Ethical Economy. Studies in Economic Ethics and Philosophy

Michaela Haase *Editor*

Economic Responsibility

John Maurice Clark - A Classic on Economic Responsibility

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Foreword

At the *Global Ethic Institute* in Tübingen, Germany, we were proud to celebrate the centennial of John Maurice Clark's "The Changing Basis of Economic Responsibility" with an academic conference in Clark's honor. Clark expressed a novel insight which is now familiar to many: economic responsibility cannot be confined to individual conduct *within* the sphere of business, but it must address this very sphere itself, reflecting an acute sense of responsibility for the institutional and structural dimensions of the economy. The ethical challenges of the global economy cannot be tackled by isolated individual action. Systematic problems require systemic solutions, a fact easily overlooked by the methodological individualism of conventional economics, which confined the economic responsibility of businesspeople to the letter of the law and shrugged off any and all further considerations with the adage "business is business." Already to John Maurice Clark, it was obvious how this attitude was both theoretically inadequate and practically dangerous. It failed as a *theory* of business because it could not capture the plain reality that "responsibility beyond the law is not an ideal but to a considerable extent a fact," while, in *practice*, it led to an "economics of irresponsibility.".

The past decades have been a confirmation of his assessment. John Maurice Clark's call for economic responsibility hits a nerve, perhaps even more powerfully today than when he issued it a century ago. Moreover, in our age of globality, the question of economic responsibilities necessarily takes on a cosmopolitan dimension (Dierksmeier 2011a). We must not only decide *whether* there are responsibilities specific to the economic sphere but also clarify *which* responsibilities, and *whose* responsibilities, these might be. Notwithstanding the diversity of values across cultures or rather propelled by the differences of customs and conventions all over the world, the quest for parameters which can orient economic decision-making worldwide gathers momentum. Hence, an investigation into the very nature of economic responsibility overlaps with questions such as whether a global consensus on values exists and, if so, which values comprise this cosmopolitan accord.

In order to provide answers to such queries, Hans Küng launched the Global Ethic Project (*Projekt Weltethos*) in 1990 at the University of Tübingen, researching the values common to different nations, regions, and religions. Besides publishing comprehensive studies regarding the ethical and normative commonalities between Judaism (Küng and Homolka 2008), Christianity (Küng 1994), and Islam (Küng 2004) as well as the Indian traditions of Hinduism, Buddhism, and Jainism (Schlensog 2006), Hans Küng and his team of researchers have also investigated value convergence in the fields of world literature (Kuschel 2011) and philosophy (Schönherr-Mann 2010, Schönherr-Mann 2008).

The main result of these studies has been the enumeration of two principles and four basic values which – despite mixed acceptance and adherence throughout the course of history – have been acknowledged as morally binding by all peoples regardless of geographic or temporal location (Küng et al. 2012). Specifically, these principles refer to the "Golden Rule" of reciprocity (known as the directive "Do unto others as you wish done unto yourself") as well as the principle of humanity, i.e., to treat humans humanely, that is, as subjects, not as objects. When applied in everyday life, these two formal principles lead to four basic values – truthfulness, justice, partnership, and peacefulness – that have equally received global acknowledgment, recognition, and acceptance. Together, these principles and values constitute the core of an ethical attitude that has inspired people all over the world to act morally: a global ethos (Küng 2008).

Since these "global ethical values" have found similar expression in dissimilar cultural contexts and therefore seem to be at the core of human self-orientation, so too can they be seen as the core of a realistic-idealistic anthropology. The global ethic, as it were, reflects the heritage of all traditions of humanity: its *tangible multiplicity of cultures* mirrors the *conceptual unity of the ethical nature* of humanity. It shows that people all over the world, regardless of cultural heritage and geographic or ethnic origin, can agree on a set of shared values and that this normative theoretical consensus can serve as the basis for dialogue about practical means of cooperation (Küng 2014).

In order to be universally binding, the values of a global ethic must necessarily address and engage both believers and non-believers. Ample evidence in support of a global ethic and its contention of a global value convergence can be gleaned not only from the world's various religious writings and traditions; a global ethic also finds extensive secular substantiation, as numerous agnostics and atheists have advanced conceptions of a global ethic throughout the course of human history. Despite regional and cultural variations, people have, time and again, agreed upon basic norms of coexistence, in the wisdom traditions and teachings of China and India, in the philosophies of Northern Europe and South America, as well as in the poetry and thought of African cultures (Hasselmann 2005).

It is the common goal of both the *Global Ethic Foundation* and the *Global Ethic Institute* (founded at the University of Tübingen in 2012) to perpetuate and expand on this work in an interculturally inclusive way. The *Global Ethic Project* seeks to emphasize common moral attitudes while celebrating the culturally diverse plethora of humanity's normative systems rather than, as might be feared of a global ethic, overlooking and silencing these differences. In light of the challenges of intercultural cooperation, the abovementioned aim and purpose of a global ethic is of clear importance. It provides a path to avoiding both sweeping relativism and narrow universalism. This is important in particular for businesspeople in need of excelling in stakeholder dialogues across national, ethnic, and religious divides. By adapting and orienting themselves according to a global ethic, businesses are arguably better equipped not only to reduce transaction costs and avoid conflict costs but also to reap additional benefits from heightened goodwill and generosity on the part of their stakeholders. The compass of the Global Ethic Project thus helps firms to navigate the turbulent seas of the global markets.

Hence, the Global Ethic Project has a natural affinity to the questions raised by John Maurice Clark about economic responsibility. Most people, after all, contend that individuals and institutions wielding economic power could and should be held responsible for their actions. This holds true on the micro level of personal decisions as well as on the meso level of activities organized in and through firms or NGOs, and it no less extends to the macro level of national, supranational, and, increasingly, global governance. As all responsibility presupposes freedom, one cannot but conclude that most people believe economic actors on all these levels to be quite capable of ethical decision-making and of shaping their policies accordingly. Practitioners also share this freedom-bound and responsibility-oriented perspective. Businesspeople as well as politicians from all corners of the earth try to justify their economic decisions with ethical arguments and so implicitly accept as valid their respective moral responsibilities (Dierksmeier 2011b).

Given the obvious role of moral accountability in all areas of the *economy*, one could be forgiven for expecting the same prominent role for ethics within *economics* also. Nothing, however, could be further from the truth. In the last two centuries, notions of freedom and responsibility have been marginalized in business and economic education (Brodbeck 1998). Such topics jar with the neoclassical emphasis on certain necessities determining economic outcomes. Conventional economic wisdom highlights how "economic laws" governing relentless market forces allegedly compel individuals and institutions to eliminate from their economic decisions any and all rationales beyond a narrow calculus of costs and benefits (Mirowski 1989). Hence, as a discipline, economics today is struggling to come to terms with the sheer concept of freedom (Dierksmeier and Pirson 2010). In its mechanistic paradigm, freedom appears as something escaping the forces that constitute the very rationality of the discipline of economics. Once human freedom is seen, however, as tantamount to irrationality, it is difficult to do justice to its own rationality, let alone the ethical dimensions and responsibilities deriving from such reasoning. Despite the best efforts of Ludwig von Mises, Friedrich von Hayek, and Amartya Sen, among others, the dismal state of affairs in economics pedagogy addressed by John Maurice Clark – i.e., economic doctrines which obfuscate rather than highlight their own moral implications – has not improved much since Clark set out to write "The Changing Basis of Economic Responsibility." In fact, we have so accustomed ourselves to receive as well as perceive economics in a mechanistic fashion that few are willing or able to question the dominant paradigm and see it for what it is: one mental model among many, and a dangerously limited one at that (Amann 2011).

In recent decades, progress in economics was defined by incremental changes or additions to the extant paradigm. Some dared to take exception to singular tenets, while others questioned its applicability, and still others pondered whether the beliefs it inculcates might have contributed to recent crises and to an overall decline in the ethical mores of business (Elegido 2009). Rare, however, are the individuals and institutions daring to more than adorn the extant with exceptions and amendments. Yet this is precisely what our times need: a paradigm change, a return to the "old normal" of human freedom and responsibility as the bedrock of all things economic (Melé 2003).

For 2400 years (from roughly 400 BCE up to and including the writings of Adam Smith (1723–1790)), economic activity was guided and directed by metaphysical, theological, and moral reflections about the good. Greek philosophers such as Aristotle considered economics to be "life conducive," "life serving," and an integral means of securing the common good of the community. Medieval theologies likewise subordinated economic questions to discourses about the good and pious life, and the philosophers of the Enlightenment pursued economics with the overall goal of emancipating human beings from constraints. Throughout all these centuries, a humanist reflection on *qualitative ends* guided the economic discourse on *quantitative means*. Ethical reflections were at the center of economics (Dierksmeier 2011b).

Around 1800, however, the humanistic focus of economics waned. In the early nineteenth century, advances in physics and mathematical mechanics inspired a fundamental shift in economics. Leading economists of the times (such as Walras, Menger, and Wieser) consciously transformed their discipline from a social discipline based on historical and inductive methods into a *natural* and then a *formal science* based on hypothetico-deductive methodology. Led by the schema of the *homo economicus* (proposed by economists as diverse as Gossen, Jevons, and Mill), which modeled human behavior as a rational maximization of self-interest, the previously dominant vision of the human being as homo sapiens was exiled from economic discourse. No longer did economics investigate what would be right for all people by dint of their human nature; it now asked instead what would benefit given individuals and measured this benefit by instrumental rationality and in materialistic terms alone. The resulting "materialization" of utility into a function of (readily quantifiable) commodity consumption permitted neoclassical economics to translate the social intricacies of qualitative utility evaluations into the simpler formulae of quantitative maximization. This was the decisive turn: economics now operationalized (moral) concerns of "better" versus "worse" into a (technical) calculus of "more" versus "less." It is from this development that all subsequent business education has received its mechanistic tint and that all cost-benefit analyses still take their cue.

As we have seen, however, in the long history of economic ideas, the mechanistic paradigm is merely an exception to the rule of a humanistic economics. And so the mechanistic doctrines of neoclassical economics must be treated not as the norm but as a deviation, not as what provides the framework but as what is in need of justification. Only once we shift the burden of proof from humanistic to mechanistic economics can we make a sober use of the models and methods of neoclassical authors without falling prey to their ideology. As soon as we realize the mental models of neoclassical economics for what they are – lenses that allow us to focus on certain aspects of economic life while occluding our vision of others – we will be able to make a better use of them. The more critical we behold the neoclassical axioms, the less we are beholden to them.

"We need an economics of responsibility, developed and embodied in our working business ethics," asserted Clark. Indeed, once we too realize that the present "scope of personal responsibility is broader than ever before," comprising also "causes of a social and environmental sort," our theories must be brought into convergence with practical experience. Rather than continuing to build economic models based on the fictional anthropology of the *homo economicus*, today's economics should be informed and inspired by what constitutes the real *conditio humana*. Many are the sciences which must inform this much more comprehensive account, and, certainly, the currently trending disciplines of behavioral and neuro-economics will have their say in this regard. Likewise, the values and virtues espoused by people all across the globe, as enumerated by the Global Ethic Project, deserve close consideration. The economic anthropology of yesterday failed to be realistic enough as it was too timid to be idealistic enough. Let us not repeat that mistake.

There is clearly a business case for economic responsibility at large and for business ethics in particular, and it deserves to be made. Nonetheless, this is not to say ethics has to justify itself in the narrow terms of neoclassical economics. Rather the opposite holds true. The use of positivistic economic methods remains in need of ethical justification and can be validated in moral terms only, insofar as such methods afford us the conceptual tools needed to pursue specific social goals. It is time, therefore, for a "new normal": a humanistic economics.

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Preface and Acknowledgments

The publication of this book is an important step that accomplishes a process having its first formal expression in 2013. In the following, I would like to shed some light on the process and to thank the persons and organizations who made this project possible for their support.

In 2013, at the annual meeting of the committee "Wirtschaftswissenschaften und Ethik" (Economics and Ethics) in the "Verein für Socialpolitik," I got the chance to give a presentation titled *Economic Responsibility in the Light of the Ethic of Responsibility* at the "Stiftung Leucorea" (Leucorea Foundation) in Wittenberg, Germany. In Wittenberg, I also had the opportunity to discuss the idea to launch a book project related to John Maurice Clark's article "The Changing Basis of Economic Responsibility". I would like to thank the committee members for stimulating and encouraging discussions in Wittenberg, as well as for the very practical support for the book project as authors, reviewers, workshop participants, and panel members.

In the same year, the first call for papers titled "The Changing Basis of Economic Responsibility: A Look from the Perspective of Today" was issued. Launched by Katharina Hoegl at the Weltethos Institute and myself, this call for papers was an expression of a joint endeavor by the Weltethos Institute at the University of Tübingen, the Freie Universität Berlin, and Springer's Book Series *Studies in Economic Ethics and Philosophy* (SEEP).

Part of the preparation process of the book was a workshop conducted at the Weltethos Institute in Tübingen in February 2014. The director of the Weltethos Institute had invited the authors of the submitted articles to give them the opportunity for the presentation and discussion of their contributions. Part of this workshop was a public panel discussion, with Ingo Pies, Carsten Herrmann-Pillath, and Richard Sturn on the panel, the workshop participants, and the broader public. After the end of the workshop, the Weltethos Institute was also hosting a meeting of the committee "Wirtschaftswissenschaften und Ethik" (Economic and Ethics) in the "Verein für Socialpolitik." I would like to thank the Weltethos Institute, especially its director Claus Dierksmeier, for hosting the workshop. Special thanks go to Katharina Hoegl and her team at the Weltethos Institute for the preparation of the workshop and their friendly, professional, and continuous support in these days. I have to emphasize that the support of the Weltethos Institute was not only on the organizational and resource part but also, and more importantly, on the encouraging and motivating part of the project. My thanks go also to the participants in the workshop at the Weltethos Institute in Tübingen, the panelists, and the attendants participating in the public panel discussion.

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Last but not least, I would like to thank the Marketing Department at the Freie Universität Berlin that enabled me to realize this project and provided helpful support in the final phase of the preparation of the book manuscript, in particular Charlotte Weber and Maximilian Hoechst.

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Michaela Haase

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Chapter 1
From the Economics of Responsibility to Economic Responsibility: Introduction

Michaela Haase

Abstract This introduction provides an overview on the content of John Maurice Clark's article *The Changing Basis of Economic Responsibility* and the contributions to the book *Economic Responsibility – John Maurice Clark: A Classic on Economic Responsibility*. At the beginning, the introduction provides reasons for the specification of a concept of economic responsibility that stems from economic theory. Taking Clark's perspective, it analyzes the social and economic changes in the US at the turn of the last century and their consequences for economic theory and practice. Clark was striving for the development of an economics of responsibility and a change in the working business ethics. The social and economic changes Clark faced in the US are described with respect to metaphysics, loci of responsibility, and social responsibility. Differences in the understanding of individual, collective, and social responsibility are addressed as well. This introduction further devotes attention to the close relationship of Clark's works on economic responsibility and social value; economic value and social value; and individual control and public control. The final section introduces the reader to the articles in the collected volume.

1.1 Reasons for the Book

2016 was the hundredth anniversary of the publication of John Maurice Clark's article *The Changing Basis of Economic Responsibility* in the Journal of Political Economy. Clark (1884–1963), a representative of institutional economics and of the First Chicago School in economics (Rutherford 2015), was a profound pioneer of what he called the *economics of responsibility*. There are two reasons for our interest in the anniversary and the topic of Clark's article, economic responsibility. First, Clark was addressing an issue of major importance for the discipline of economics: *economic* responsibility, that is, the responsibility of economics for the study of complex and changing economic phenomena and the responsibility of actors for

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their economic affairs. As the recent financial and economic crisis has shown, the importance of these two kinds of responsibilities has not changed in the last hundred years. The second reason for our interest in economic responsibility could not have been foreseen by Clark and his contemporaries: the development of business ethics and Corporate Social Responsibility (CSR) as fields of study in the second half of the last century and their understanding of "economic responsibility."

In business ethics, CSR studies and beyond, Caroll's models of social responsibility (Caroll 1979, 1991) attracted exceptional attention (Caroll and Shabana 2010). These models identify four dimensions of social responsibility: economic, legal, ethical, and discretionary or philanthropic responsibility. In the graphic presentation of these dimensions, that is, the CSR pyramid, economic responsibility is the basic "layer"; the other dimensions are built on it in the above-listed order. Both articles include a discussion of each dimension; in case of economic responsibility one short-cut formulation won out over other interpretations of economic responsibility – viz. the equation of "economic responsibility" with "be profitable."

This equation expresses a certain view on economic activities and their objectives that is falling short from our perspective. One reason for that is that Caroll's models do not draw on economic theory; thus, "economic responsibility" in these models is not what economics (in case of Clark's work) had or (with respect to future work) has to say on the issue. As Clark's article makes clear, economics has more to say about economic responsibility than what is expressed in the equation of "economic responsibility" and "profitability." If John Maurice Clark had a chance to get knowledge about the interpretation of "economic responsibility" in business ethics and CSR, he would probably turn in his grave. He may wonder why the majority of scholars in the above-mentioned fields of study did not oppose this equation. One reason for this is perhaps that, with respect to CSR, "distorting ideology" (Jones 1996, p. 33) characterizes the views of even those who oppose CSR as the Band-Aid of capitalism (Fleming and Jones 2013). A second issue would not amuse John Maurice Clark as well: concerning the development of an economics of responsibility, he is a pioneer without followers.

For Clark, the institutional economist, it is an explicit objective to develop an *economics of responsibility* from the institutional-economic point of view. This can be considered a task of the economic scientific community; it can be considered a responsibility of this community as well. Scientific communities have been conceived of as epistemic subjects (Kuhn 1962), and as such, they are responsible for the knowledge they create and the ways they impart it to academic offspring and other groups. In this case, the development of an economics of responsibility would be an issue in academic ethics. A concept of economic responsibility would then result from the conceptual work of the scientific community and it is no surprise that this concept would be based on the analysis and normative assessment of economic action and economic affairs. Clark outlined this structure and provided it with content, but the framework has not been completed yet. As a general rule, but in particular after a hundred years, both structure and content have to be critically reflected upon. A topic open to discussion is also whether there is still a need for an economics of responsibility and an explication of the concept of economic responsibility. Figure 1.1 expresses a reconstruction of Clark's approach to economic responsibility:

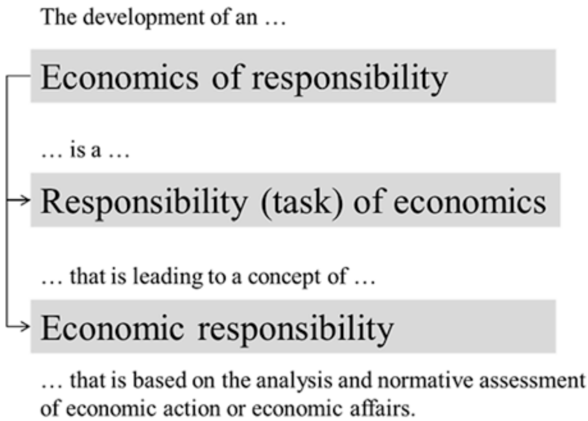

Fig. 1.1 Clark's approach to economic responsibility

1.2 The Article

The Changing Basis of Economic Responsibility was published in 1916, one year after Clark accepted an appointment at the University of Chicago. Clark was one of the leading figures of institutional economics; and he was a recognized scholar beyond that economic school (Rutherford 2000). *The Changing Basis of Economic Responsibility* was written by a young scholar (in the year of publication of the article, Clark turned 32) who just began to mark his territory within the discipline. Clark did this by looking back, by addressing the changes in the economy that took place in the two decades prior to 1916; by appraising the performance of contemporary mainstream economics; and by looking forward and creating milestones for the further development of the discipline. In a nutshell, Clark announced an academic project: the development of an economics of responsibility.

1.2.1 The Changes in the Economy

Clark analyzed the changes in the economy that took place between 1886 and 1916 in the USA. Table 1.1 summarizes these changes with respect to metaphysics, the locus of responsibility, and the understanding of social responsibility.

1.2.1.1 Metaphysics and Loci of Responsibility

In 1916, compared with the previous two decades, the starting point of economic analysis had changed: Prior to the change, the self-reliable and self-dependent individual was seen as being responsible for his own affairs, whereas after the change, individual responsibility was seen as liable to become absorbed by the influence of "societal forces": "We have swung far away from narrow individualism toward a

Table 1.1 Expressions of the changing basis of economic responsibility

	Metaphysics	Locus of responsibility	Social responsibility
1916–…	Determinism:	Public control/Collective responsibility	Changing attitude: society is made responsible for something the individual was responsible for formerly
	Individuals have to act according to changed conditions of interdependence	Common law[a]: Compulsory compensation	Unemployment is a disease of the system
	Deterministic ideas are absorbed one-sidedly		Poverty breeds poverty
1896–1916	Free will:	Individual control/Individual responsibility	No permanent assistance of individuals
	The starting point of economic analysis is the self-reliant and self-dependent individual	Liability model:	Subsidiarity principle
		Industrial accidents were treated as matters of personal responsibility	Unemployment results from personal fitness and willingness to work

[a]Arruñada and Andronova (2008, p. 231) distinguish the civil law model that "gives priority to legislative rulemaking" from the model of common law: "Common law developed in England and was imposed on the former British colonies. It creates legal rules in a relatively decentralized and bottom-up manner" (ibid.)

sense of solidarity and social-mindedness … The old idea of free will is giving way to determinism, individualism to public control, personal responsibility to social responsibility" (Clark 1916, p. 210). Here, "social responsibility" means that "society" is seen as being responsible for something (for example, unemployment or criminality) that was previously in the range of individual responsibility or action, respectively. Both the individual's range of action and the individual self have changed or face respective pressure.[1] Against the backdrop of a comparison of the(at Clark's time) contemporary understanding of the faculty of human beings to enact their free will with that available 20 years before, Clark observed the emergence of "a most disquieting phase of the spread of deterministic ideas among people ready to absorb them one-sidedly" (Clark 1916, p. 121). These economic changes had occurred, and they could not be dialed back: "It is the product of new situations and new knowledge, and we must use the knowledge to make the best of the situations. We must take what it gives and fight to keep whatever of good it threatens to take away" (ibid., p. 212). Thus, Clark (ibid., p. 217) objects to an interpretation of determinism "in such a way as to undermine the responsibility of the individual for his own choices."

[1]In *Concept of Social Value*, published in 1915, and reprinted in *Preface to Social Economics*, Clark points out that "we have come to emphasize more and more the effect of environment in determining the character and powers of man" (Clark 1915 [1936], p. 52).

One important source of "keeping the good" is the causal knowledge generated by economics. The importance of beliefs in causality in empirical science notwithstanding (Moneta and Russo 2014), *causality* cannot be observed or otherwise proved as true. Clark's belief in causality can thus be subsumed under "metaphysics." Clark distinguishes between significant and responsible causes. The former "are the causes that are really important in deciding the exact nature of the outcome" (Clark 1916, p. 214); the latter "are the causes over which we have some control and before which we do not stand entirely helpless" (ibid.). Therefore, human beings do not need to give up "to shape the world – or a little bit of it – 'nearer to the heart's desire'" (ibid.).

The second column in Table 1.1 documents a change in the loci of responsibility: the self-reliant and self-dependent individual has control over his or her actions and knowledge about action consequences; therefore, the classic model of the ethic of responsibility (Bayertz 1995) applies (also called *liability model*, see Young 2004). According to Bayertz (1995), the classical model is constituted of two parts: a description of the situation in question and its normative assessment. The former is based on empirical knowledge, the latter on principles and values (and normative assessment).[2] The linkage of actors and action consequences in the model draws on empirical knowledge; and normative assessment is the origin of the selection of actions and action consequences of interest. Metaphysical assumptions such as causality and intentionality underlie this model.

This model faces two problems: first, the emergence of collective action units challenges the importance of individual decision-making. It led to the problem of collective action units being the origin or cause of action consequences which, in the tradition of the classical model, were related to individuals. Clark acknowledges this type of problem: "But the fact that a large part of them (social responsibilities, M.H.) are business responsibilities has not yet penetrated, and this fact does need to be brought home to a community in which business men and theoretical economics alike are still shadowed by the fading penumbra of laissez-faire" (Clark 1916, p. 229). Second, the increasing complexity and interrelatedness of actions (no matter what the type of actors) makes the connection of actions or actors and action consequences impossible or at least difficult. In common law, compulsory compensation was utilized to overcome these difficulties.

1.2.1.2 Individual, Collective, and Social Responsibility

In Clark's approach, "social responsibility" has a double meaning: First, it denotes the attitude that society is made responsible for something the individual formerly was hold responsible for. Clark's position concerning this attitude is ambivalent: on the one hand, facts cannot be neglected; on the other hand, economics can provide the knowledge for the identification of facts and their causes, as well as for the assessment of the causes' importance. Second, social responsibility as collective

[2] Notice that principles and values originate both from ethics and economics.

responsibility is a personal and a business responsibility: we are "jointly responsible for the general social environment" (Clark 1916, p. 217).[3] A person who accepts the view that "individual responsibility is becoming less because collective responsibility is becoming greater is making a mistake" (ibid., p. 216); thus, the relationship between personal and collective responsibility has to be rethought. Collective responsibility has increased but not at the cost of individual responsibility: "For what is collective responsibility but personal responsibilities reflected in the social mirror?" (ibid., pp. 216 f.). Consequently, the range of economic responsibility as an individual responsibility (or business responsibility) has not decreased, but quite the contrary, "(t)he scope of personal responsibility is broader than ever before, not narrower" (ibid., p. 217).

From this diagnosis, it does not necessitate the giving up the idea of individual responsibility or substituting public control for it. Thus, for Clark, "economic regulation" means the "bringing home of existing and very real responsibilities" (ibid., p. 220); it does not mean "the creation and attempted enforcement of arbitrary requirements" (ibid.). There are two "working horses" for the realization of joint responsibility: the economics of responsibility proving the required knowledge and the actors putting this knowledge into practice. With respect to the latter, "responsibility" means to strive for social value or the balance of economic and social value. In other words, economic actors need to balance self-interest and public interest: "All industry and trade is primarily affected with a public interest" (Clark 1936, p. 29).

Pithy sayings such as "(t)he economics of control is at war with the economics of irresponsibility" (Clark 1916, p. 219) should not obscure that Clark was not an advocate of public market regulation per se. He was aware of the evils misinformed and misguided public regulation can create, although he was not of the opinion that such "public failure" always is a result from the malfunction of the authorities. Sometimes it results from intended misinformation imparted from those whose actions and activities are the object of regulation (the ruled) to those who are the subject of regulation (the rulers). That this happens is indicative of a misled process or a situation in which the individuals have not taken social responsibility. As Fiorito and Vatiero (2011, p. 211) point out: "Clark's discussion of legal processes was instrumental to his own 'social control' agenda for the reorganization of the market in the interest of social welfare and democracy."

1.2.2 Revision of the Economics and of the Working Ethics

Clark distinguishes three tasks of economic theory: first, the detection of causes and consequences of human interaction; second, the provision of knowledge for reasonable or adequate regulation; and third, furthering the growth of willing cooperation.

[3] Notice that in Clark's approach, collective responsibility is not the responsibility of a collective action unit.

Clark criticized laissez-faire economics as an "economics of irresponsibility" (Clark 1916, p. 218) and the business system as "a system of irresponsibility" (ibid., p. 218): "We are coming to see that our everyday business dealings have more far-reaching effects than we have ever realized, and that the system of free contract is by itself quite inadequate to bring home the responsibility for these effects" (ibid., pp. 217 f.). With this phrase, Clark addresses what today is called *negative externalities*. The increase in the interrelatedness of economic actions and the complexity of man-made environments have led to a conflict (or aggravated the conflict) between responsibility and control: responsibility requires control over actions and, with it, over action consequences. For all kinds of actors (individuals, organizations, state) the possibility to identify the consequences of their actions has decreased. This is a consequence of poor knowledge and a lack of awareness of problems, due to the prevailing laissez-faire economics: "In other words, theory and practice combine to further an irresponsible attitude among leaders of industry and workers alike" (ibid., p. 219). No question, then, that "the business economics needs revision" (ibid., p. 221). "In a broad sense the great task of the theorist of our tremendously dynamic age is to substitute an economics of responsibility for the economics of irresponsible conflict" (ibid., p. 220).

According to Clark, contemporary economics (laissez-faire economics) was of no or little help in this regard; thus his "quest for a socially responsible economics" (Rohrlich 1981, p. 343). Therefore, there is a need for a new theory in economics, named by Clark "economics of responsibility." This economics of responsibility has to address what Clark considers the important issues in a changing world and to provide the actors with the knowledge they need to conduct responsible economic actions. As Stanfield (1981, p. 282), in his comprehensive analysis of Clark (1916), points out: "Not only the extent of interdependence has increased, however, but also the knowledge of interdependence."

Moses Abramovitz and Eli Ginzberg (students of Clark and editors of *Preface to Social Economics*) have internalized *Clarkean economics* (an expression used in the foreword to the book), as their introduction indicates:

"Thus, these essays are an attempt, in part by way of criticism of older theories, in part by the fashioning of new tools of analysis to attack the economic problems which are judged to be of greatest importance in our own day. Further, in selecting new problems for study, they have done much to force economic theory in a new mold. An economic problem arises when evils are recognized and when methods to overcome the evils suggest themselves. Evils which cannot be controlled raise insoluble problems. They are taken for granted – like bad weather. We must look for the change in our problems, therefore, in two directions: to the emergence of evils requiring remedies, and to the growth of knowledge which makes remedies possible for evils both old and new" (Abramovitz and Ginzberg 1936, p. xix).

This economics of responsibility can inform individual and collective actors about their action opportunities in terms of the creation of economic and social value against the backdrop of identified significant and responsible causes. On the other hand, there is a need for "responsibility in the economy" as well – a change of economic practices in the economy. In this case, it is the economic actors who have to perceive and recognize their (increased) responsibilities. The economics of responsibility can conduct economic analyses; it can produce knowledge and provide actors with action-relevant information. Whereas economic theory is responsible for the knowledge it produces and the way it communicates it to non-scientific communities and actors, it is not responsible for the activities economic actors actually take. It cannot control the minds, attitudes, routines, or habits of actors. Thus, compared with Fig. 1.1, there is an additional economic responsibility that is not a responsibility of economics but of economic actors – a responsibility that includes individual affairs (or business affairs) and social affairs as well as the finding of a balance between economic value and social value.

1.3 Social and Economic Value

For the understanding of *The Changing Basis of Economic Responsibility*, the close relationship between this article and *Toward a Concept of Social Value* (Clark 1915 [1936]) is important. The highly recognized *Preface to Social Economics* (Clark 1936 [1967]) contains both articles in the first part,[4] headed by *Economic Theory and Social Problems*. The inclusion of both articles in the *Preface to Social Economics* and the heading *Economic Theory and Social Problems* demonstrate Clark's fundamental interest in pointing out the relevance of economic theory for the study of social problems.[5]

For the understanding of Clarkean economics, two articles, both published in the *Review of Social Economy,*[6] are helpful as well: *John Maurice Clark's Unmet Challenge* (Rohrlich 1981) and *The Instructive Vision of John Maurice Clark* (Stanfield 1981). Rohrlich reviews both Clark (1915), (1916) as well as Clark's later work. He identifies a dual concern of both articles. The first article argues for "a holistic rather than marginalist concept of *social* value, i.e., the value 'of things to society' (…) in explicit contrast to the conventional measure of 'value *in* society' as registered by market standards" (Rohrlich 1981, p. 343, italics in the original). It is not by chance that Clark has been named one of the founding fathers of what is called today *social economics.* Lutz (1990, p. 411): "But the real boost to the concept of an independent and academically respectable social economics came with John Maurice Clark's celebrated Preface to Social Economics (1936 [1967])." In the second article, "Clark tackled the other prong of his dual concern: the nature of

[4] Some quotations below refer to the reprint of the article in this book (Clark 1936 [1967]). The reprint is a revised version of the original article.

[5] Rutherford (2000, p. 286) argues that "Hamilton's and Clark's references to relevance of institutional economics for the solution of social problems make clear, institutionalism was always linked to a progressive social reform agenda." Hamilton, Clark and Mitchell are on Rutherford's (2000) list of promoters of institutionalism.

[6] Vol. 39, Issue 3 of the Journal was dedicated to John Maurice Clark. As there is no editorial available, we conjecture that the volume focuses on social economics. Thus, it is no surprise that only two of the contributors refer to *The Changing Basis of Economic Responsibility.*

economic responsibility" (ibid.). Two challenges result from this for the discipline of economics: first, the development of "a concept of economic value and valuation with reference to society as a whole, independent of market valuations and capable of scientific application to concrete cases" (Clark 1915 [1936], p. 54; quoted by Rohrlich 1981, p. 343); second, the development of economic theory that is able to support individuals in their endeavor to put their joint responsibility "for the general social environment"[7] (Clark 1936, p. 76; quoted by Rohrlich 1981, p. 344) into effect. These developments lead to the substitution of an economics of responsibility for the economics of irresponsible conflict (Rohrlich 1981, p. 344).

The second article focuses on Clark (1916). Stanfield (1981, p. 279) emphasizes the relevance of *The Changing Basis of Economic Responsibility* for the study "of social challenge and social reform in industrial society." As Clark has argued in the article, individual responsibility has not become smaller, but greater in our society. The reason for this is that the individual is not only responsible for him- or herself but also for the *social* environment. Clark (1916), in the light of his discussion of determinism and the limited range of individual action, has pointed out: "The environment has become responsible for John Smith. But at the same time John Smith has become responsible for the environment." This responsibility is a joint responsibility that needs to be based on objective knowledge about the social value that can be accomplished by the execution of social control. Social control is an issue addressed by Clark in a book first published in 1926: "'Social control,' as we conceive it, is control exercised by or in behalf of the entity we call 'society'" (Clark 1926 [1939], p. 7).

The responsibility of individuals has increased; a new task, the conduct of collective or joint responsibility, has to be accomplished in addition to individual responsibility. The individuals have to balance their self-interest (the creation of *economic value*) with the common interest in the common good (the creation of *social value*). In addition, they have to identify their ranges of action in the changing economy and to develop viable modes of social control. The main idea behind this approach is: if someone can execute control over something, then he or she is responsible for it. But "we do not stand entirely helpless" (Clark 1916, p. 214). We can gain the knowledge necessary to decide if control is possible and how it can be reasonably conducted. The second qualification is important because not everything that can be controlled should be controlled: To achieve control over something is no end in itself. From Rohrlich's (1981, p. 343) perspective, the potential value of economics is for "these valuations of both gains and costs of any particular activity or institution that we bring to bear in 'every measure of economic reform' (i.e., social legislation, such as minimum wage-laws, hours of work, workers health or safety legislation)."

From the perspective of today, one hundred years after the publication of *The Changing Basis of Economic Responsibility*, there is not only one but two unmet challenges (compare Rohrlich 1981): First, the development of a "coherent theory

[7] Notice that the term "environment" stands for the impact of the social surrounding on the individual.

of objective social value or a systematic explication of any consistent set of laws comprising and reconciling the *raisons d'être* of both free exchange and social reform" (Rohrlich 1981, p. 347; italics in the original); second, the impartment of knowledge to those who can use it in their endeavor to conduct control over their individual and collective actions.

The Changing Basis of Economic Responsibility is a starting point for the attempt to re-address the meaning of "economic responsibility" on the basis of an economics of responsibility. It is questionable, or open to debate, if, after the Clarkean economics, a further strand of economics addressing this field of study has developed. However, that there is (beyond Clark's approach) no economics of responsibility yet does not mean that there is no connection between economics and ethics at all. If one examines the types of problems addressed in economics, then numerous works that could be subsumed under "economic ethics" come into sight. The volumes published in the book series *Studies in Economic Ethics and Philosophy* are an example for that. Accordingly, contemporary economics addresses many problems at the intersection of economics and ethics. Take, for example, Serge-Christophe Kolm's introductory sentences to his entry titled "justice" in the *Handbook of Economics and Ethics* (Van Staveren and Peil 2009): "Economics is a moral and normative science. It always has been. A large part of economics is ethics, applied ethics and often pure ethics as with social choice, theories of economic fairness or justice and concepts of economic inequality and poverty" (Kolm 2009, p. 291).

As has been argued above, Clark's framework may be in need of adaptation or further development. In this regard, the implementation of a cooperation between economics and the ethic of responsibility may be indicated (for a fundamental approach to the cooperation between ethics and social science, see Birnbacher 1999). The Handbook of Economics and Ethics (Peil and van Staveren 2009) however does not include an entry on economic responsibility. The word "responsibility" does not appear in the index of the handbook at all.

1.4 The Contributions to the Book

The authors of the articles collected in this book dedicated their work to the celebration of the hundredth anniversary of *The Changing Basis of Economic Responsibility*. The articles in the book draw on various scholarly backgrounds, research foci, and experiences. They are divided into three groups. The three articles in the first group are headed by "Theories and frameworks: interdependence and complexity." These three articles address the complexity and interdependence of human action in a modern society[8]; and they provide a theoretical framework that they apply to the

[8] The attribute of modernity was attached to Clarkean economics as well, for example by William H. Spencer in his foreword as the editor of the second edition of *Social Control of Business* (Clark 1926 [1939]).

study of these phenomena. In addition, these articles reflect on *The Changing Basis of Economic Responsibility* from the point of view of their respective theoretical framework, and work out the strengths and weaknesses of Clark's approach from their contemporary perspectives. These frameworks draw on different approaches stemming from economics (ordo-economics, institutional theories), philosophy and ethics (Hegel, Kant, theory of justice, ethic of responsibility), and cybernetics, systems theory, and social constructivism – a list not complete.

John Maurice Clark: An Early Classic of Ordo Responsibility (Ingo Pies) is the first article in this group. Pies sketches the ordonomic approach to business ethics and applies this approach in his analysis of Clark's article aiming at "a modern interpretation" (Pies, p. 25). Pies develops his argumentation in four main sections. He begins with "some ordonomic concepts." In the light of the ordonomic approach, Clark was arguing for an "orthogonal perspective," that is, the relation between individual responsibility and social responsibility is seen as being contingent. Thus, Clark rejects the idea of a trade-off between the two responsibilities (Fig. 2.1). Pies then introduces two different areas of action and, with it, (private) "choice within rules," and (public) "choice among rules." The first relates to "responsibility *in* a game" and the second to "responsibility *for* a game" (Pies, p. 27). Social responsibility includes the responsibility of actors for the institutions that set the rules of the game and for their behavior as players playing the game. Pies distinguishes two types of subjects of responsibility (the individual and the group) and two types of objects of responsibility (responsibility for the way one – individual or group – plays the game and responsibility for the rules of the game). Regarding the responsibility for the rules of the game, the author reserves the expression "joint ordo responsibility" while a group's moves in the game are called "collective responsibility" (Figure 2.2). In this vein, Clark introduced "a new sphere of moral obligation" that can be interpreted as a "joint ordo responsibility" (Pies, p. 28).

In the next section of the article, Pies introduces Clark's line of thought in more detail. Based on a two-by-two matrix, social structure and semantics (two core concepts of the ordonomic approach) are discussed with respect to the orthogonal position and the trade-off position. Pies outlines the role of economics in the process of furthering the actors' awareness of the need to act in accord with the objective of social responsibility and their faculty of acting consequently. He discusses the juxtaposition of market and state in laissez-faire economics and explains how Clark's views differ from that. The fourth section is devoted to the strengths of Clark's article. Pies explains in detail three characteristics which, from the ordonomic perspective, are strengths of Clark's article: First, the moral orientation and the relevance of information for the identification of what is right or wrong. Second, economic theory (the economics of responsibility) is part of the solution of the problems accruing from the "working business ethics" (Clark 1916, p. 210). Third, Clark's "vanishing point … was the democratic ideal of self-governance" (Pies, p. 34). After that (section five), Pies elaborates on the weaknesses of Clark's article from the ordonomic point of view. Here again three points are brought to the fore: First, Clark came "close to appealing morally" and expressing "the need of a public spirit" (Pies, p. 37). Second, Clark "underestimates the potential for corporate