

# **Towards an Ethically-based Conception of Socio-economic Rationality**

From the Social Contract Theory to Discourse Ethics  
as the Normative Foundation of Political Economy

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Published in:

Wojciech W. Gasparski & Leo V. Ryan (eds.):  
*Human Action in Business*,  
Transaction Publishers,  
New Brunswick (U.S.A.) and London (U.K.) 1996,  
pp. 21-49

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## Introduction

With the award of a Nobel prize in 1986 to James M. Buchanan, the time-honoured *social contract theory of political philosophy* finally (re-)entered the realm of economic theory. The contractarian approach has turned out to be a crucial element in the foundation of what is called now the *New Institutional Economics*. The new openness of the discipline to contractarian thinking has not, however, become valid for all the variations of social contract theory so far. It is only the Hobbesian variant of social contract theory that has become an acceptable part of economic theory. The critical version of contractarian thinking, which goes back to Kant's *Critical Philosophy* and which today has taken the advanced form of a *discourse theory of ethics*, has hardly been adopted by economic theorists until now. Although the indisputable similarities between discursive ethics and the contractarian approach to economic theory have been noted by a few economists, they appear to have evoked hardly more than "some serious irritations," as Karl Homann (1989: 44) recently observed.

As long as this is the case, there is a danger that the basic differences between the contractarian approach (in its Hobbesian tradition) and the much younger approach of discourse ethics (as it has been elaborated by Karl-Otto Apel and Jürgen Habermas) will be neglected and, as a result, considerable confusions between economics and ethics take place. Certainly the two approaches of contractarian economics and discourse ethics have a number of significant aspects in common, but it leads to systematic mistakes to reduce one of them to the other. In this paper, it is suggested that a paradigmatic shift from (Hobbesian) contract theory to (basically Kantian) discourse ethics might well prove worth investigating with respect to a new foundation of political economy. The focus will be a critical turn of economic rationality towards an idea of *socio-economic rationality*, which might have advantages for a better comprehension of the central *practical* problems in the strained relations between market economy and modern society of today.

It would appear to be impossible to reach this aim, however, without the reconstruction and critical reflection of the historical background of the above-mentioned "irritations," which for this reason will be dealt with briefly at the outset (Part 1). This will be followed by a critical discussion of the paradigmatic potential of the contractarian approach as it has been introduced in economics (Part 2). Finally, the perspectives of the discursive-ethical advancement of political economy will be outlined (Part 3).

## 1. The historical background: political economy in quest of the guarantor of the common weal

The basic problem of political economy has always been contained in its very name: the strained relationship between politics and the economy, or to be more precise, the problem of establishing a collective order of individual preferences with regard to economic activities. The problem is that of harmonizing public interest, in so far as these individual preferences are related to socially conflicting values, demands and interests, and in so far as they are a public concern. Long-term solutions to this problem are tied to deep-rooted political and cultural preconditions, which are also reflected in the history of political economy.

The most important historical starting point may be found in the unbroken tradition of certain *premodern* ways of thinking about the problem of the common weal, which have continued to exert their influence well into the neoclassical paradigm of economics, and which could only be overcome, to a greater or lesser extent, with the help of the contractarian approach. These traditional solutions to the problem of harmonizing political and economic interests have in common that they presuppose a political and moral-theological basis for a normative authority which is higher than the economic subjects, and which fulfils the function of a *guarantor* of a just balance of interests.<sup>1</sup> In the medieval Christian view of life, this guarantor could, ultimately, only be God: ethics remained the "handmaiden of theology" (Albert 1975: 132), while political economy was part of moral philosophy and theology.

To the same extent in which political economy emancipated itself from the scholastic church, thus beginning to develop into an autonomous discipline in its own right, it had to set off in quest of a secularized "*substitute guarantor*" to take charge of the harmonization of political and economic interests.

### 1.1 Cameralism: the prince as the guarantor?

In the preclassical era of cameralism (and mercantilism), the secular substitute guarantor was easily found: the welfare of the feudal prince represented the welfare of the society he ruled over. In its cameralistic origins, political economy became the theory of the (public) principal household, striving to maximise the fortunes of the principal "chamber." The prince's wealth *symbolizes* the common weal, without producing it in real terms.

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<sup>1</sup> On the concept of the normative guarantor, cf. also W. Ulrich (1983: 256ff.) and the related concept of a "guarantor of design" by Churchman (1971: 22f.).

It is an essential point of this normative approach that it removed any problems from the ethical and political dimension of conflicting interests right from the start. This, however, was only possible and credible on the deeprooted metaphysical basis of the feudal overlord's position, which possessed the same cosmological and religious characteristics as traditional sovereign powers have always had, from the god-kings of ancient Egypt (Mumford 1977: 193ff.) to European absolutism.<sup>2</sup> *Common weal* is a medieval, feudal notion – not by chance (Arendt 1981: 36); rather, it is based on a "*communistic fiction*," in Gunnar Myrdal's terms (1976: 135ff.): the fiction of a collective economic subject's *common will* as personalized in the prince.

## 1.2 Classical economics: the system as the guarantor?

Headed by Adam Smith, the liberal classics of political economy dismissed the prince and proclaimed the "simple system of natural liberty" (Smith 1976: 687). The idea of the common weal was not, however, exposed as a harmonistic fiction and then dropped; it was merely *depersonalized* and objectified. The balance of political and economic interests was no longer guaranteed by a "benevolent dictator" of flesh and blood: rather, an impersonal economic *system* was elevated to the position of a "modern" guarantor, though not without restrictions at the time.

In this context, the fundamental metaphysical and religious confidence in Smith's "invisible hand" of market competition can hardly be overlooked (Recktenwald 1978: XLII). Basically, Smith transferred a conviction expressed by the philosophy of natural law – i.e. Leibniz's idea of a world order "pre-stabilized" by God - to political economy. This resulted in a *deification of the market* in the truest sense of the word, not so much with Smith himself, but with the later neoclassical economists.<sup>3</sup> The socialist antagonists of the liberals opposed this with a *deification of the state*, but neither attitude, nor the development of complex mixed systems of market and state control, have made a fundamental change to the *metaphysical nature of the system in its capacity as the guarantor* of political and economic harmony.

Now, Adam Smith was definitely not a technocrat who would have pro-pounded a vision of total control by, and dominance of, a socio-technical system. His (market-) systemic solution to the problem of balanced interests remained partial, and as such was of necessity incorporated in the ethical and political framework of

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<sup>2</sup> For the roots of god-kingship, which may itself have developed on economic grounds, cf. P. Ulrich (1993: 48ff.).

<sup>3</sup> Referring to the religious roots of that metaphysics of the market and its present-day remnants in the business *ethos* of entrepreneurs and managers cf. the considerations and qualitative-empirical results by Ulrich/Thielemann (1993).

a liberal society. This framework consists of governmental legislation and an "exact administration of justice," which "as far as possible has to protect every member of the society from the injustice or oppression of every other member of it" (Smith 1976: 687). Smith (1979: 86) even places particular emphasis on the primacy of justice: "Justice ... is the main pillar that upholds the whole edifice. If it is removed, the great, the immense fabric of human society ... must in a moment crumble into atoms." The positive laws of the constitutional state on their part, as well as every individual citizen's self-interest, are incorporated into the "natural sentiments" of mutual sympathy, of the need for social recognition, and of the sense of duty towards generally accepted rules of moral behaviour (Smith 1979: 13ff.).<sup>4</sup> In Adam Smith's view, the primacy of normative *social integration* over any organizing principle of "amoral" *system control* is thus clearly maintained. Seen in this light, Smith is a forerunner of the pragmatic "*ordo liberalism*" (Eucken 1940: 60ff.); by no means does he advocate the fundamental doctrine of the self-regulating market. Smith became a brilliant economist because he was first and foremost a moral philosopher – which is precisely what the neo-classical economists no longer wanted to be.

### 1.3 Neoclassical economics: utilitarian calculus as the guarantor?

From the point of view of the history of economic thought, it is understandable that in an era characterized by logical positivism and scientism, economists regarded the (partly) justifiable suspicion of metaphysics in political economy as increasingly irksome. Consequently, they tried to rid themselves of this charge by retreating into a concept of "*pure economics*" (Schumpeter 1908), free of value judgements, along scientific lines. Indeed, the gradual purification of metaphysical subject matter proved to be largely successful, even though some "heroic abstractions" had to be resorted to (Krüsselberg 1983: 45ff.). Unfortunately, pure economics retained the communistic fiction of an interest-neutral collective utility optimum; only this time round, it was supposed to be *calculated* in "purely economic" terms, thus bypassing the ideologically overcharged and therefore scientifically discredited debate on institutional order. The systematic consequence was that the institutional approach of classical political economy was replaced by *welfare economics*, which may be understood as the economists' adaptation of *utilitarian ethics* (cf. Bohnen 1964). The role of the guarantor of balanced social interests was no longer entrusted to metaphysics or to an institutional system, but to the scientific rationality of

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<sup>4</sup> For the so-called Adam Smith problem of the relation between his *Theory of Moral Sentiments* (1759) and his *Wealth of Nations* (1776), cf. Eckstein (1985: LIIIff.). Cf. also the discussion of the moral-philosophical foundations of Smith's system of political economy in Meyer-Faje/Ulrich (1990).

utilitarian *calculus*, which appears to be a constituent of the neo-classical paradigm of economic rationality:<sup>5</sup> economics was transformed into the exact "science of human happiness" (Faber/Manstetten 1988: 110).

Subliminally, however, neoclassical economics along utilitarian lines remained more faithful to the metaphysical philosophy of natural laws than to the positive sciences. Schumpeter (1954: 132) even pointed out that "the essential point to grasp is that utilitarianism was nothing but another natural-law system." This is the deeper reason why neoclassical economics – from the earlier to the later welfare theories and beyond their irreversible failures (Arrow 1951), right down to the latest *Property Rights* and *Transaction Cost* theories – have always chased the selfsame phantom: the fiction of a "purely economic" criterion of collective efficiency that can be defined and calculated without interference from value judgments and conflicting interests. Recently, this fiction is to be found in institutional disguises (*minimum of transaction costs*, e.g.).<sup>6</sup>

For the rest, the attempt to attain freedom from values in the *area of the scientific expression* of economic theory need not actually clash with its roots in the philosophy of natural law and in utilitarian ethics; rather, value aspects in the *basic area* of any science are, as selective points of view, an indispensable prerequisite for freedom from values in the area of expression. This was already clearly emphasized by Max Weber, the father of the postulate of freedom from values: "There is no absolutely 'objective' scientific analysis of 'social phenomena'...; without the researcher's *value-based ideas*, there is no principle informing the selection of subject-matter and no meaningful knowledge... In this respect, scientific findings in the field of culture *depend* on 'subjective' preconditions." (Weber 1973: 170, 182)

Particularly in the interest of an economic science devoid of ideology, a self-critically reflecting and methodical relationship with its normative foundation would be of the essence. In contrast, the paradoxical consequences of the attempt of "pure economics" to reach freedom from values, include the fact that this school stopped reflecting on its own philosophical basis with regard to ethics, which is why the leopard of "pure economics" has not yet been able to change its metaphysical spots. For the same reason, it has largely remained cut off from philosophical discussions in the field of ethics at times, as well as from the advancement of utilitarianism – its very own foundation. As regards utilitarianism, it has meanwhile become indisputable that it cannot provide any adequate solutions to the problems it neglected from the start: the problem of conflicting interests, i.e. of a just balance of interests (cf. Birnbacher 1989; Höffe 1975: 29ff.). Owing to the subliminally maintained communistic fiction of a definable social maximum, utilitarian calculus

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<sup>5</sup> For further constituent characteristics of this neo-classical paradigm, cf. Hampicke (1987).

<sup>6</sup> For a detailed criticism of neoclassical institutionalism, as distinct from a properly understood contractarian approach, cf. Ulrich (1993: 243ff.) and Ulrich (1995a).

mutually sets off individual costs and benefits, so what matters is not their interpersonal distribution, but only the maximization of the (fictitious) common weal. This is why utilitarianism – even in its more refined form of *Pareto optimality* – is incompatible with liberal ideas of inviolable individual liberty and equality of opportunity which are appropriate to a modern liberal and democratic society.

It is certainly no mere accident that it was not an economist but a philosopher who originally had himself been an exponent of utilitarianism, who first drew from this the radical conclusion of the inversion of the relation between the individual and the community: John Rawls (1971: 60) tried to give a new philosophical and ethical foundation to the *primacy of inviolable equal rights for all individuals* above and beyond all utilitarian arguments. Explicitly conceiving of his theory of justice as "a part of a doctrine of political economy" (Rawls 1971: 258), he performed a *paradigmatic change* from utilitarianism to the no less time-honoured contractarian approach to political philosophy. Rawls's principal merit is that he triggered off an opening of economic theory to the fundamental philosophical and ethical questions of the discipline hardly ever seen since the days of classical economics, thus paving the way for the establishment of the contractarian approach in more recent economic theory.

## **2. Paradigmatic advances and limits of the contractarian approach to political economy**

Against this historical background, the crucial significance of the contractarian approach to economics must first be seen in the fact that it rejects both the metaphysical fiction of a definable common weal preferred by everyone alike and the concomitant search for a secular guarantor of this "social optimum," while – for the sake of the liberal quality of political economy – making the paradigmatic step *from an economy of natural harmony to an economy of social conflict*. In this manner, the full focus actually returns to the real subject of political economy: the inevitable clash of individual interests and preferences with respect to the social distribution of the (internal and external) costs and benefits of socio-economic activities, and thus the problematic relationship between politics and the economy (cf. Section 2.1).

This breakthrough of the contractarian paradigm in the field of economic theory is still subject to certain limits, which must be considered from an historical point of view. The criticism of these limits can be concentrated in two closely connected aspects (cf. Sections 2.2 and 2.3).

## 2.1 From welfare calculus to the social contract between free citizens

The impossibility of a purely analytical calculation of an interest-neutral collective order of preferences (Arrow 1951) with the help of welfare *theory* indicates that the only way open is pursuit of an actual *practical* process of formulating politico-economic objectives, with regard to both interhuman relationships and conflicting interests. There are no guarantors of harmony between political and economic interests anywhere on earth that are outside society – thus people must "band together" in an effort to achieve a fair balance of clashing claims. James Buchanan (1977: 142) described this fundamental practical change in the harmonization problem as a transition from a criterion "*external*" to practice, to an "*internal*" procedure of balancing political and economic interests. The vain quest for a *substantial* criterion for a common weal manifesting itself in metaphysical or analytical terms is thus replaced by the *procedural* and *institutional* problem of formulating fair political and economic objectives and organizing their implementation.

At this point, recourse to the contractarian approach to political philosophy provides a basic thinking model of the fundamental possibility of *rational politics* among free citizens in a modern democratic society: in a free society, a political order can no longer be justified in ethical terms unless it is by a *consensus* of all individuals concerned. As free and mature agents, citizens organize their life together by means of a consensual agreement on a *social contract*. This idea of a consensual (i.e. unanimous) justification of the social contract – as it was professed from the outset by all founders of political contractarian theory (Hobbes, Locke, Rousseau, Kant) – expresses nothing other than the primacy of the *inviolable equal liberty* for all individuals that was revived by Rawls. The contractarian approach in all its variants thus basically embodies the enlightened liberal philosophy according to which human beings are principally capable of attaining maturity, self-responsibility and self-coordination so that in turn, they are neither condemned to bend to the uncivilized (and inhuman) arbitrary rule of the stronger (social Darwinism), nor to be dependent on a benevolent dictator or an authoritarian state. James M. Buchanan clearly signaled the continuation of this "third way" of political philosophy with the subtitle of his 1975 book: "Between anarchy and Leviathan." This is the way of *constitutional democracy* (Buchanan 1985a).

Ever since Hobbes, the contractarian approach has confronted political philosophy with the same crucial problem: how can it be possible, in principle, that instead of anarchy (the arbitrary rule of the stronger) and dictatorship, a system develops in which free citizens voluntarily commit themselves to a social contract? In the Hobbesian tradition, the social contract is appropriately justified by every

individual's rational self-interest and thus by everyone's strategic prudence in the sense of a (long-term) maximization of their own benefits.<sup>7</sup>

This should make clear why in the last ten to fifteen years, the contractarian approach has won widespread and surprisingly easy acceptance in mainstream economics, in spite (or rather because) of its ethical-political descent. After all, it provides the new paradigm urgently needed to fill the political and institutional vacuum of neoclassical economics, without at the same time radically questioning the "heart" of neoclassical economics, i.e. the utilitarian concept of rationality.

The crucial difference between Buchanan's contractarian approach and the institutionalist variants, already criticized, of neoclassical economics, is therefore not primarily to be found in the (still utilitarian) concept of economic rationality, but in the conception of systematic relations between economic rationality and social institutions. From the neoclassical point of view, institutions merely represent one new *subject* of purely economic analysis, i.e. the utilitarian rationality pattern is *applied* to the assessment of alternative institutional arrangements with regard to their (fictitious!) overall efficiency (property rights and transaction costs approach), which means that they are part and parcel of the communistic fiction criticized above. Buchanan roundly rejects *New Institutional Economics*, conceived of along such lines, and states bluntly that a mere extension of the "purely economic" perspective to social institutions is a "bridge which economists should never have crossed and which has created major intellectual confusion" (Buchanan 1977: 236).<sup>8</sup>

Contrary to that, Buchanan himself does not understand institutional arrangements as a subject but as *normative preconditions* of all arguments regarding economic efficiency, i.e. they are systematically *integrated* into political institutions and processes. The formulation of these institutional preconditions, which are considered to be ethically founded, is precisely the practical function of the social contract, which is therefore of a higher logical order than they are.

Consequently, Buchanan (1975: 17) makes a distinction between the supra-ordinate *constitutional* level of the social contract (the constitution) and the *postconstitutional* level of private contracts between economic subjects on the free market. He shows that the institutional conditions and rules, which enable the free conclusion of contracts on a legitimate basis, cannot be justified with the help of

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<sup>7</sup> This relates to Rawls, too, although he *neutralizes* the self-interest of the individuals by the "veil of ignorance," which he lays on them in the so-called original position in a way that they *cannot see* their very self-interest. Therefore, the individuals' original mutual disinterest is just the logical manifestation of their mutual *strategic uncertainty* but not of an ethical self-restriction in principle. For a detailed criticism relating to this, cf. Ulrich (1993: 258ff.).

<sup>8</sup> In another passage, Buchanan explicitly criticizes the fact that "neoclassical economics ... unfortunately ... retained the maximization paradigm as a central element ..." (Buchanan 1985b: 20).

the efficiency model of market contracts. Such a "purely economic" attempt at justifying institutional arrangements would amount to circular reasoning, arguing as it does for an ethical justification of political order which it already presupposes in its own concept of efficiency.

As Karl Homann (1983: 352ff.) pointed out particularly clearly, the significance of Buchanan's two-level conception of economic rationality can basically be seen in the way in which it ensures that the paradigm of individual market freedom is no longer forced to assume the meaning of freedom as such – a fatal confusion that gave rise to the fallacious contradiction between freedom and democracy. Now, however, liberal political economy, too, has recognized that constitutional democracy is a constituent prerequisite for non-arbitrary, ethically legitimate freedom. Thus a political order framed by a social contract does not *limit* individual freedom, but rather *creates* and protects it. And this is exactly what justifies the *primacy of ethically legitimated politics before the logic of the market* (which is the logic of mutually advantageous exchange), or in other words (*not* chosen by Buchanan): the primacy of justice before efficiency.

So far, so good – but Buchanan's distinction between constitutional and post-constitutional levels of argumentation, which seems reasonably clear at first sight, was thought through to the end much less consistently than it would appear.

## **2.2 The unfinished practical turn of the problem of politico-economic rationality**

Occasionally, Buchanan (1986: 89) complained about the fact that the distinction between the constitutional and the postconstitutional levels of rational economic activity, which was very important in his own view, was frequently misunderstood. This may very well be his own fault, since this could indicate a first symptomatic limit to the contractarian approach in its Hobbes/Buchanan variant.

In my view, this conceptional limit has its roots in the fact that, although – or even because – Buchanan integrates the economic rationality perspective into the political and institutional preconditions by reformulating the idea of efficiency in terms of consensual agreement and social contract at the constitutional level, he fails to finish the *linguistic turn* thus initiated: his *consensus theory of the "efficiency" of collective choice* continues to conceive of the problem of the rational search for constitutional consensus in (Hobbesian) categories of purely strategic-utilitarian rationality, instead of "raising" this problem to an appropriate idea of ethically rational consensus. This results in a fundamental inconsistency: Buchanan tries to justify rational political and economic practice *without a regulative idea of ethical and practical rationality*. Instead he reduces justice to collective efficiency – but this is simply a mistake of categories. Since to all appearances he is not aware of that basic categorial difference between ethics and

economics, he cannot completely comply with his own postulate that constitutional decisions must be made differently from postconstitutional ones if an infinite regress on ever further normative presuppositions is to be avoided (Buchanan/Tullock 1974: 11).

This partial confusion of constitutional and postconstitutional perspectives of rationality serves to explain Buchanan's evident *ambivalence* between an ethical foundation of economics and an economic theory of politics that is "free of values." This ambivalence is apt to make it difficult for Buchanan to demarcate his approach from a "purely" economic neo-institutionalism.

If this systematic deficiency in Buchanan's normative argumentation does not readily emerge as a problem, then this is only because he checks the again threatening infinite regress by means of an empiristic short-cut, i.e. by means of a naturalist fallacy (cf. Section 2.3 below). In this respect, too, he remains faithful to utilitarian tradition.

Utilitarian ethics cannot supply an adequate idea of ethical rationality because it embodies a purely *teleological* code of ethics, i.e. it defines the value of an action or of an institutional rule exclusively from the point of view of their consequences, or more precisely, from the point of view of their benefits with respect to what is good in ethical terms (which is certainly an important factor of ethics). Basically, this represents a version of purposive rationality in the sense of Max Weber's *Zweckrationalität*. In my view, ethics may not be argued from the purely functional point of view of its usefulness – which would be a reduction of morality to interest. Rather, ethics deals essentially with normative demands made on us, which are valid because of their intrinsic human value and because of our reflection on this (*deontological* ethics). Thus the good of freedom (in terms of a human right), which Buchanan regards as absolute, cannot be adequately justified on a teleological and utilitarian basis; this would require a deontological version of the contractarian approach as represented by Immanuel Kant. Above and beyond any calculation of individual utility in the sense of "rational self-interest", Kant's deontological perspective focuses on a rational insight into the intrinsic human value of liberties of *potentially universal validity*, i.e. on the normative prerequisite of properly understood freedom as such: the Hobbesian social contract is concluded because it is regarded as useful by all those involved, whereas the Kantian social contract is entered into on the basis of an *ethically rational* insight into the demand of *equal rights* for all human beings as an ethical value in itself (cf. Höffe 1979: 211).

The first conclusion to be drawn from this is that contractarian economics – if it conceives of itself not merely as pure economics continuing to proceed along institutional lines, but as a political economy with a sound ethical basis – may not simply exclude Kant's deontological dimension of the social contract. Part 3 will have to demonstrate how the fundamental problem of methodical integration of the demand for economic rationality (efficiency) with the deontological idea of

practical rationality (ethics) can be solved on the basis of discourse ethics. First, however, let us turn to another systematic limit to the contractarian approach in the version now prevalent in the field of economic theory.

### 2.3 The individualistic short-cut in the problem of politico-economic rationality

The fact that Kantian thought has no bearing either on Buchanan's constitutional economics or on present-day economics as a whole, is not only responsible for the above-mentioned unfinished turn of the welfare-theoretical problem of aggregating individual preferences into a collective order, but already manifests itself in the *uncritical treatment of empirically "given" individual preferences*. Even if the welfare-theoretical problem could be solved by means of pure analysis and calculation (as Arrow showed it cannot), then the resulting criterion of collective efficiency would be inadequate in terms of ethical rationality: the aggregation of *actual* individual interests would merely yield an *actual* collective order of preferences, which does not of necessity have to be ethically *rational* at the same time. In this manner, homage would be paid – as indeed is the case in neo-classical economics as a whole – to the normative power of facts; in other words, the *naturalist fallacy* would be committed of deducing what ought to be, from what is. This also applies to the retreating position of welfare theory, i.e. *Pareto optimality*, which incidentally is neither a social "optimum" nor value-free and interest-neutral, since it does not only presuppose empirically expressed individual preferences as "given", but evidently also the *status quo* of societal power distribution, whose ethical and political justification is actually the heart of the matter.

This state of affairs is generally recognized by neo-classical economists; yet it is regularly regarded not as a problem, but as the "value-free" consequence of *methodological individualism*.<sup>9</sup> As defined by neoclassical economics and generally accepted as one of its axiomatic presuppositions, methodological individualism is a much more specific concept than the mere idea that all social phenomena are a result of individual actions and therefore have to be explained from them in the last analysis.<sup>10</sup> According to today's neoclassical economics, methodological individualism means a certain *model of human rationality* – the so-called "rational-actor

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<sup>9</sup> Buchanan (1975: 1f) e.g. explicitly describes himself as a "methodological individualist" and claims the "neutrality of his analytics" for the methodological individualist. Recently, Arrow (1994) partly criticized methodological individualism with regard to its theoretical (explanatory) but not to its practical (normative) deficiencies.

<sup>10</sup> One of the first social scientists who explicitly dealt with this basic idea of methodological individualism or singularism (but not in today's more specific sense of neoclassical economics!) was von Mises (1949: 41ff.).

model" of a man strictly behaving as a maximizer of his individual self-interest, which is nothing else than the purely calculating rationality of *homo oeconomicus*. Starting from this axiomatic base, economics is not – or not immediately, at least – an empirical science but the "pure" logic that explains social interaction between individuals who are "*mutually disinterested*"<sup>11</sup> – or *as if* they were (in game-theory models, eg.). Therefore, neoclassical economics is methodically closed against "the moral dimension" (Etzioni 1988) of human action, whereas for the classics, especially for Adam Smith (1979), "moral sentiments" was an integral part of a comprehensive explanation of social reality as well as of political economy.

Moreover, methodological individualism causes the impossibility of an interpersonal comparison of benefits on the one hand, and the impracticability of a critical scrutiny of "given" individual preferences on the other hand. As a "methodical" consequence of this *axiomatic* premises, every individual's empirical preferences have to be accorded ultimate normative power, in terms of both ethics and economics. The crucial point is, therefore, that methodological individualism almost inevitably functions as a radical *normative individualism* at the same time, thus elevated into an axiomatic base of *political* economy.<sup>12</sup>

This proves to be the second fundamentally weak point of a political economy based on the contractarian approach in the sense of neoclassical economics, in addition to the above shown confusion of the deontological *ethics* fundamental to the constitution of a liberal society with the *economics* of private contracting in the market ("Constitutional Economics"). Of course, this first discussed point now turns out to be just another facet of the second revealed deficiency. Whereas Rawls, inspired by Kant, managed to overcome this weak points with the first of his two principles of justice as fairness,<sup>13</sup> Buchanan remains more of a "pure" economist and less of a political philosopher and ethicist with regard to both questions, owing to his adherence to the economic concept of rationality. Resolutely upholding methodological individualism, he points out that "beyond agreement there is simply no place for the contractarian to go" (Buchanan 1977: 295). Thus his consensus criterion of the efficiency of collective choice finally represents not a great deal more than a language-pragmatic turn of Pareto optimality suggested much earlier

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<sup>11</sup> Rawls (1971: 13, 144). In the very same sense, Gauthier (1986: 87, 104) uses the term of "mutual unconcern" between interacting individuals.

<sup>12</sup> Arrow (1994: 1) misses this *systematical* function of methodological individualism as a normative (or ideological) base of *neoliberal* political economy by making it to only a question of (an avoidable) *personal* "temptation," when he warns against "normative and policy implications wrapped up in the term individualism", stressing that "the temptation to join methodology and ideology is strong."

<sup>13</sup> Rawls' (1971: 302) final formulation of this first principle is as follows: "Each person is to have an equal right to the most extensive total system of equal basic liberties compatible with a similar system of liberty for all."

by Knut Wicksell (1896), to whom Buchanan repeatedly refers himself – quite apart from a more differentiated treatment of institutional preconditions.

As an expression of an historically informed caution in the face of a threatening relapse into the quest for an "external" guarantor of what is ethically good and just, Buchanan's basically empiricist attitude has its merits: "The contractarian rejects the role of the external observer, the omniscient being who stands outside the network of personal interaction..." (Buchanan 1977: 142). Yet Buchanan suppresses the anthropological fact that mature citizens are capable of moral reasoning, and that means: of a *rational criticism* of their own and others' "given" preferences, which is an integral part of the Kantian line of contractarian thought – and of Smithian political economy. (In utilitarianism, this human potential finds its expression in the strangely uncritical construct of second-level or *meta preferences*, which precisely provide a critical counterpoint to one's actual, primary preferences.<sup>14</sup>)

Kant's social contract, however, is a *critical* idea of ethically rational politics, a regulative idea of practical reason *a priori* which is yielded by reflection, an idea that cannot be deduced from empirically described individual preferences but can nonetheless be brought to bear on them in a critically normative manner (cf. Höffe 1979: 207).

There is no point, in this context, in trying to dismiss this Kantian line of critical contract theory, which reaches as far as discourse ethics, by reproaching it for employing an overly "strong concept of reason," as does the "moral economist" Karl Homann (1989: 44)<sup>15</sup> – who then promptly lays himself open to being reproached in return for relying on the no less "strong" normative power of facts. The old philosophical tension between empiricism and rationalism must not be short-circuited in favour of one or the other; rather, a contractarian political economy must live with this tension, i.e. maintain it in a methodical way.

Without a paradigmatic step beyond this second fundamental limit to the contractarian approach as employed by political economy, such cases of *aporia* as Buchanan has to acquiesce in cannot be avoided. Thus his empirically short-circuited consensus theory of the efficiency of collective choice ends in a

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<sup>14</sup> To give an example: smokers often have a second-level preference for not wanting to smoke, while on the first level they actually prefer chain-smoking... For the distinction between "a person's manifest preferences and his true preferences" (or moral preferences), cf. Harsanyi (1977).

<sup>15</sup> Nevertheless, Homann repeatedly voices his own doubts about the somewhat over-inflated role of empirically manifest preferences and factual consensus. To my knowledge, however, he has not drawn any conceptual consequences from this; instead, he throws out the baby with the bathwater by assigning Kant's rational ethics to traditional authoritative moral philosophy, simply in order to distinguish it from the contractarian approach. In my view, this seems to be a rather odd inversion of the relation between authoritative and critical (Kantian!) ethics. Cf. Homann/Suchanek (1987).

boundless consensus euphoria, which has no philosophical criteria and is therefore uncritical: in a "given" social situation, Buchanan automatically regards any factual consensus as a rational consensus.

Since, however, a factual consensus is rarely reached in the real world, Buchanan finds himself compelled to seek refuge in complicated reflections on the theoretical function of a *hypothetical* consensus and contract, to which he rightly ascribes no practically normative power, but merely the heuristic function of "making initial evaluations of existing institutions" (Buchanan 1977: 138). Yet this does not eliminate the aporia: either the theoretical construct of a hypothetical contract, too, has no criterion of rationality, thus lacking any justifiable evaluative efficacy, or Buchanan draws on an *implicit* idea of an ethically *rational* consensus, which in his approach is only inadequately justified.

Implicitly, however, the only fundamental ethical criterion for the hypothetical social contract that Buchanan can rely on is the Kantian criterion of practical reason, i.e. the deontological idea of *generalization* of particular to universal interests. Kant qualified this idea in his categorical imperative,<sup>16</sup> whereas Rawls expressed it in the more pragmatic terms of the maximization of basic rights and opportunities of potentially universal validity. On this side of the quest for a metaphysical guarantor of ethical rights and duties, but beyond notions based on specific cultures and traditions, there is no other fundamental criterion of ethical rationality - as we shall see presently.

The *second conclusion* to be drawn from the discussion of the contractarian approach is that the above-mentioned empiristic short-cut and the difficulties resulting from it as regards the methodical treatment of both the "hypothetical" and the empirical consensus criterion can only be overcome by means of a *critical turn* in the approach. A well-founded modern political economy cannot go further back than to Kant.

### **3. Perspectives of a discourse-ethical advancement of the contractarian approach to political economy**

Ever since Kant, humanist ethics have no longer been able to rely on any given "external" moral principle manifesting itself either metaphysically or empirically, but have had to make do with man's critical reason reflectively ascertaining the normative conditions of its own possibility (*rational ethics*). According to Kant (1949), one of these preconditions – which results from reflective insight rather

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<sup>16</sup> For an interpretation of the categorical imperative as a qualified universalization principle, cf. Höffe (1979: 84ff.).

than being deduced from premises of any sort – is the personal freedom of the human subject, the autonomy of personal will. As a principle of generalization with respect to maxims, Kant's *categorical imperative* is an autonomous subject's "pure will," and as such a "fact of pure reason" which is not empirical, imposes itself on us *a priori*, and is not open to any further justification.

What Kant calls a "fact" in this context, turns out to be an inevitable *fundamental norm of rational persons' mutual recognition* of one another as free agents, implying the recognition of the equal personal freedom of all men. Kant defines this "fact" or principle in terms of purely transcendental philosophy, i.e. without any empirical or normative premises, pointing out that it is not the result of mere idealistic sophistry ("Vernünfteln," as he calls it) but may be understood as the philosophical expression of the anthropological "fact" of the symmetry between interlocutors recognizing each other as subjects. In contrast to the bourgeois model of economic reciprocity of trading contracts in a free market, this *principle of verbal reciprocity* can be found to be a universal human factor, possibly as the original cultural root of morality in all known civilizations (Gouldner 1960).<sup>17</sup> Whereas the linguistic principle of reciprocity would appear to be original and universal, the utilitarian or economic principle of reciprocity, as it is expressed in the symmetry between contractual partners in the free market, is of a much later date; the latter is based on the former, not vice versa. Hence the *ethics of discourse* (or *communicative ethics*) does not represent a special critical version of contractarian theory; on the contrary, contractarian theory must be regarded as a version of discursive ethics narrowed down by the circumstances of early-modern bourgeois society and its commercial ethos.<sup>18</sup>

The ethics of discourse traces this fundamental human norm of mutual recognition between autonomous subjects – idealized into the categorical imperative by Kant – back to the *human condition* of the "verbal animal," conceiving of it as an unalterable normative condition of the pragmatic possibility of reasonable communication between mature human beings. Along the lines of Karl-Otto Apel,<sup>19</sup>

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<sup>17</sup> Gouldner's results of anthropological research relating to the history of civilizations are certainly of quite a different quality than the transcendental arguments by Kant and discourse ethics. Empirical regularities cannot replace a transcendental-philosophical foundation of rational ethics, of course; however, they make plausible its practical relevance. For the thesis that the principle of verbal reciprocity is likely to be the root of human morality in general cf. Habermas (1980: 40).

<sup>18</sup> This also explains certain links of the older contractarian theory of that time with a specific bourgeois philosophy of private ownership, which from the point of view of discursive ethics are not imperative for a free and democratic society; rather, they can be seen – and criticized – as traditions deriving from the philosophy of natural law.

<sup>19</sup> For an information on the state-of-the-art of discourse ethics, cf. Apel (1986, 1988). A slightly different position with "weaker" claims to reflective justification and stronger elements of reconstruction along the lines of the history of culture, is taken by Habermas (1983, 1991). For the

discourse ethics can thus be considered the result of a *language-pragmatic turn of Kant's transcendental philosophy*. In this respect it is a current expression of the extensive language-analytical transformation of philosophy to be observed in the 20th century. Communicative ethics explicates the normative logic of practical discourse and therefore that universal and *ideal* scope or *regulative idea* of ethical rationality which implicitly has always informed the *real* communication community into which we have been born. This pragmatic reference, which differentiates discursive ethics from the pure idealism of the Kantians, is governed by a dual *a priori*: by the (transcendental-pragmatic) *a priori of argumentation* that is constitutive of the *ideal communication community* and by the (hermeneutic) *a priori of experience* in the sense that we already need practical knowledge of successful argumentation and agreement in the *real communication community* in order to "realize" what it really means.<sup>20</sup>

The difficulty of discourse ethics in mediating between the ideal and the real communication community cannot be disregarded. It is not the purpose of this paper, however, to discuss discursive ethics in details; rather, the focus is on its potential relevance for a new foundation of political economy. What is worth pointing out, though, is that discursive ethics does not simply sketch a bad utopia with the help of "unworldly" models, but instead *explicates* nothing else than the *reflective horizon* of our *experiences* with respect to interhuman communication. The explicated fundamental norms of rational discourse are unavoidably implicit to any process of interpersonal argumentation. The essential point to be grasped, therefore, is that discourse ethics does *not* postulate a new moral principle from which any further norms could then be deduced in a purely analytical way. Discourse ethics thus does not relapse into the status of a traditional authoritative moral philosophy, which e.g. Homann<sup>21</sup> submits that both discursive and Kantian ethics are, nor does it lapse into an unwanted vicious circle, as e.g. Höffe (1979: 247ff.) suggests, by presupposing a supraordinate moral principle, i.e. the principle of generalization (or universalization), in the first place. In fact, the only rational moral principle for discourse ethics has been, and will remain, precisely this principle of universalization; yet this must not be understood, as it is by Höffe, as a moral point of view that is already presupposed by discursive ethics and which must therefore be justified in advance of every discourse. On the contrary, it must be understood as the *immanent* regulative idea of *unlimited* communication between all rational human beings. Discourse ethics, then, *explicates* the principle

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clarification of a serious weakness in Habermas' conception (which almost loses sight of the precise subject of practical discourse, which is *moral rights*, not "interests" as Habermas suggests), cf. Benhabib (1990). With regard to the following considerations, cf. Ulrich (1993: 283ff.).

<sup>20</sup> Cf. Apel (1973: 429f.), Habermas (1973: 392ff.), and Ulrich (1993: 283ff.).

<sup>21</sup> Homann/Suchanek (1987: 108); cf. footnote 15 above.

of universalization in "language-pragmatic" terms: rational arguments must in principle be justifiable *to everyone*.

The pragmatic sense of this regulative idea is to give a normative reference point and a procedural idea of ethical legitimation by *rational* consensus-finding: it makes a critical difference against a merely *actual* agreement by throwing light on the normative preconditions of how an agreement has come about:

- On the one hand, an *actual* consensus does not suffice as a criterion for legitimation, since – without the normative reference point of an ethically *rational* consensus – the agreement between all those who participate might be nothing more than the result of the strategic interaction between mutually unconcerned individuals who strictly try to maximize their personal advantage.<sup>22</sup> In this case, the resulting social contract simply represents the *status quo* of the relative power and property rights of all those involved, as we have seen above.
- On the other hand, the regulative idea of rational consensus makes it possible to raise a claim of legitimacy even with reference to those who are affected but unable to participate in the real communication community of those discussing a particular argument. Thus, the ethical idea of a *rational* search for consensus serves as a theoretical substitute explicating the scope in which a *vicarious discourse* can be held in those cases in which not all those affected are able to participate on grounds of principle (e.g. unborn generations) or for pragmatic reasons (e.g. indefinable number of those affected).

Thus, the regulative idea of ideal (rational) consensus makes sense precisely because of the frequent practical situation of limited or distorted *real* communication; its sense is that of a *critical* yardstick to assist the assessment of the normative validity and binding character of the results of actual communicative processes. As we have seen, Buchanan lacks precisely such a critical regulative idea for the methodical treatment of the contractarian criterion for actual consensus, as well as the *deontological* element of the principle of universalization. At this point, the systematic function of discourse ethics for the foundation of political economy comes into play: it bridges the gap which has until now separated the contractarian approach to economics and Kant's critical philosophy. On the one hand, discourse ethics may be considered the legitimate successor to Kant's *Critique of Practical Reason* after the general linguistic turn of philosophy, and on the other hand it can – in clear contradistinction to the purely idealistic categorical imperative – link up

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<sup>22</sup> Cf. Buchanan (1975: 3): "Cooperative relationships are necessarily contractual, and these must reflect mutual gain to all participants..."

smoothly with Buchanan's contractarian theory of the efficiency of collective choice, precisely as its critical turn.

This "bridging of the gap" that has now become possible will be discussed against the background of the criticism of the contractarian approach (Part 2), again from the points of view of the relation between ethical and economic rationality (Section 3.1) and the tension between rational criticism and empiricism (Section 3.2). Finally, some perspectives on political order will be outlined (3.3).

### 3.1 The idea of socio-economic rationality

"Rationality" is tantamount to a criterion of how human beings *should* act, and has therefore always been a normative idea. The contradictions in terms in which more recent discussions of rationality in economic theory have evidently become entangled, as well as the logical progression this discussion has taken, would appear to point to an increasing necessity of resuming the philosophical and ethical self-reflection of economic reason, which was broken off by neo-classical economics. Strictly speaking, economic rationality is either a perspective of ethically practical reason, or it is a bogus economistic rationality. *There is no such thing as a "purely economic" rationality.* The need of political economy for an ethically founded concept of rationality is indisputable.

Modern political economy must therefore ask a basic question with regard to rational ethics: what are the ethical and political conditions in which economic rationality becomes possible? If you go further than Buchanan, then the *normative preconditions of economic rationality*, too, must not simply be understood as their "external" constitutional frame; rather, Kantian and discursive ethics demand that the normative "conditions of the possibility" (Kant) of rational economic activity be self-reflectively internalized into the concept of economic rationality itself.

What does this mean in concrete terms? On the basis of discourse ethics, the normative preconditions of economic rationality can be conceived of as the language-pragmatic presuppositions of rational politico-economic agreement on conflicting values and interests among all those who are affected by an economic decision. Thus the question of economic rationality is inevitably governed by the dual *a priori* of the ideal and the real politico-economic communication community. In other words it is necessary – for the sake of economic reason – *to transform the idea of economic rationality as such with the help of discursive ethics.*<sup>23</sup>

In this manner, the neo-classical fiction of a "pure" economic rationality, which was caught in a social and ethical vacuum, can be overcome at its root. Now the question of economic efficiency is inseparably integrated into the question of the rational organization of social relations (communication) among all those who are

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<sup>23</sup> This is the core idea of Ulrich (1993).

involved and all those affected. What results is a *socio-economic conception of rationality*:

Any act or institutional arrangement can be defined as rational in a socio-economic sense which free and mature citizens, in a reasonable process resulting in a politico-economic agreement among all those who are concerned, have consensually determined (or could have determined) as a legitimate way of *creating value added*.

The qualification in parenthesis points out that the character of this idea of socio-economic rationality is that of a regulative idea, which means that its methodical status is completely different from that of the neo-classical, "purely" economic principle of rationality. Unlike this principle, it does not claim to be immediately applicable as an operational decision-making criterion of the theoretical optimization of economic activities; rather, it must be conceived of as a formal, procedural and critical regulative standard for processes of politico-economic agreement which actually have to be pursued in *practice* – which is never ideal. The regulative idea of socio-economic rationality only points out the ideal scope within which mature citizens become capable of rationally clarifying their reciprocal *moral rights and duties* to each other and their *well-understood self-interest* in mutual agreement.

This last sentence indicates at the same time that the concept of socio-economic rationality does not in any way lose sight of the "economic aspect" in the neo-classical sense of an efficient treatment of scarce resources in the face of alternative possibilities of use. The proposed concept does not simply drop the utilitarian factor of the efficient allocation of scarce resources; rather, it retains it in a more comprehensive view of economic rationality, which apart from the element of *scarcity* also contains the politico-economic element of *conflict*. In a world full of potentially conflicting "external effects" in connection with economic activity, this would appear to justify the particular practical present-day significance of the idea of socio-economic rationality.

This enlarged economic rationality will show its *practical* effects only on the level of *real* politico-economic communication, as has been suggested above. So, the practical problems arising from the organization of such communicative processes must be carefully distinguished from any ideals of reason, which only serve as critical regulative standards.

### 3.2 The tension between the idea of socio-economic rationality and empiricism

Heaven on earth – or in this context: an ideal politico-economic communication community within the real one – is highly unlikely to become reality. This, however, is no reason for not bringing the critically normative power of the idea of socio-economic rationality to bear on an improvement of the institutional and procedural preconditions of politico-economic decision-making processes along lines that are as rational as possible. On the contrary: real improvements in the sense of a *socio-economic "rationalization"* will always remain possible precisely because the ideal scope cannot ever be realized in a pragmatic context.

It may be one of the methodical advantages of the discourse-ethical approach that, by means of a clear distinction between the ideal scope and the practically possible, it is able to avoid both utopian and empirical shortcircuits in the field of tension between rational ideas and empirically "given" starting points, i.e. between rationalism and empiricism.<sup>24</sup> Contrary to a possible misunderstanding, the regulative idea of ideal politico-economic communication is no bad, unworldly utopia claiming to be able to make the ideal "feasible;" neither is it simply satisfied with the *status quo* of the structural and distribution conservatism of Pareto economics, to which Buchanan's contractarian approach has continued to adhere to a certain extent, owing to his lack of critical detachment from the criterion of actual consensus.

In this inevitable tension between rationalism and empiricism, the recovery of critical detachment from what is empirically "given" may not, however, become a pretext for an authoritative disregard of people's actual preferences. Such a *rationalistic fallacy* as perpetrated by Rousseau in his theory of democracy, with a complete separation of the "true" will of the people (*volonté générale*) from any conceivable actual social contract (*volonté de tous*), must be avoided in an ethically and politically sound political economy, and the same applies to the *naturalistic fallacy*. This means that justifiable solutions to socio-economic conflicts indeed have to be reconnected with individuals' actual preferences, as demanded by Buchanan – still not in theory, but in *real* politics. Of course, these actual preferences should nevertheless be accessible to real political criticism.

In a democratic society, the inevitable tension between reasonable ideas and the citizens' actual preferences must therefore not be short-circuited, *not even in scientific terms*. Science itself cannot assume the position of the dethroned "guarantor" of balanced social interests; just its potential of rational criticism turns it into a practical force. In this respect, the discursive ethical approach may be able to provide political economy with a somewhat higher degree of self-reflection in its treatment of the relationship between theory and practice. A modest scientific

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<sup>24</sup> For the following considerations, cf. Ulrich (1993: 305ff.).

self-assessment seems to be indicated: the politico-economic process of communication can never be short-circuited scientifically, it must be pursued in democratic practice, despite all the possible and necessary critical detachment on the part of science. In this point, at least, the proposed foundation concurs with Buchanan's intention: political economy should desist from "playing at being God"<sup>25</sup> with regard to normative questions – but it should also stop dancing around the golden calf of empiricism.

### 3.3 Perspectives of political order: from a two-level towards a three-level concept

The idea of socio-economic rationality and the resulting possibility of overcoming Buchanan's undifferentiated transfer of the strategic-utilitarian perspective of rationality onto the constitutional level, also opens up new vistas of political order. On the constitutional level, Buchanan characteristically regards *legitimacy* and *efficiency* as one and the same, owing to a confusion of the concepts of rationality (cf. Section 2.2 above). Ultimately, this is a circular suspension of the problem of ethical and political legitimacy within the economic category of efficiency, although Buchanan can only define this category itself in the language-pragmatic terms of consensus as achieved in a social contract, which is paradoxical enough.

This, however, is less a matter of a terminological short-cut than of the state of affairs it conceals: Buchanan, in keeping with the property rights theory, equals the problem of political order *on the whole* with the problem of an "efficient," i.e. functionally rational social structure of property rights.<sup>26</sup> The property rights structure is thus overburdened with factors concerning political order, since its typical ordering function is to specify more or less "exclusive" property rights which relieve economic agents from the uncomfortable necessity of reaching a contractual agreement with all those who are not partaking in the success, but are affected by the "external" costs of the activities concerned. No doubt, any economic agent will find that the "efficiency" of the economic order increases in proportion to the degree in which he can *preclude* any direct influence or any objections on the part of those "externally" affected by his "successful" activities.<sup>27</sup> In a basically fair economy characterized by a complex division of labour, there is nothing to be said

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<sup>25</sup> Buchanan (1975: 1 and 15); also Buchanan (1977: 142).

<sup>26</sup> In very much the same way, *management theory* still seems to be incapable of making a systematic distinction between business policy or normative management (which is to be legitimized in terms of communicative and ethical rationality) and strategic management in terms of different rationalities. For a corresponding approach cf. Ulrich (1995b); cf. also Ulrich (1995c).

<sup>27</sup> The fact that property rights are of a "preclusive" nature with regard to social communication was already recognized by Max Weber (1978; German ed. 1972: 23).

against this, as long as such more or less "exclusive" property rights are themselves made legitimate by the basic consensus of a social contract – and this is what matters in a free, democratic society. The property rights structure, however, cannot *at the same time* provide such intrinsic legitimacy, for whereas its economic function is the partial *preclusion* of politico-economic communication (and thus the "privatization" of the resulting economic property rights), the social contract governed by the idea of communicative rationality has, conversely, the function of *opening* the social communication for all those affected. What matters under this latter aspect is to enable them to take part in the politico-economic communication and decision-making process in a fair way, i.e. irrespectively of the status quo of property rights and relative power to exert influence on others or not .

The question is, which of the two opposite criteria of political order – closing or opening of communication – takes precedence? Here, the concept of socio-economic rationality can clarify things: *for the sake of socio-economic reason* (!), the primacy must be accorded, not to any functional rationalization of the property rights structure, but to the communicative (ethical) "rationalization" of political order, because any property rights structure can only be justified as socially effective or "efficient" *by means* of a politico-economic agreement on the basis of the "open" social communication structure that is free of oppression. The normative prerequisite for that is to grant fair *communication rights* to all citizens and to guarantee the institutional primacy of everybody's communication rights (as inviolable personal rights) before any "exclusive" private property rights.

As a systematic consequence, it follows that, on the basis of discourse ethics, the two-level conception of the contractarian approach must be extended into a *three-level* conception capable of accommodating the rationality problem of political order. Whereas Buchanan only distinguished between the two levels of the social and the (private) trading contracts, an additional differentiation must now be made, on the constitutional level, between the politico-economic communicative order (which takes precedence) and the property rights structure of the economic system. This results in a conception of political economy with a total of three institutional levels: first the *constitutional level* of the social contract which organizes the general communication rights and procedures, then the *systems level* which specifies the property rights structure and other function rules of the market economy, finally the *action level* of private contracting in the market. Each of these levels corresponds to a different type or aspect of socio-economic rationality (cf. *Table 1*).

<b>Institutional level</b>	<b>Socio-economic function</b>	<b>Type of adequate rationality</b>
<b>1. Constitutional level:</b> Politico-economic order of communication rights and procedures	Normative integration of society (mastering social <i>conflicts</i> ) ⇒ <i>ethical legitimacy</i>	Communicative rationality (ethical rationality)
<b>2. Systems level:</b> Property rights structure and rules of competition	Functional integration of the economic system (mastering <i>complexity</i> ) ⇒ <i>effectiveness</i>	Functional rationality (socio-technical rationality)
<b>3. Action level:</b> "Private" economic activities and trading contracts	Personal integrity and well-being (mastering <i>scarcity</i> of re- sources) ⇒ <i>efficiency</i>	Calculating rationality (strategic rationality <i>and</i> personal responsibility)

*Table 1: A three-level concept of socio-economic rationality*

This three-level concept also overcomes the false totality of a purely functional view of the control of economic systems, i.e. the technocratic view that the whole problem of balancing political and economic interests should be exhaustively solved by means of *system control* mechanisms functioning without social communication and without a moral code. As we have seen, Adam Smith still knew better; as a moral philosopher, he was still aware of the partial inefficacy of impersonal system control mechanisms, as well as of the concomitant inevitable incorporation of the economic system into an ethical and political framework of normative and *social integration*, i.e. of *legitimacy by justice*.

The proposed three-level concept of socio-economic rationality enables political economy to resume the moral-philosophical tradition that was interrupted by neo-classical economics. Along the lines of a modern ethics of reason, it may finally become possible to overcome the remnants of the metaphysics according to which the system is the guarantor of balanced interests (cf. Section 1.2). The communicative social integration can be conceived of as an indispensable third building element of any rational politico-economic framework of the market; indeed, it has even to be given priority. The far-reaching vistas of political order and property rights that this opens up, can only be referred to here (cf. Ulrich 1993: 371ff.).

One thing, however, might as well be said now: if political economy does not seriously face up to the ethical *a priori* of the politico-economic communication community, it will hardly be able to contribute to the solution of what, in the 21st

century, will be the key problem as regards political order: the epochal challenge of integrating the obstinate systemic dynamism of our economic activities into the overall context of the practical daily life lived by a democratic society of critical citizens – and this means: to embed market economy into ethically rational politics on a national as well as an international, global level.

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