study investigating fairness judgments.²⁴ The authors confirm the hitherto only anecdotal observation of a “folk-ethical belief”. Their findings are that a retailer who sells masks to a hospital and benefits from a 30% price increase due to the crisis will experience a different fairness judgment than a nurse who starts work in a hospital and benefits from a 30% wage increase due to the crisis. Many people consider the second case to be much fairer than the first case. To put it bluntly, they consider price gouging to be undesirable, while wage gouging is deemed desirable.

In the study, two factors are identified that influence this result by leading intentionalist reasonings in different directions: on the one hand, zero-sum thinking, and on the other hand, the attribution of power differences, which is triggered by zero-sum thinking. Zero-sum thinking leads to the phenomenon that even faced with a transaction that is

²³ Cf. Reese and Pies (2021).

²⁴ Cf. Jauernig et al. (2023).

voluntary for both sides of the market, people do not associate mutual betterment, but instead assume that one party is better off while the other party is worse off. At the same time, the presumed worsening of an exchange partner's position is classified as fairer if the better-off party is assessed as less powerful compared to her exchange partner.

Against this background, the reasoning of common sense in the practical syllogism can be reconstructed as follows (Figure 7).

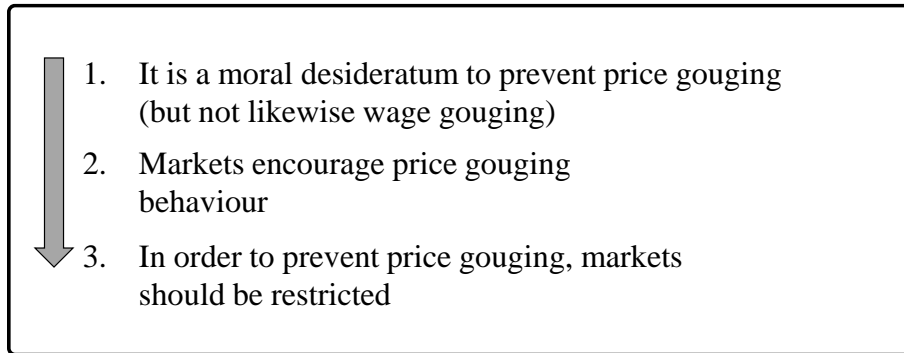


Figure 7: The price gouging argument in the practical syllogism

Against this background, it is interesting to see what the associated upstream argument looks like (Figure 8). It starts at the level of the positive premise and reverses the direction of thought. Unlike a downstream argument, it does not aim at correcting the conclusion, but instead at questioning the normative premise. This is indicated by the question mark after ($\Delta 1$).

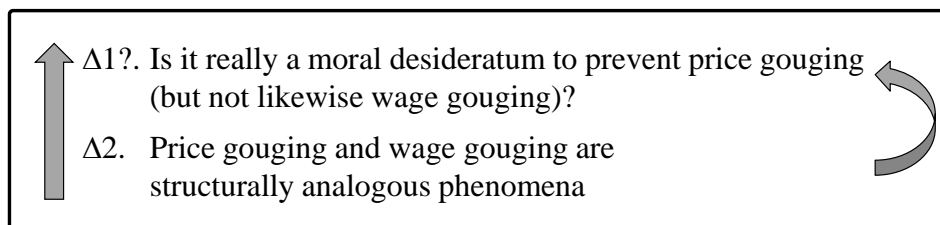


Figure 8: The upstream economic counterargument in the practical syllogism

The upstream argument points to an inconsistency in moral judgment. The first study observes in public, the second in a controlled experiment of a vignette study, that people apparently evaluate price gouging and wage gouging differently, although there is no objective justification for this. This suggests that there is an intellectual disorientation here that requires deeper reflection.

(3) The upstream argument only challenges the normative premise. It unsettles and casts doubt. It's thought-provoking – nothing more.

However, the fact that much more is possible on a scientific basis is now to be shown. Again, the practical syllogism serves as a tool. This time, however, it is applied to a higher level of, as a *second-order downstream argument* (Figure 9). To illustrate the change of planes, Roman ordinal numbers are assigned to the three elements.

The underlying idea is to formulate a syllogism whose conclusion provides a substitute for the normative initial premise (in Figures 7 and 8). This is how it works: One looks for a moral desideratum that is as acceptable as possible for the addressees of the counter-

argument that is to be developed (I.). For this purpose, a suitable positive thesis is formulated (II.). Based on this, a differentiated conclusion is then derived (III.). In the present case, the normative orientation proposal is not to classify price gouging (and strictly analogously: wage gouging) as an evil to be combated, but instead to draw the dividing line between fair and unfair forms of price gouging (and wage gouging). The underlying idea draws on the economic insight that competitive prices lead to mutual improvement and at the same time counteract unfair advantage because competitive markets offer numerous alternative options to possible victims of unfair exploitation: competition is a societal instrument of disempowerment.

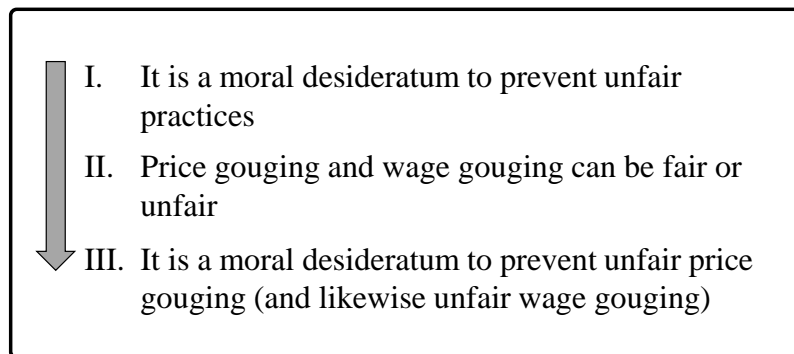


Figure 9 The second-order downstream argument

On this basis, we now switch to a lower level of thought and formulate a *first-order downstream argument* (Figure 10). To illustrate this new change of planes, the three elements are now again assigned Arabic ordinal numbers.

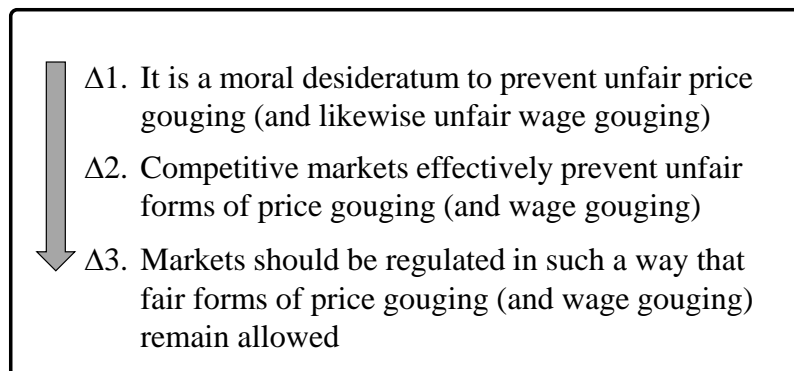


Figure 10: The First-Order Downstream Argument

The procedure is as follows: the conclusion (III.) is inserted into the initial syllogism and replaces the old normative premise. This is what (Δ1.) stands for. Then a new positive premise is formulated, which is thematically relevant (Δ2.). Finally, a new conclusion is derived: (3Δ.) in Figure 10 replaces (3.) in Figure 7. This is a convincing argument *against* a general ban on alleged price gouging and at the same time *for* those (not unfair) forms of 'price gouging' that help to overcome emergency situations of drastically increased scarcity.

Figure 11 provides an overview of the entire argumentation process, which was followed in a total of four steps using Figures 7, 8, 9 and 10.

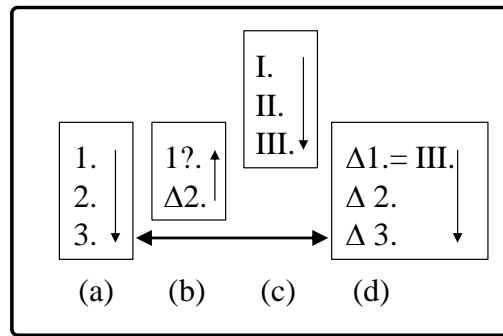


Figure 11: Overview of the entire argumentation process

- First step (a): The moral judgment of common sense is interpreted in the practical syllogism
- Second step (b): An upstream argument questions the normative premise
- Third step (c): A second-order downstream argument formulates a conclusion (III.) that can be interpreted as a new normative premise (III. = $\Delta 1.$)
- Fourth step (d): A second-order downstream argument derives a new conclusion ($\Delta 3.$) from the new premises ($\Delta 1. = \text{III.}$) and ($\Delta 2.$), which – as the horizontal arrow refers to – replaces the old conclusion ($\Delta 3.$) from the first step

4. Summary and outlook

(1) The considerations of this article can be briefly summarized as follows:

“Folk economics” is the economic ‘theory’ of common sense, and analogously “folk ethics” is the moral ‘theory’ of common sense. “Folk-economic beliefs” are empirically observable popular assumptions about economic facts and their causal relationships. “Folk-ethical beliefs” are the empirically observable popular assumptions (“intuitions”) about normative standards of evaluation. Typical of “folk-economic beliefs” are erroneous causal attributions. Typical of “folk-ethical beliefs” are utopian or dysfunctional evaluation criteria. We are dealing here with sources of positive and normative disorientation that can mislead moral judgments, albeit in different ways.

If one reconstructs these phenomena with the help of the practical syllogism, then “folk-economic beliefs” refer to the positive premises and “folk-ethical beliefs” to the normative premises that underlie the moral judgments of broad sections of the population when they normatively evaluate economic phenomena. Their tendency is to lead popular assessments of the legitimacy of market arrangements astray.

The main thesis of this article is that “folk-economic beliefs” as well as “folk-ethical beliefs” could and even should be made a research object of business ethics in order to scientifically work on the hitherto comparatively neglected area of an *un-just*(ified) moral critique of the market economy – in addition to the important area of *justified* moral criticism of the economy that is already well covered in the literature on business ethics.

In support of this thesis, it has been shown that the scientific critique and correction of “folk-economic beliefs” requires a slightly different approach than the scientific critique and correction of “folk-ethical beliefs”. To put it bluntly, moral judgments in the first case can be improved by simple downstream arguments, while in the second case,

an upstream argument is needed, on the basis of which second- and first-order downstream arguments can then be developed.

(2) In this paper, “folk-economic beliefs” on the housing market and “folk-ethical beliefs” on price and wage gouging have been examined. The range of topics could be easily extended.²⁵ But that's not all. The following outlook may illustrate how significant and interesting this field of research could be for business ethics. To this end, five points are outlined as an illustrative suggestion for further reflection.

First point: “Folk-ethical beliefs” and “folk-economic beliefs” can have a causal effect on each other. This is the case, for example, where a strong normative commitment not only influences one's own perception of reality, but also triggers pressure to conform. Cusimano and Lombrozo describe the societal dynamics in the following words:

“We ... document two ways in which moral considerations affect how people evaluate others' beliefs. First, the moral value of a belief affects the evidential threshold required to believe, such that morally beneficial beliefs demand less evidence than morally risky beliefs. Second, people sometimes treat the moral value of a belief as an independent justification for belief, and on that basis, sometimes prescribe evidentially poor beliefs to others. Together these results show that, in the folk ethics of belief, morality can justify and demand motivated reasoning.”²⁶

We are dealing here with the case that “folk-ethical beliefs” can contribute to the generation and reinforcement of “folk-economic beliefs”, so that distorted perceptions of reality are normatively lashed together. How such 'knots' can be resolved argumentatively still needs to be researched in more detail. This is an important field of activity if business ethics wants to serve public enlightenment.

Second point: Why do many people have a moral bias against markets? Two factors that interact with each other play an important role here. On the one hand, voluntary acts of exchange in markets are often considered by third parties to be not beneficial for both exchange partners. In the literature, this phenomenon is called “win-win denial”.²⁷ It is a “folk-economic belief”. On the other hand, economic exchange partners are typically attributed selfish motives. And in many cases these are considered morally disreputable. This is a “folk-ethical belief”. The combination of these two factors leads directly to the phenomenon that economic transactions are perceived in the scheme of perpetrator and victim. It is often tacitly assumed that a large and supposedly overpowering actor exploits a small and supposedly powerless actor, although, in the context of competitive markets, one has to assume that both parties of exchange are made better off.

Recent research indicates that zero-sum thinking is mainly triggered where situations are perceived as threatening.²⁸ Boyer and Petersen propose an explanation for this. They emphasize the importance of practices of social exchange over long periods of human development and contrast this with the emergence of anonymous market transactions:

²⁵ In recent years, extensive studies have been carried out that can be used to critically examine moral judgments about markets. For an overview, cf. Storr and Choi (2019) as well as Choi and Storr (2020). For interesting individual examples from recent literature, cf. Chen (2021), Agneman and Chevrot-Bianco (2022), Dewatripont and Tirole (2022) and Enke (2023). For the older – but still highly relevant – literature, cf. pars pro toto Baumol (1975) and (1991).

²⁶ Cusimano und Lombrozo (2021; p. 1).

²⁷ Johnson et al. (2022).

²⁸ Cf. Davidai and Tepper (2023; p. 472): “[W]e identify three broad psychological channels that elicit zero-sum beliefs: intrapersonal and situational forces that elicit threat, generate real or imagined resource scarcity, and inhibit deliberation.”

They therefore explain the anti-market pre-attitude by the fact that it is precisely the *special* (and particularly high-performance) functioning of the market that triggers danger signals (“threat-cues”) in our brains²⁹. In this regard, they write:

“First, our partner-choice system requires that the parties in a transaction be identifiable as specific individuals. In small-scale interactions, the balancing of costs and benefits occurs over reiterated exchanges, and, in order to predict these long-term outcomes, information about the partner’s reputation and past exchanges are key. Impersonal transactions, in contrast, are often anonymous, and therefore make it more difficult to track the reputation of one’s partners. To a psychology designed for partner-choice, this is likely to trigger an alarm signal, indicating that such a situation should be avoided. Second, strictly impersonal exchange goes against motivations to generate bonds of cooperation with particular individuals, as a form of social insurance. This may reinforce the intuition that impersonal transactions involve, if not danger, at least a missed opportunity. Finally, systems for partner-choice are set up to avoid engaging in exchange relationships with individuals who are much more powerful, in order to avoid exploitation ... In modern markets, however, many exchanges take place with corporations or business that seem exceptionally powerful from the perspective of the individual. While these corporations are actually affected by consumer choice, this only occurs at the aggregate level. As a result, each individual can form the perception that powerful corporations set the terms of exchange in potentially exploitative ways.”³⁰

This hints in favour of not taking every negative moral judgment about markets at face value, but critically examining how well the moral judgment is justified, i.e. systematically taking seriously the separation between *just(ified)* and *un-just(ified)* criticisms.

Thirdly, the fixation of moral thinking in the form of “folk-ethical beliefs” on actual or even presumed intentions of the economic actors involved can easily be misleading. Nall et al. write:

“[T]he mass public tends to personalize and moralize economic phenomena ... The profit motive is regarded with suspicion ... Sudden increases in the price of a commodity tend to be attributed to market manipulation rather than shortages”³¹.

“Laypeople tend to evaluate economic scenarios based on the motives of the actors, rather than outcomes.”³²

However, this widespread fixation on intentions affects not only the economy, but also politics. Here, recent studies have come to the conclusion that people often do not pay attention to the consequences when assessing economic policy measures, but instead to the motives that (supposedly) underlie the measures. In this regard, Marie et al. write:

“By consequentialist standards—and contrary to relationships we have with friends and relatives, with whom physical interdependence is higher—whether ministers ..., as particular individuals, share our values and interests or not should be of little import. What we should mostly care about is how successful policies are at reaching their goals, while balancing that against their cost for society.

Contra consequentialism, our experiments found that laypeople’s intuitive judgments of policy decisions were only little responsive to huge differences in efficiency expressed in numerical format. ... Against consequentialist principles again, we also found that cues to the involvement of altruistic vs. selfish intentions in policies’ implementation have substantial influence on how commendable they are perceived ..., and how much popular support they get”³³.

“An evolutionary approach to moral judgments can shed light on those results. Humans spent most of their evolution in small-scale societies in which the need to carry out joint ventures would have required them to constantly gauge other individuals’ trustworthiness as potential partners ... As a

²⁹ Boyer and Petersen (2018; p. 13).

³⁰ Boyer and Petersen (2018; p. 13).

³¹ Nall et al. (2022; p. 8).

³² Nall et al. (2022; p. 9).

³³ Marie et al. (2021; p. 15, emphasis in original).

result, they evolved intuitive inference systems for tracking cues diagnostic of a person's value as a cooperater, and moral character"³⁴.

"Folk moral judgments of policies' propensity to depart from consequentialism may thus be explained in terms of a mismatch between our evolved psychology and the biologically novel demands of cost-benefit thinking."³⁵

This suggests an additional reason why business ethics should focus more on "folk-economic beliefs" and "folk-ethical beliefs" in the future: in order to provide counter-arguments against political processes that cause collective self-harm.

Fourth point: As a moral observer, the philosopher Michael Sandel comes to the empirical conclusion that many critics of price gouging phenomena react with strong emotions to (mis)behavior that they perceive as vicious:

"Much public support for price-gouging laws comes from something ... visceral ... People are outraged at »vultures" who prey on the desperation of others and want them punished – not rewarded with windfall profits."³⁶

As a philosopher, he draws the following conclusion from this:

"[T]he outrage at price-gougers is more than mindless anger. It gestures at a moral argument worth taking seriously. Outrage is the special kind of anger you feel when you believe that people are getting things they don't deserve. Outrage of this kind is anger at injustice."³⁷

Sandel therefore recommends that the authenticity and intensity of the people's anger be used to infer serious judgments of justice.

In stark contrast, this article recommends a diametrically opposed approach: strong emotions should raise suspicion. They may result from miscalculations. And they may obscure thinking so that they mislead moral judgments.

In order to further substantiate this recommendation, I formulate two short questions that hint at a possibly revealing analogy between feelings of revenge, disgust and anger:

- The modern rule of law is based on the conversion from self-justice to system justice. The constitutional state expects its citizens not to act out spontaneous feelings of revenge, even if they are felt very intensely. – Similarly, the modern market economy is based on the conversion from self-sufficiency (subsistence agriculture) to a systemic provision via purchased goods and services. Do we perhaps have to demand from the citizens of a market economy to discipline feelings of anger in a similar way as we demand from them to disciplining feelings of revenge?
- In the past, it was a common practice to make feelings of disgust the basis of legislation. In Western societies, discrimination against groups – for example, against groups with dark skin or homosexual orientation – has historically been justified in this way. Any feelings of disgust on the part of the majority of the population were regarded as empirical evidence of the moral objectivism of the corresponding denigrating value judgments, which were then cast in the form of law. In the meantime, we have moved away from this practice – with good reasons! Perhaps we are facing similar learning processes by examining the epistemic status of feelings of anger more closely and dimming their political relevance accordingly?

³⁴ Marie et al. (2021; p. 17).

³⁵ Marie et al. (2021; p. 18).

³⁶ Sandel (2009; p. 7).

³⁷ Sandel (2009; p. 7).

Business ethics can make similar considerations for other feelings, such as envy and schadenfreude.³⁸ But also for justice.³⁹ Or for equality.⁴⁰

Fifth point: The distinction, common within the German speaking literature, between market ethics and corporate ethics – a moral theory of the market system and a moral theory of the behavior of and in business organizations embedded in competitive markets – has remained alien to the Anglo-Saxon discourse on business ethics to this day, although Boatright's fundamental contribution and his paradigm of a “Moral Market Model” can be seen as a plea for an explicit market system approach to business ethics. This is the particular strength of his contribution, but perhaps also at the same time a weakness, because his contribution does not reveal how the *topic* of corporate ethics could be dealt with following his *methodological* approach of a “Moral Market Model”.

Against this background, the following considerations may at least indicate how one could *analogize* market ethics and corporate ethics – despite their different *topics* – with regard to the *methodological* approach.⁴¹

- From a market ethics perspective, moral criticisms of markets can be productively turned if they are interpreted in such a way that they refer to unmet needs and thus to “missing markets”. Similarly, managers can productively address moral criticism of acts by or within corporate organizations by interpreting it – or more precisely, by learning to interpret it – in such a way that it refers to unmet needs and thus to “missing exchange opportunities”. In both cases, it is important to develop an analogous way of looking at the problem and to identify the win-win potentials that have not yet been realized in the status quo.
- From a market ethics perspective, problem *solving* aims at institutionalizing incentives that internalize externalities, impose negative sanctions on undesirable behavior, and make desired behaviors binding for all parties involved, i.e. implementing moral standards in a competition-neutral manner. In this respect, the term “Moral Market Model” is well chosen. From a corporate ethics perspective, problem solving aims at institutionalizing incentives that build trust, encourage specific investments, and thus enable cascades of interdependent interactions, without which the potential for mutually beneficial value creation would lie untapped. The term “Moral Governance Model” is appropriate for this, in the spirit of Oliver Williamson's understanding: “[G]overnance is the means by which to infuse *order*, thereby to mitigate *conflict* and realize *mutual gain*”.⁴²
- From a market ethics perspective, one needs argumentation skills in order to be able to distinguish between *just(ified)* and *un-just(ified)* market criticism. This is important in order to keep political discourses functioning. Otherwise, discourse failure can lead to political failure and ultimately to market failure, such that mor-

³⁸ Lange et al. (2018).

³⁹ Cf. the groundbreaking reflections of John Stuart Mill (1861, 1969). He points out (especially in chapter V, p. 240 ff.) that there are competing feelings of justice and that therefore expediency considerations based on impact calculation are needed in order to make social practices and institutional arrangements 'fairer'. This program of an argumentative rationalization of natural feelings aimed at promoting social learning processes could be further advanced with modern scientific findings.

⁴⁰ Cf. Starmans et al. (2017).

⁴¹ I refer to the ordonomic approach to business ethics, in which these considerations have already been elaborated in detail. Cf. e.g. Pies (2022), which looks back at thirty years of research work.

⁴² Williamson (2010; p. 100, emphasis in original).

ally mis-directed mis-regulation pressures market participants to mis-behave. Similarly, from a corporate ethics perspective, one also needs argumentation skills in order to be able to distinguish whether the moral critique of behavior by and in corporate organizations is well or poorly justified. In this respect, the method presented here to use the practical syllogism for downstream and upstream arguments has something to offer not only to general societal leaders (in politics, media and civil society), but also specifically to corporate managers: as an empowerment for the “Moral Governance Model”, i.e. for the value-adding resolution of moral conflicts in everyday economic life: if managers want to use moral (self-)commitments as a factor of production, they have to actively influence the narratives and the underlying patterns of perception circulating in the value network in order to drive institutional progress through meaningful ideas communication. In this arena, successfully dealing with (un)justified criticisms is key!

Finally, Figure 12 provides an overview of the five options available to a manager to process moral critiques constructively – i.e. in a value-generating way.

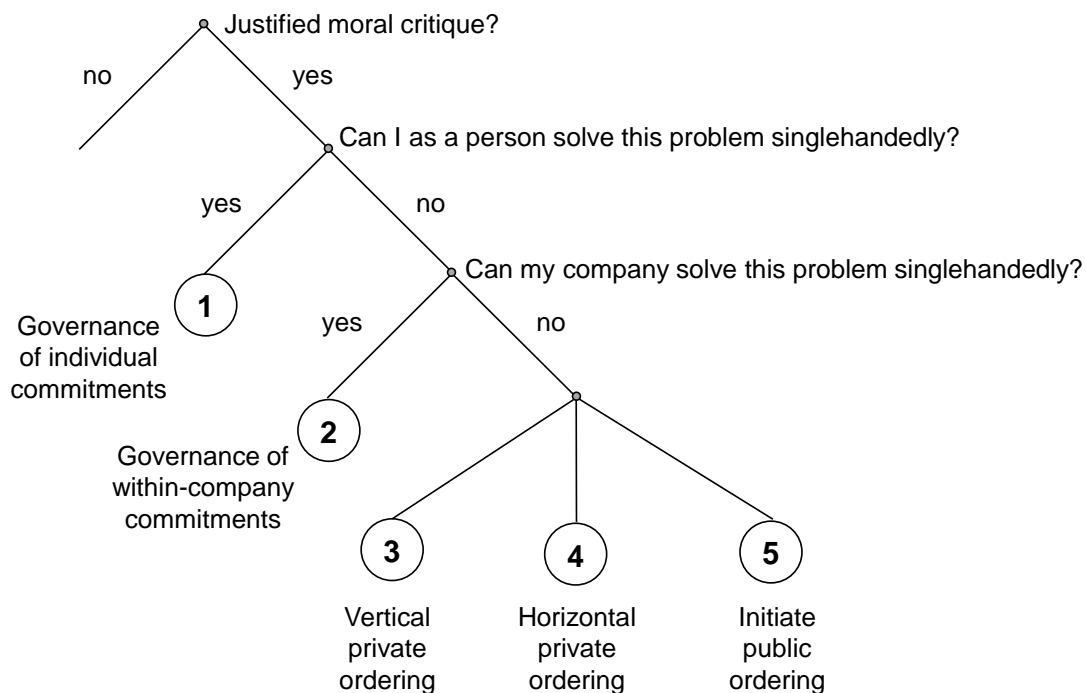


Figure 12: Five options for the value-generating processing of moral critiques

Let's briefly go through the five points in chronological order:

- Some problems can be solved by managers on their own. An example of this is their personal leadership style. Some managers misunderstand the statistical phenomenon of a regression to the mean and therefore mistakenly consider dispraise to be more effective than praise. Negative feedback on such a leadership style can easily be processed in a value-adding way through individual commitments.
- Some problems can be solved by a company on its own. To do this, however, a manager must then find allies who will help him to change the company's actions. An example of this is waste management. In order to improve it, numerous different departments in the company often have to work together. This requires suitable incentive structures, i.e. an internal governance of commitments.

- Numerous problems *cannot* be solved by a company on its own. Here, managers are faced with the challenge of bringing about an external solution. In principle, there are three options for this.
 - The first option is to influence the upstream and downstream stages in the value network, e.g. with a code of conduct for suppliers.
 - The second option is to influence one's own competitors, e.g. with an industry standard.
 - The third option is to influence legislation via “responsible lobbying” to protect the morally desirable behaviour (pattern) against free riders.

It is interesting to keep in mind that each of the five options requires managers to have argumentation skills. On the one hand, they must be able to listen well in order to interpret moral criticism as an indication of value creation potential. On the other hand, they must be able to dispel misguided reservations about the institutional incentive arrangements they have devised in order to get all those involved on board and encourage them to participate constructively. In this respect, it helps managers to be familiar with the practical syllogism in order to be able to competently formulate the upstream and downstream arguments required for moral clarification.

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Corporate Citizenship und Public-Private Partnerships: Zum Potential der Kooperation zwischen Privatwirtschaft, Entwicklungszusammenarbeit und Zivilgesellschaft

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