ECONOMIC THINKING AND ETHICS

An Ethical Approach for Economical Issues

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Abstract

The worldwide economic crisis of 2007/2008 popularised the ethical questions within economics. Usually, most of the current mainstream economists do not tackle these questions and the typical curriculum of economics often lacks philosophy, ethics and the history of economic thoughts. However, economists are confronted with ethical questions and think that they are able to to answer them. As a result, the popular discussion about ethics and economics is a discussion about regulations. In contrast to that, the article tries to show an alternative approach, which concentrates on the question of why something is moral. On the base of Peter Ulrich's integrative economic ethics, the relevance of the right of subsistence on the ethical legitimation will be elaborated. The insights will be discussed with respect to labour market theories and the German labour market reforms of 2005. Finally, the question of ethical legitimation will be connected to the question of democracy and economics.

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(1) Introduction

The worldwide economic crisis of 2007/2008 is believed to be mainly caused by the unregulated liberty of the financial market in the past. This argument normally goes along with the charge against the greed of bankers. However, there is the question about morality within economy, economics and economists. Normally, the attention to morality was content

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to the claim of new regulations – such as the tobin tax – and moral appeals. Basically, morality was simplified to the meaning of rules and therefore, people discussed rules. However, that approach unfortunately does not give an answer to the question of how morality leads to rules. What exactly characterises rules to be moral? How does morality become part of rules and political decisions?

The financial regulations only reflect one field, in which morality is claimed. Using the crisis as the argument, some governments complained about the big public spendings after they had saved the financial sector. Nowadays, they argue about a decrease in public spendings. One typical target of such cutbacks will be the governmental welfare policy. As a result, the problem of morality rises, especially in the case where welfare interest running the risk to be played off against the economical "constraint" (German: Sachzwang) to decrease public spendings. The question again arises, in which way ethical decisions can emerge? Which welfare policy is ethical? What is needed is an approach that explains *how* we get to ethical decisions.

The following article tries to introduce an approach of economic ethics that describes a method of ethical decision making. Therefore, the paper will concentrate on the following issues:

- (1) The question of morality will be generally discussed in the light of the integrative economic ethics of Peter Ulrich.
- (2) The "reasonability" is a very important element of Peter Ulrich's idea. The limit, where a reasonable rule, decision etc. will be turned into an "unreasonable" thing, is characterised by subsistence. Therefore, some special subsistence terms have to be clarified.
- (3) Based on the subsistence view, the enhancement of the integrative economic ethics will be developed.
- (4) Afterwards, the ethical decision returns to the economic questions with reference to labour market theories and the German labour market reforms called "Harz IV".

The article will finish with a broader perspective that connects the ethical discourse to the question of democracy.

(2) About the Morality of Rules

At the moment, it's very popular to associate morality with rules. Of course, that isn't completely wrong because the ideas of morality typically manifest themselfes in rules. However, these discussions don't provide a real answer to the question of what was originally wanted. Different kind of rules may be discussed of being moral or not, but there is no answer to *why* is something characterised by morality. The question of morality only shifts to another subject.

For instance, some regulations of financial markets were discussed in the light of the crisis of 2007/2008, but why are these regulations "moral"? Some people may argue that these regulations aimed at avoiding further economic crises. But is it moral to avoid economic crises? A typical answer of the mainstream economics may be that economic crises are part of the market system. With respect to Joseph Alois Schumpeter, economists may call that "creative destruction".

Other people would characterise some regulations such as wage limits for bankers as "moral" because it may decrease the banker's greed. Of course, greed isn't a nice trait of character. However, is it "moral" to avoid greed and why?

Additionally, keep in mind that every reference to a holy script finally results in the reference to a rule. Therefore, it would be justified to ask why something is "moral" every time. To reference another rule doesn't explain the heart of morality. That also applies to the typical economic answers which are mentioned above: The "creative destruction" may be seen as a natural law but that is not the answer to the question of why this natural law should be "moral"! Therefore, the question of morality is often only scratched. Eventually, if we would like to have a moral rule, decision etc., we should ask for the process of something to become "moral".

(3) Integrative Economic Ethics

First of all, the decision maker has to think about whether he or she would accept the own intended decision in the place of only those individuals which are affected by this decision.²

This problem is also known as the *infinite regress* and part of the Münchhausen Trilemma, which was described by the critical rationalist Hans Albert (1991, p. 15): This trilemma means that every attempt of justification leads to the problem of *infinite regress*, *circular arguments* or *dogmatism*.

The following explanations try to outline the idea of Peter Ulrich. For details please refer to Ulrich (2008).

Would I accept the same as a concerned person as if I would be a non-concerned person? Although, this is not a new approach, it is associated with the principle of universality, the Kantian Imperative, the Golden Rule or Adam Smith's third spectator and ideal role reversal.³

Anyway, the society consists of many individuals and each individual has its own idea about what can be universalised. As a result, an intended decision has to pass an open, free and public *discourse* (German: öffentlicher Diskurs) for becoming ethically legitimated within a society. The public discourse should serve to legitimate decisions in an ethical way. People have to be involved as much as possible in the decision making process and the subsequent development of the rules.

In the case, where that's impossible due to physical or technical reasons, the decision makers have to put themselves in the position of the prevented person (Ulrich 2008: pp. 90 and 94). That means, that the decision makers have to check their own decisions against their initial interest. In addition, the decision maker that takes part in the public discourse shows the will of facing public criticism and to swear off dogmatism. Anyway, the person which follows the proposed way of decision making acts in a *responsible* manner in terms of ethics.

At the same time, the decisions also have to be *reasonable* (Ulrich 2008, p. 169). That means the willingness to accept some limitations of his or her initial intention. Especially in the light of market systems, this stands for an optional disclaimer of market possibilities. It is the call for the ability to restrict oneself. Not every market chance has to be seized. This ability will be called for every case where third persons are expected to be effected in a negative way by the intended decision. Obviously, the mentioned role reversal is required for the following situations: If an intended decision shall be ethically legitimated, this decision should be reasonable in the eyes of the people affected.

For clarity, the call for reasonability isn't the postulat of altruistic behaviour or self-abandonment: Of course, such a self-neglect isn't *reasonable* (Ulrich 2008, p. 89; 2000, p. 557, para. 13). However, this applies for both sides: As reasonable compromises have to be accepted by the decision maker, the third persons have to accept reasonable restrictions by the intended decision.

Peter Ulrich provided a short overview on the idea of universalisation (Ulrich 2008: pp. 61). Another use of universalisation can be found in *Freedom and Reason* by R. M. Hare (German title: *Freiheit und Vernunft*, 1983: pp. 108).

Additionally, there is another element of reasonability: The intended decisions may cause undesigned, unexpected and unwanted consequences, which economics call *non-intended consequences of intended activities*. As a result, it has to be reasonable to *share responsibility* (German: Mitverantwortung) for such non-intended consequences and to be aware that all activities may cause negative side effects (Ulrich 2008, p. 170). Sharing such responsibility is necessary for the ethical legitimation.

Eventually, *reasonability* and *responsibility* aren't constants, but they must be identified and bargained within the society again and again. Of course, that seems disappointing especially for the case, where the public asks for concrete rules and indices. On the other hand, this approach makes the society adaptive and social rules ethically legitimated. Please keep in mind that rules and decisions, which aren't ethically legitimated, may cause passive or active ways of resistance. In terms of economics, it stands for higher transaction costs and a decrease of wealth. It is obviously a good reason to consider the ethical legitimation.

(4) Subsistence Terms

Even though the reasonability isn't a fixed and predictable constant, there is one point in which reasonable situations are expected to be turned into unreasonable situations. This point is characterised by what this article calls subsistence.⁴ However, lets start with another term. There are situations where individuals are alive, but they aren't able to change their situation, so they just scratch a living: It's just the *ability* to persist within a circular static level of life. This is called *viability*. In the case, where an individual owns some means to change its life, the individual subsists. Therefore, *subsistence* is based on *viability*, but there are more means of subsistence than are needed to just scratch a living.

If the viability ran the risk of being decreased by a political decision, the effected individual would regard that situation as attack on its own existence. Obviously, such activities aren't reasonable in the eyes of the concerned person. However, the case of subsistence is more complicated.

First of all, please remember that there are interactions between subsistence and viability. If the viability was decreasing, subsistence would also decrease. If the subsistence decreased, the viability would also run the risk to decrease: Imagine, the environment is changing, so the

For more details about the history, development and re-construction of "subsistence" please refer to Thieme (2010b). Another short overview can be found within Thieme (2010a, pp. 5).

individual has to adapt to survive, but there are no means of subsistence; consequently, the individual's life is threatened. On the other side, the individual is able to accept some cutbacks of subsistence. Not every cutback will cause a threat to one's life.

Additionally, there are natural restraints when at least two individuals *want* to interact with one another: To put it bluntly, the *respect* for others limits our space of actions. That's the main reason for the elementary character of the right of subsistence: The right of subsistence is a fundamental necessity for any kind of interpersonal activities, including economic activities.

Although subsistence is limited by social reasons, there would be no society without a right of subsistence. A society which didn't grant the individual subsistence would run the risk to threat the individual's life and finally break off. Especially from an economic point of view, there is no rational incentive to take part in a society which threats the own life. This consideration is very important with respect to the so called *workfare philosophy*, where the individual subsistence of the socially deprived is confronted with some limitation (the force to work, the acceptance of very low wages, compulsory attendance etc.).

Eventually, at the same time where the right of subsistence is necessary for the society, the society doesn't provide an unlimited right of subsistence as well as there is also a minimum level of subsistence: If an individual fears a decrease in his fundamental adaptability and finally feels to be directed by the others (German: fremdbestimmt), the cutbacks of subsistence will be *unreasonable*.

Therefore, the right of subsistence provides an orientation to the reasonability of the restraints on the individual subsistence. First of all, this is a *moral principle* for orientation. It's a mean to check laws or intended laws against the question of morality.

Secondly, the right of subsistence may become manifest in real laws and political measures such as social transfers, laws for occupational safety as well as maternity and child protection. Of course, the concrete content of the individual right of subsistence isn't a fixed constant, especially with respect to welfare, where its measures have to be checked over and over because of changing circumstances such as inflation, new technical requirements (internet, email etc.), other requirements in education, the availability and situation of housing and so

A more detailed argumentation that is connected to the ideas of Thomas Hobbes, Johann Heinrich von Thünen and Karl Polanyi will be found in Thieme (2010a, pp. 6, pp. 8 and p. 15).

on. That's the reason why the mentioned public discourse is really important: The public discourse provides the control about the reasonability of the restraints on the individual subsistence as well as the protection of the right of subsistence.

(5) The Economic Discourse Ethics and Its Problems

There is an important problem within the integrative economic ethics: In any case, where an individual feels threatened, the individual has to start a public discourse about resistance *before* resistance is allowed.⁶ This depends on the idea of an ideal social discourse, where everybody is allowed and available to take part in the discourse as well as he or she enjoys the freedom of opinion (Ulrich 2008, pp. 81). There is no power that dictates the results of the discourse, but the "better argument". Furthermore: Everybody must really be interested in the solution and has to only bring possible ideas to the discourse (impossible ideas aren't allowed).

However, with respect to the "real" world, there is no ideal social discourse. People are confronted with no freedom of opinion, that also goes partly for everyday life in western democracies because people may run the risk of losing their job by speaking their mind. Additionally, there is the financial, political and medial power that may influence the public discourse. Finally, it's a strange idea that a person has to ask for resistance in a society which mistreats him or her. Please keep in mind that people like that are typically outnumbered, act as individuals or feel outnumbered because the society impedes the coalition of such people by typical negative stereotypes such as the *welfare queen* or the *deadbeat dad* (Wacquant 2009, 103).

In addition, the idea of the integrative economic ethics shows the public discourse as the only place of morality. However, the public discourse consists of individuals which are characterised by specific ideas about morality. Of course, the public discourse may be an important influence on the individual's opinion. On the other hand, the thoughtful individual that starts the *ideal role reversal* is also one source of morality. Eventually, it's the individual that brings new perspectives and own ethical ideas to the discourse! Therefore, what is needed

Peter Ulrich (2008, pp. 257) wrote about the moral right of civil disobedience. However, the moral rights in general have to be defined, given and sanctioned by the public discourse. In any way, following the idea of discourse ethics, the concern of resistance has to be consequently discussed. Unfortunately, this case enjoyed no great attention by Ulrich.

is a base for the individual reflection about morality. That will be found in the individual right of subsistence. However, what is the right of subsistence in detail?

Firstly, the right of subsistence grants viability. That means that everybody has the right to stay alive. Viability is the necessary condition of subsistence. Secondly, everybody is entitled to get means of subsistence for self-help. That aims at the ability to the individual adaptiveness with respect to the changing environment. Thirdly, every restraint in the individual subsistence has to be legitimated by an open public discourse; otherwise these restraints aren't ethically legitimated and the individual is allowed to ignore them.

Please keep in mind that the ignorance of restraints, which aren't ethically legitimated, doesn't neither turn "resistance" into an ethical act nor relieves the resisters from the necessary *ideal role reversal*! Not every political decision is ethically legitimated and, consequently, the ignorance of such decisions may be no problem from the point of ethics. However, such ignorance may cause conflicts with the legal system. This situation doesn't occur within a perfect discourse society, but it complicates the ethical decision making in the "real" world.

Another problem rose from the ignorance: In the case of absolutely opposed arguments, would the discourse lead to no solution? First of all, please keep in mind that such situations may be used for the rhetorical purposes to denigrate the idea of the public discourse. One example is the decision between two lives: Would you give your life to save another one? However, such examples typically reflect extreme situations and are certainly not the norm.

In addition, remember that the idea of discourse ethics calls for possible solutions. The discourse is not suitable for problems with no solution, the well-known dilemmas or, what Heinz von Foerster once formulated accurately, *undecidable questions*. In these situations, the question of morality shifts from the social discourse to the concrete situation of the single individual that has to decide on the base of his or her personal responsibility. As a consequence, there are no ethical rules or decisions resulting from the social discourse, but only from the deliberating individual. In contrast to this, there are a lot of political and economic problems which aren't undecidable.

⁷ This characterisation of the right of subsistence is only a very short overview of the author's own research. More details can be seen in a forthcoming publication.

There is no place for further considerations about that problem. To keep it simple, please note that the state of being a "problem without solution" may, of course, also require a public discourse. On the other hand, there may also be the situation which requires the decision by the individual. Anyway, the consequences seem to follow the subsequent explanations in the text.

It rather seems to be the problem that political and economic protagonists typically try to avoid public discourses by the reference to economic "facts" or "constraints" (German: Sachzwänge). These "facts" break the discourse off because a discussion about the economic arguments isn't intended. This is how the imperfect social discourse really works. As a result, this may cause social distress that can go off with demonstrations or riots.

However, following J.C. Scott (1976), there is a wide range of political activities of no ethical legitimation before policy makers have to fear riots. Nevertheless, the lower limitation of the right of subsistence cannot be ignored by the policy makers: The more policy makers act without ethical legitimation the more they run the risk of causing resistance.

Please keep in mind that resistance isn't limited to only riots and physical violence. There are also passive forms of resistance such as "foot dragging, dissimulation, false compliance, pilfering, feigned ignorance, slander, arson, sabotage and so forth" (Scott 1985, p. 29). From the economics point of view, this also stands for a decrease of the worker's motivation, a decline in productivity, the expansion of the informal economy and finally for an increase of the transaction costs. Therefore, policy makers and economists would be well advised to avoid resistance that causes such costs.

However, the individual right of subsistence states the subjects of the ethical discourses more precisely than just the idea of the ethical discourse. In addition, it provides the orientation to avoid the problems of lacking ethical legitimation. In connection with the right of subsistence, there are a few questions which can help to decide on the *ability* of intended decisions to become ethically legitimated:

- (1) Does the decision violate the individual's viability?
- (2) Does the decrease of the subsistence violate the individual's viablity?
- (3) Is the decrease of subsistence reasonable?
- (4) Are compromises with respect to the decision possible?
- (5) Does the decision aim at an undecidable problem?

⁹ Following Scott (1976, pp. 182 und p. 227), people would silently suffer some extent of inequity and exploitation before they revolt.

Obvisiously, this requires the ideal role reversal. However, that's just the pre-stage for the ethical discourse. In the case, where the individual's viability is violated, there is no possibility for the ethical legitimation of the decision. Therefore, there is no need for the public discourse. The public discourse is mainly used for determining the extent of the reasonable restraint of the subsistence as well as the reasonable revisions of the intended decisions. It's also possible that new solutions and alternatives emerge from the discourse. In addition, the public discourse can also determine whether the problem is undecidable or not.

Please keep in mind that there is no ideal public discourse in practice. The discourses are normally conducted in the media or the parliaments. Therefore, these discourses often lack the openness with respect to the participation of the concerned individuals. To decrease the ethical problems, the role reversal is necessary, especially in the case, were parliaments, government departments etc. determine the restraints of the individual subsistence.

(6) Ethical Legitimation: Just A Commonplace?

Although the explanations about the ethical legitimation seem to mark a well-known commonplace, a closer look at the economic theory and exercised welfare policy discovers a lack of attention to ethics and the question of subsistence. A very typical case is the theory of the marginal productivity of labour, referred by politicians as well as economists.

The textbooks of economics teach that people have to be paid to the amount of their productivity: The maximum of a company's profit within a perfect market is characterised by the point, where the marginal productivity of labour is equal to the real wage. Onsequently, the real wage would rise if the marginal productivity of the labour rose.

That is the theoretical base for the argumentation against the minimum wage: Following Wolfgang Franz (2009), the chairman of the German Council of Economic Experts, the wages of the low wage sector have to decline to the point, where the low productivity is about the same amount as the labour costs (i.e. the labour wage). In the case, where the low wage is too small, the government should subsidise the wage to the amount of the sociocultural minimum of existence. This thinking implies the existence of individuals with a very low productivity. At the same time this means that some people aren't able to survive by their own hands! Indeed, is it right that people typically aren't able to survive?

Some of the textbooks, which contain the mentioned explanations about the labour market, are written by Heubes (1995), Rittenbruch (2000) and Samuelson/Nordhaus (2007).

This view illustrates a lot of misunderstandings and problems within economics. First of all, there is the hidden assumption of a social contract, where the individuals of the society agree to take part in a labour and market society. Consequently, the individuals are absolutely dependent on the labour work income: There is no other possibility to survive, but the offer of the own labour.

Indeed, such society should guarantee the right of subsistence because only the labour income would enable the survival of the working individual. Otherwise, there wouldn't be an incentive to take part in a labour and market society.

Of course, the society might provide social transfers in the case of unemployment. However, the social transfers have to aim at the individual's subsistence and must not be limited to just the viability. In addition, the social transfers absorb the risk of unemployment and therefore the danger to the individual's life. Eventually, the market society has to fulfil the right of subsistence, otherwise the claim to take part in this society would be unreasonable.

It would also be unreasonable, if a society forced their members to work for low wages, which didn't satisfy the individual's subsistence. Firstly, the sense of such labour would be called in question when the wage didn't keep its base – the individual – alive and this labour wouldn't be able to reproduce itself. Please keep in mind that this argument also applies for work which is subsidised by the government's interstate wage combining.

Secondly, the mentioned force to work could be associated with a waste of human resources. Why should the individuals be forced to work in a job, where their productivity is low? Wouldn't it be a better idea to search for work, where the individual's productivity is high? Unfortunately, there is no space to discuss these questions in detail. Although, it is obvious that by forcing people to work at any price could be sensed as unreasonable denial of subsistence possibilities.

Anyway, these explanations illustrate the ethical problems within recommendations from the theories of the mainstream economics. However, there are also ethical problems within the political implementation of the economic theories, mainly with respect to the social discourse. Basically, if there were a open discourse, which involves a lot of different perspectives, the

The idea of labour and market society follows Karl Polanyi (1995, 89, p. 224 and 227).

unworldly character of some economic recommendations wouldn't be a great problem for the ethical legitimation.

In contrast to this, the story of the German labour reforms called "Hartz IV" shows the lack of involving different perspectives: Following Siefken (2006, p. 376), the founded commission, which should work out the proposals for the reform, consisted of managers, management consultants and officials and was driven by the perspectives of the managers and management consultants. The perspectives of those individuals, which were the aim of the labour reforms, as well as the perspectives and experience of the German charity organisations weren't present.

Anyway, the reform came into effect in January 2005. From that point, the reforms were always confronted with socio-political as well as juristic criticism. For instance, the *Paritätische* (2006), one of the great German charity associations, countered the social transfers of originally 345,00 Euro per person and per month by an amount of 414,00 Euro already in 2006. In February 2010, the Federal Constitutional Court of Germany decided that the calculation of the social transfers was against the constitution of Germany. As a result the German government had to re-calculate the social transfers under the German constitution until January 2011 (Bundesverfassungsgericht 2010).¹²

Of course, there was a great discussion in the media which brought the different perspectives together. However, there was an atmosphere of enmity against social fringe groups such as unemployed and people in need, basically that did not stand for an open social discourse, but for social exclusion.¹³ In addition, the discussions in the media aren't normally sufficient to the open discourse in the terms of discourse ethics.

At the end of the October 2010, the German Federal Ministry of Labour and Social Affairs (2010) presented a "newly" calculated social transfer of 364,00 Euro per person per month. However, exactly this amount was already calculated by the Federal Ministry of Finance (GFMF) back in 2008, where it tried to calculate the minimum amount of existence for the year 2010. Anyway, this leads to another problem which should be discussed elsewhere. In addition, the political decision-making process about the new social transfers in Germany lasted until the End of February 2011 – albeit the Federal Constitutional Court of Germany called the politicians to solve the problem by the end of 2010.

A very clear illustration of that atmosphere is given by the brochure "Priority for the decent - Against Abuse, 'rip off' and self-service in the welfare state" (German: Vorrang für die Anständigen - Gegen Missbrauch, 'Abzocke' und Selbstbedienung im Sozialstaat), which was published by the German Federal Ministry of Economy and Labour in 2005 and mentioned the recipients of social transfers of being even less valuable than parasites. More details about the atmosphere of the discussion about the German welfare state are provided by Butterwegge (2006, pp. 94 and pp. 307) and Lucke (2010).

Of course, the openness of the discourse is very important, but the ability to influence the decisions is also important. Basically, there is the danger that the involvement of the different perspectives would be simplified to the symbolic act of public discussion in the end, where real influence and modification are not wanted (by the decision makers). On the other hand, the involved parties would identify their concerns within the political decision, if the decision was ethically legitimated by an open public discourse.

Please keep in mind that the ethical legitimation by the public discourse calls for the reasonability of the compromises. To put it bluntly, the discourse may produce bitter pills for *any* of the involved parties, which is the reason for the public discourse and has nothing to do with an idealistic idea of social harmony. However, from the point of institutional economists, it is only the mean to improve the persistence of social rules and the adaptiveness of the society to environmental changes. In contrast to that, the violation of the principle of the ethical legitimation may lead in higher transaction costs.

(7) Conclusion: Ethical Legitimation and Democracy

The idea of the public discourse as well as the criticism on economics and politics suggests an improvement of political and social participation, especially the measures of direct democracy such as plebiscites. Of course, following the discourse idea, all kinds of participation have to be ethically legitimated by a public discourse. Indeed, there isn't an ideal society for the ethical discourse. Therefore, current possibilities of participation could be improved by constraints on political commissions concerning the consistency of the commission or the obligation to follow ethical principles such as the ethical guidelines for political consulting by the *Berlin-Brandenburgische Akademie der Wissenschaften* (2008). In the light of the call for the codetermination (German: betriebliche Mitbestimmung; Decker et al. 2010, p. 153), the idea of ethical discourses aims at the democratisation of markets and economies in the long term.

Anyway, participation may be very important, but what's participation without the individual's democratic and pluralistic understanding? Following Decker et al. (2010, p. 153), it's also necessary to improve the education on the basics of democracy: In contrast to that, schools and universities normally do lack democratic organisation. Therefore, Decker et al. (2010) claimed that democracy has to become a real experience.

In the face of economics and public discourse, there seems to be the necessity to learn what's called the *ideal role reversal* within the *Moral Sentiments* of Adam Smith. It's a simple principle, but it may reduce the unworldly character of some economic recommendations to a reasonable extent. Eventually, it would be at least the first step into a social science, which is engaged in economic questions considering its ethical aspects.

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