

INTERNATIONAL CENTRE FOR ECONOMIC RESEARCH



WORKING PAPER SERIES

Peter Koslowski

**PUBLIC INTEREST AND SELF-INTEREST IN THE MARKET
AND THE DEMOCRATIC PROCESS**

Working Paper No. 9 / 2004

Public Interest and Self-Interest in the Market and the Democratic Process

by **PETER KOSLOWSKI***

April 2004

Abstract.

The idea of public interest has been criticized by economic theory as being naïve in its believe that politicians could anticipate something like the public interest. Public Choice theory has shown that politicians are as self-interested as other acting persons. The paper examines this criticism. It points to the fact that also what is in our self-interest in the long run is difficult to know and to anticipate. The relationship between public and private interest is therefore more complicated than the pure theory of the invisible hand assumes.

The paper also examines how public interest and private interests interact in the firm. The common good is not only a political but also a managerial concept. The management is not only obliged to fulfill its fiduciary duty towards the shareholders or owners and to act in their interest but must also realize the common good of the firm as the good of all members of the firm. There is an analogy between the politician and the manager: both cannot only work in the interest of their party or employers. To work for the common good is part of their office, part of the nature of their task of good governance in the interest of those concerned by their decisions.

* International Center of Economic Research (ICER), Torino, Italy, and Free University Amsterdam, Amsterdam, Netherlands

Public Interest and Self-Interest in the Market and the Democratic Process*

by PETER KOSLOWSKI,

International Center of Economic Research (ICER), Torino, Italy,
and Free University Amsterdam, Amsterdam, Netherlands

Realizing public interest is usually seen as the task of the state and as an obligation for politicians, not for the managers of large corporations. Public interest is a concept that is used constantly, that is made concrete rarely and that is viewed as an empty concept more and more often. It seems to be a difficult obligation to work for the common good and to consider the effects of one's own action for the public good in a market society in which every one has a right to follow his or her self-interest.

Nevertheless the concept of public interest is indispensable, particularly indispensable for politics. The right of a politician to follow his or her private interest and that of her immediate clients in her office is defended by no one. The role description of the politician incorporates that he or she works for the public good in her action and not for her party's good. The demand for public interest is here no empty concept but something like a general clause that applies to all actions of politicians.

Politicians can consider their self-interest and strive for fame, prestige and career as a side effect of their intention to realize the public good, but they cannot view the common good as the side effect of the realization of their self-interest.

In a market society, the reverse causation is effective it is often said. The shareholder and the manager of a corporation realize the common good of public efficiency as a side effect of the pursuit of their self-interest and profit so that in a market society the demand to realize the common good does not hold.

According to some schools of economics, the common good is not realized in the market by intending it but by the working of the invisible hand of the market that turns

* To be published in: BERNARD HODGSON (Ed.): *The Invisible Hand and the Common Good*, Berlin, New York, Tokyo (Springer) 2004 (Studies in Economic Ethics and Philosophy, Series Editor: P. Koslowski)

selfish interests into efficiency and wealth creation. The kernel theorem of the invisible hand theory is that the common good of efficiency and wealth creation is realized in a market society as a side effect of the pursuit of self-interest. It is, however, not clear how far this theorem is taken by Adam Smith as a description of fact or as a normative statement.

The acknowledgment of the task of realizing the public interest as a normative obligation for politics does not imply that the actual realization of public interest is always easily recognizable. It is possible that the obligation to realize the public good is acknowledged – but how does one find out what is the common good, and how and when it is actually realized under all the possible options of political action? Authors like Friedrich von Hayek, R. A. Dahl,¹ and others have raised this objection against the concept of the public good: One is able to know in the market what is the individuals' self-interest and from their pursuit of self-interest, the demand and supply relations and the price signals result which give the market prices for the goods they want. How should one know, however, which political options realize in fact the common good if the opinions about the content of the public good diverge, if interest groups, parties, and social classes have different interests, different rationalizations of their interests, and different strategies to make their interest appear to be the common interest.

I. The Difficulties of Defining the Public Good and of Finding Out Whether the Common Good Has Been Realized

Roman Herzog, law scholar and former President of Germany, indicates the difficulties of the definition and realization of the common good and differentiates three positions of social theory and law in respect to the common good:

1. the position of the naive conviction of having solved the problem in Catholic social thought and theory of the state,
2. the totalitarian identification of one's own political position with the public good from Jacobinism to Leninism, and

¹ Cf. R. A. DAHL: „Dilemmas of Pluralistic Democracy: The Public Good of Which Public“, in: P. KOSLOWSKI (Ed.): *Individual Liberty and Democratic Decision Making. The Ethics, Economics, and Politics of Democracy*, Tübingen (Mohr Siebeck) 1987.

3. the position of limiting the concept of the common good and reducing it to an obliging formula in the Western democracies, to an obligation that acknowledges at the same time that the question concerning when the common good is realized or not cannot be decided.

Herzog writes:

“The use of the concept of the common good in theoretical and practical discourses indicates often that a naive author takes an unsolvable problem for being solved. That might be true to a great extent for example for the treatises of Catholic social thought in their writings of the theory of the state, in which, up to the present, the common good, the *bonum commune*, plays an overwhelming role.

All the appeal to the common good is linked to the idea that the person appealing herself - or her class or party - is able to concretize the common good in general or in the respective historical situation. This idea, in the end, is guiding all totalitarianisms from Jacobinism to Leninism.

Finally there is the position that by using the concept of the common good a solution is nevertheless consciously renounced for two reasons; either since one aims at a formula that could unify all the different opinions (formula compromise), or since one acknowledges that the finitude and precariousness of human cognition manifests itself particularly in the political arena of the state. On the resulting ideology of discussion and careful and piecemeal progress rests the concept of the public good in Western democracies which mostly leads even to the complete rejection of the word common good: The common good is not considered to be something that is absolutely knowable and to be realized but as something that is a mere task, something that can be reached only in fragments.”

(translation by P.K.)²

It must first be remarked that the self-interest and private good is also not something “absolutely knowable”, but something that can be reached by the individual only in fragments. Even for the economic theory of self-interested, utility maximizing action it holds true that the assumption that individual action realizes the maximization of

² R. HERZOG: Article „Gemeinwohl II“ (The Common Good II), in: J. RITTER (Ed.): *Historisches Wörterbuch der Philosophie*, Darmstadt (Wiss. Buchgesellschaft) 1974, vol. 3, col. 256-258, here 257.

self-interest must be refuted since in all actions with far reaching effects it is impossible for the decision maker to identify the one and only utility maximizing strategy.³ It is only possible to identify a satisficing strategy. The difficulties in realizing the task of the public good and the limitations in the identification of the one and only strategy realizing the common good are not so different from the difficulties of realizing the task of the maximization of self-interest as it might appear. The problem of “limited knowledge” about the far reaching consequences of one’s actions holds true for self-interested action and for common good strategies.

That it is difficult to make the task of realizing the common good operational has not been overlooked by theorists of the common good.⁴ The demand to realize the common good and the acceptance of this demand by the acting person does not imply that the cognitive means are given to find out what is the best for the community and to choose the best strategy. The cognitive limitations of finding out the common good do not exclude the demand to strive for an ever deeper cognition of what is the task. The simultaneity of the task and of the difficulty of recognizing and realizing the common good have led to the double phenomenon as Herzog rightly observed that the task of realizing the common good is indispensable but difficult and that therefore careful processes of approaching the common good in parliamentary discourses have been institutionalized. The “ideology of discussion and of piecemeal approaches” corresponds to the actual situation of human cognition in pursuing the common good. The actual condition of human cognition in politics is not improved by decisions and decisionism and also not by declaring the end of the debate as the experiences of dictatorships show. They also did not realize greater cognitive resources for recognizing and realizing the common good than the slow and sometimes tedious parliamentary process and they experienced additional costs as the suppression of freedom.

³ Cf. A.A. ALCHIAN: „Uncertainty, Evolution, and Economic Theory“, in: A.A. ALCHIAN: *Economic Forces at Work*, Indianapolis (Liberty Press) 1977, p. 17.

⁴ Cf. G. GUNDLACH: Article „Gemeinwohl“ (The Common Good), *Staatslexikon der Görres-Gesellschaft*, Freiburg im Breisgau (Herder) 6th ed. 1959, col. 737-740.

II. The Common Good of States and the Common Good of Smaller Social Groups

It is characteristic for the theory of the common good that it does not confine the demand for realizing the common good to the state. Every community or organization has its common good and its task to realize it.⁵ The idea of the common good of groups shows that the common good is not only a concept for the totality of the common good of the whole of state and society but at the same time it is a totality of totalities that is structured internally. Every community or organization, be it a business corporations, a university, a school, is not only characterized by the private interest of each of those working in them but also by the interest of all working in these institutions. All are interested in the prospering of their institution and the continuation of this situation since the continuation of the whole institution and thereby of all the groups in it is endangered if certain individuals or groups in this institution are damaged in their good. The solidarity of the interests and of the common good of the groups or stakeholders in an organization makes it impossible to define the good of an organization only by the good of a single group or only some individuals.

The connectedness or solidarity of the groups and individuals in an institution holds, however, not only for their connectedness within an institution. It also concerns, although to a lesser degree, the different individuals or institutions working in the same field – be this field a shared profession or a shared industry.

Recent research in business ethics shows that there is a common good of an industry and of a profession beside the corporate good of the corporation. The corporations of an industry or the individuals of a profession are connected in their good prosperity and share a common interest in the well-being of the industry or profession. If, e.g., certain firms damage the consumers they damage by doing so the reputation of the whole industry. The member of a profession like a medical doctor damages the reputation of the whole profession by damaging a client or patient. By her “unprofessional“ behaviour, she not only damages the consumer or client but also the other members of an industry or a profession.

On the higher level of the economy of a region or continent, even of the whole world economy, a similar connectedness of the common goods holds true. Economies are

5 Cf. GUNDLACH (1959), col. 738.

connected in their common good even if this is so to a decreasing degree of intensity depending on the measure of remoteness of groups from each other. No part of humanity can prosper in the long run if another part of humanity is in desperate need.

The structure and sequence of communities results in a structure and sequence of the common goods of groups that correspond to the specific connectedness of the members of these groups. Their common good and joint interest are caused by the closeness of the humans in their respective groups and by the subsidiarity of the tasks of groups and organizations. The public interest of smaller groups and institutions is the subsidiary condition of the common good of the whole of society and vice versa. The political union or state can only prosper if the intermediary social institutions like families, corporations etc. prosper.

III. Acknowledging the Discrepancy Between Intending and Succeeding in Realizing the Common Good Instead of Abolishing the Intention to the Common Good

The theory that communities have a common goal, their common good, and that this common good is to be included in the subjective goal attainment of the individual members of these groups has been criticized by approaches of the subjective theory of value. Their critique is that since the human individuals are completely free to set their goals in the framework of the law something like a common good does not exist and there is, therefore, also no obligation to consider it.

This objection to the public good has some justification insofar as motivation and success in the realization of the common good are not necessarily linked. An individual can be disinterested in the common good in politics and only interested in his or her own interest and can be more successful and effectuate more good than an individual that strives for the common good and is not interested in her self-interest but is not able in the end to realize the common good or her self-interest. A politician who strives to maximize his self-interest as his first goal can realize the goal of the state, the common good, at the same time with his self-interest.

The possible discrepancy between intending and succeeding in the realization of the public good points to the difference between demanding the realization of the common

good in ethics and the readiness of individuals to make this public interest also their own self-interest. It is not possible to force individuals to make the goals of the social institutions to which they belong also their own goal. It is, however, possible to persuade them to do so by ethics. Plato calls ethics, in his *Laws*, the persuasion to make the law and the public interest to be also one's own interest. Organizations have the advantage over the state that by the labor contract they can oblige their employees to take over the goals and the values of the organization whereas the state has no possibility and right to oblige or to force the citizens to take over the common good as their good.

It is advantageous for the institution as a whole and for its members that the right order of motives and goals prevails in them and that the motives of the members of the organization is shaped by the order of motives and goals of the organization also in their individual actions. For the politician, the obligation to realize the common good is not something subjective or something he can accept or not. For the politician, the duty to act in the public interest is part of his professional obligations and not only a question of his subjective morals. If he does not fulfill the duty of acting for the common good the politician will be removed from his office provided that the breach of duty can be proven.

The fact that in politics better results of the realization of the common good are sometimes achieved by the worse motivation and the fact that bad political results are sometimes the result of the best motives do not discredit the connection between the success desired and the motives demanded, between the realization of the common good and the intention to realize it. It might be better in certain cases to reach a good success with bad motives than a bad success with good motives. For the justification of social norms, motives, and expectations of results, for the ethics of social and institutional norms, the partial or temporary incongruence of motives and results does not alter the fact that it is even better to reach good results with good motives or to realize the common good also with the motive of realizing it. The best state of an institution is the one in which good results is realized with the good motives to do so.

IV. The Skepticism Towards the Common Good as the Result of the Conviction of the Inability of the Sinner to Do the Good

The emphasis on the common good is often seen as a characteristic of the Catholic tradition of social thought as in Roman Herzog. There might indeed be a correlation between the anthropologies of the religious denominations and the concept of the common good. The critical position of renouncing the concept of the common good and the conviction that motivation and success in individual action must be separated as well as the emphasis on institutional rules that take the burden of the right motives from the individual and guarantee the desired success by the norms of the institution is linked to the Protestant tradition to a great extent. It is also linked to the Protestant tradition of the inability of the sinner to do the good. The acceptance or refutation of the concept of the common good has therefore some connection to different conceptions of original sin.

Particularly Lutheran social theory defends the conviction that the human is so distorted by sin that he or she cannot intend the common good without institutional mediation.⁶ Individual can only realize the common good if they are guided by the visible and invisible hand of institutions and by exploiting the individual self-interest by the institutional organization in which they work. Since humans have fallen so deeply according to Luther that they are the slaves of their unfree and selfish will they cannot realize the common good by immediate intention on it. There is no good to be expected from the direct intention of humans. Society must be formed by institutions in such a way that by these institutions it is secured that the common good is realized as an indirect intention, a *dolus eventualis*, or even as a side effect that is not intended at all in the pursuit of the really effective goals which are selfish and the only ones humans are still able to pursue.

The common good is in this conception only the side effect of the careful steering of the individual by the right institutions that make sure that selfish intentions are trans-

⁶ Cf. On the other hand for a Lutheran tradition of common good thinking H.-H. SCHREY: Article „Gemeinnutz/Gemeinwohl (Public Interest/Common Good“, in: G. KRAUSE and G. MÜLLER (Eds.): *Theologische Realenzyklopädie*, Berlin (de Gruyter) 1984, Vol. 12, 339-346, and the memorandum of the EKD, the Lutheran Church in Germany, which includes the concept of the common good in its title: EVANGELISCHEN KIRCHE IN DEUTSCHLAND (Ed.): *Gemeinwohl und Eigennutz (Common Good and Self-Interest) – Wirtschaftliches Handeln in Verantwortung für die Zukunft; eine Denkschrift der Evangelischen Kirche in Deutschland*, Gütersloh (Gütersloher Verlagshaus Gerd Mohn) 1991.

formed by the visible or invisible hand of institutional norms and control mechanisms into the realization of the common good.

Securing the common good by institutions, not by intentions, is seen as the best solution in the institutionalist tradition influenced by Protestantism whereas Catholic social thought considers relying on institutions to be only the second best solution, even under conditions of original sin and the selfish character of humans. The denominations agree on the assumptions about original sin and the selfish character of humans but the conclusions they draw from it differ in degree.⁷ The realization of the common good as the side effect of self-interest and its prudent transformation by institution is only the second best solution according to Catholic thinking since even under the conditions of original sin the best solution is the one in which the individual intention to the common good and securing the common good by institutions are working together and realize simultaneously the common interest and the self-interest.

V. Modernity as the Emancipation of Self-Interest?

The era of modernity is often seen as the epoch of the emancipation of self-interest in which the demand for a consideration of the common good in the individual pursuit of interest has become obsolete. Modernity seems to have no need for the motive of intending to realize the common good. Some thinkers of Public Choice theory and its model of democracy go so far to say that even the political order of the democratic state cannot be understood in categories of the common good but must be seen as the mere result of the composition of individual self-interested votes and of self-interested politicians. Public Choice theory is an important innovation if it is understood as a critical theory of the actual motivation of politicians and as a critique of the naive idea that politicians have different and *per se* better motives than the decision-makers of the private

⁷ Calvinism which shaped much of American capitalism is less pessimistic in its understanding of free will and the ability of the human to intend the good and to realize it but there is a similar distrust in human intention and the belief that institutional constraints, mainly those of competition in the market and of the invisible hand of the price system as a system of social control, must transform the selfish intentions into the efficiency and wealth creation or the common good. Calvin has been originally as pessimistic as Luther about the human free will but the younger teachers of Calvinism softened Calvinism's pessimism.

sector. Public Choice theory becomes, however, problematic if it excludes *a priori* the possibility that politicians try to find out and to realize the common good.⁸

Adam Smith who is considered by some social scientists the founder of modernity has stated only as a fact, not as a norm, that it is not from the benevolence, but from the self-interest of the butcher, brewer or baker that we expect to get what we need for food. This statement by Adam Smith⁹ seems to be interpreted by some of today's economists to be a normative statement describing how it *ought* to be. They contend that it is not only a fact that we depend on the producer's self-interest but it is normatively demanded that we ought to depend only on the producers' self-interest for being provided with goods.

From the textual base and from the synopsis of his two works, *The Theory of Moral Sentiments* and *The Wealth of Nations*, it must be concluded that Adam Smith took his statement only as a statement of fact and not of normative content. The butcher is free, of course, to provide his services also for the common good, even for philanthropic or altruistic reasons. The market cannot rely on these higher motives but it does not exclude it as a norm that ought or must be followed. The exasperation of the self-interest theorem to a normative principle would make the "Adam Smith Problem" of how Smith's ethical and economic theory is compatible, unsolvable. Since Smith has written both treatises they must be reconcilable in his mind. The market coordinates self-interested action. The content of the motives of self-interest is left open by the price system. Common good orientation is as possible as narrow self-interest, and possible are also mixed motives and an over-determination of human action by various self-interested and common good motives.

⁸ James Buchanan, in a recent paper, does not discard the common good principle completely but retains it as a regulative principle. He contends that by the imposition of the constraint of the non-discrimination principle on all political decisions, politicians would be forced to think about "approaches of the true consideration of the common good interest" (my translation of the German version of the paper). Cf. JAMES M. BUCHANAN: "Gleiche Spieler, anderes Spiel. Wie bessere Regeln der Politik auf die Sprünge helfen / Mit geeigneten Anreizen zum Gemeinwohl" (Same players, different game. How better rules help politics to get started / With the right incentives to the common good), *Frankfurter Allgemeine Zeitung*, Nr. 80, 3 April 2004, p. 13 (page "The Order of the Economy"). The non-discrimination principle that political decisions that discriminate against certain group or favor interest groups at the cost of all becomes a constraint on politicians that enables them to take the common good into consideration. The political process is here seen as a process that includes the consideration of the common good.

⁹ ADAM SMITH: *The Wealth of Nations*, in: *The Works of Adam Smith*, Vol. 2, 1811-12, Reprint Aalen (Otto Zeller) 1963, Book 7, chap. 2, 21.

VI. The Necessity of a Synthesis of Public Interest and Self-Interest in the State and in Business

Thinkers of the common good tradition like Thomas Aquinas, Franz von Baader, or Gustav Gundlach accept no contradiction between public interest and individual self-interest. They interpret the idea of the public interest as a mediation between the public and private interest as far as the public interest can only be understood as the realization of the interest of every member of society. Since Thomas Aquinas, the concept of the common good fulfils the function to realize this mediation of the public and the private against tendencies to realize the common good at the cost of the private or the private at the cost of the public. The Thomist idea of public interest distinguishes itself as well from the Aristotelian theory of public good as the good of the state which dominates the good of the individual as well as from the individualist theory of methodological individualism that there are only private goods and no common good.

Gustav Gundlach demonstrates that the public good consists in the deeper realization of every person and not in the dominance of the public interest over the personal interest as it is contended in the principle "the public good is always superior to self-interest".¹⁰

Franz von Baader criticizes Hegel's social philosophy and the Hegelian idea that the public interest is the "sublation" (*Aufhebung*) of the private interest.¹¹ For Baader, the relationship of public interest and private interest is not a relationship of sublation of the individual interest in the public interest but as relationship of a free mutual sacrificing for the common good, a synthesis of public and private interest in the centre of personal self-realization. Baader contrasts his personalist social ontology of the centre and of mutual interpenetration of the universal and the particular, the centre and the periphery, with the Hegelian social ontology of linear sublation of the particular in the general. He rejects Hegel's idea that the relationship of the general and the particular is the relationship of the sublation or dissolution of the particular in the universal. He contends that the idea of sublation implies an ontology of sacrificing the particular for the universal or public. In Hegel, the individuals must sublimate themselves for their self-realization into

¹⁰ GUNDLACH (1959).

¹¹ Cf. for an exposition of the subsidiarity principle as the opposite of the sublation principle P. KOSLOWSKI: "Subsidiarität als Prinzip der Koordination der Gesellschaft", in: K. W. NÖRR, TH. OPPERMAN (Hrsg.): *Subsidiarität: Idee und Wirklichkeit. Zur Reichweite eines Prinzips in Deutschland und Europa*, Tübingen (Mohr Siebeck)1997, p. 39-48.

the absolute or general and into the common good. They must sacrifice themselves for the realization of the absolute spirit. According to this ontology, the absolute spirit, or the general or God, lives on the sacrifice of the human individual.

Baader illustrates his social ontology by comparing the philosophical and theological theorems underlying the Hegelian ontology of sublation to his own ontology of mutualism: God and the human can only be realized at the same time. This simultaneous manifestation of the absolute and the finite spirit presupposes that God contracts himself, sacrifices part of his omnipotence, and opens the space to the human for self-realization. God does not sacrifice the individual for the universal or for himself. In the same way, the individual must sacrifice part of her self-interest. In as far as humans sacrifice their self-interest, God sacrifices his omnipotence. In the same way, the public interest and the individual interest can only be realized if the public and social power "sacrifices" part of its power to the goal of personal self-realization as well as on the other hand the individuals "sacrifice" parts of their self-interest and include the public interest in their individual striving.¹²

If one leaves aside the collectivist theories of the public good that do not do justice to the individual interest there are at present three approaches to the relationship of public interest and private interest that dominate the discussion:

The first model of liberal conflict theory assumes that there is no definable public interest but only the conflict of individual interest. All reference to public interest is ideology that conceals its own self-interest by referring to ideas of the public interest and is not even aware of their self-interested character.¹³

The second theory takes the general and the common interest to be realized only in the rules and the institutions of the market, but not to be anticipated in the individuals' strategies and decisions.

The third theory acknowledges the necessity of mediating between public and private interest not only in the rules of the market and of democracy but also in the intention,

¹² Cf. FRANZ VON BAADER: *Ueber den Begriff der Zeit* (1818), in: F. v. BAADER *Sämtliche Werke*, hrsg. von Franz F. Hoffmann u.a., Leipzig 1851-1860, Neudruck Aalen (Scientia) 1963, 2nd reprint 1987, Vol. 2, 47-68, here 44, und BAADER: *Vorlesungen über Societätsphilosophie* (1831/32), in: F. v. BAADER: *ibid.*, Vol. 14, 55-160, here 85. Cf. for a comparison of Hegel and Baader P. KOSLOWSKI: *Philosophien der Offenbarung. Antiker Gnostizismus, Franz von Baader, Schelling*, Paderborn, München, Wien, Zürich (Ferdinand Schöningh) 2001, 2nd ed.. 2003, 773ff.

¹³ Cf. DAHL (1987).

attention and the action of the individuals within the rules of the game and of the institutions.

This distinction of three types of social theories about public interest is also present in three different conceptions of the relationship of state and society. The first theory of the relationship of state and society, the pure theory of conflict, assumes that neither society nor the state are influenced by the idea of the common good. The second approach contends that the state or the legislator must follow the public interest in the legislative process of determining the rules of the game for the market, but that society and economy must be free of individual considerations of the common good; non-governmental institutions need not consider the common good. The third approach assumes that the striving for the realization of the common good is necessary in state and economy, that every community or institution has its public interest, and that this public interest must be considered in the making of the institutions as well as in the decisions of the people working in these institutions.

VII. The Public Interest of Institutions and the Increase of the Responsibility for the Public Interest to the Degree of the Power of Those Managing the Institutions

It has already been mentioned that the idea of the common good is not only of importance for the state and government but for every institution. Every organization and institution possesses its specific idea of the public interest and has the task to realize the interest of the organization as a whole. The obligation towards the orientation on the public interest increases with the increasing impact of decisions and with the decision-maker's increasing power since the side-effects, the positive and negative side-effects of an action, increase with the action's impact. The acting persons are obliged to consider the public interest in those ranges of action that are relevant for the public interest. The fact that the decision problem becomes more difficult and complex by the duty to consider the public interest must not imply that the increasing complexity of the decision frees the decision-maker from the consideration of its side-effects on the public interest. The increasing complexity of decision-making only implies that in judging the success

of a decision in itself and in considering the public good the difficulty of the task has to be taken into consideration.

The obligation to include the side-effects of one's decision-making on the public good increases with increasing power. This increasing obligation to consider the public good indicates that power itself is a moral phenomenon. The more power a person possesses the more the person must consider the side-effects of his or her decision-making. The idea of the public interest points to this relationship between power and the duty to consider the public good.

As Roman Herzog has demonstrated¹⁴ it has been Thomas Aquinas who has introduced two insights to political philosophy by his idea of the common good: first the insight that sovereignty and the exercise of political power do not have their criterion of action in themselves but refer to a higher authority and are therefore constraint in their freedom, and secondly the insight that the state *and* the individual are bound by the common good. Thomas Aquinas starts from monarchy in his theory of the common good and binds the ruler to an authority outside of the ruler's own will and self-interest. The ruler cannot only follow his free and sovereign will. He is not only directed by his own interest but by the higher authority of the common good and is constraint by it in his will and sovereignty.

The idea of the common good leads to the development of the modern idea of office. The political office is obliged to realize the common good, it is not there to increase the power or advantage of the office holder and his self-interest. It is not only the self-interest of the state, the *raison d'état*, or the sovereignty of the prince or king and his self-interest that matter. The office, particularly the political office, bears in itself the obligation to good governance and is bound by the effect of the decisions on the common good.

The idea of office that is derived from the concept of the common good is not only limited to the sovereignty of the prince or king. It is also valid for the sovereigns of the modern world, for the voter and consumer, for popular sovereignty in the political decision-making processes of democracy and for consumer sovereignty in the economic decision-making processes of the market. The relevance of common good theory today increases to such a degree as the temptations for these sovereigns to follow only their

¹⁴ HERZOG (1974), col. 256.

self-interest increase. The political power in democracy and the economic power of the consumer are under the obligation to consider the common good in their decisions. Both, the voter and the consumer, must be prepared to sacrifice part of their sovereignty of completely free decisions in those situations in which it is demanded by the common good. Also popular sovereignty is constraint in its freedom of will by the common good.¹⁵

Popular sovereignty is not entitled to decide anything it wants or is in its self-interest. It has no right, e.g., to negate the right of natural or born members of a political society to be members of this society or cancel their membership in a community as it is possible in a club. A club is entitled, in contrast to society, to exclude members by its charter. Political society as the locus of existence as such is not entitled to cancel membership since existence is not a predicate. The negation of existence is, therefore, something different from refusing the right to enter a club.

The idea of office that is concluded from the idea that power is bound by the public good does not only constrain political, but also economic, cultural, and religious power. The idea of office shows that power is a moral phenomenon and therefore always related to the common good. Not only political power is an office that is not only defined by the sovereign will of the one in power and that is subject to what is demanded by the realization of the common good. The same holds true for the holder of economic, religious, and cultural power.

The obligation to include the idea of the common good in the individual decision-making of economic, religious, and cultural power as well as in those of political power follows from the fact that the individualist decision-making processes of the market and of democracy cannot function without such a consideration of the public good since frictions in the economic and political realm are the consequence if they are based on self-interest only.

¹⁵ This need for a constraint on self-interest applies also to the stakeholder theory of the firm. One might be tempted to think that the stakeholder approach is closer to the common good idea than the shareholder approach since it includes, ideally, all stakeholders in the firm whereas the shareholder group is only one group of the firm. The stakeholders may, however, form coalitions against the shareholders or form other coalitions against other stakeholders, coalitions that do not represent the common good of the firm. The shareholders as the outside controlling institution of the firm may have to enforce the common good of the firm against stakeholder coalitions that are not in the interest of the long run survival of the firm.

The need for the consideration of the common good in the market and in democracy arises first from the problem of the aggregation or composition of individual decisions determined by self-interest to a market price and to a political decision. The phenomena of market failure and of democracy failure describe such frictions of coordination in the market and in democracy. The need to consider the common good also arises on the other hand from the fact that the holder of economic and political responsibility are not only the agents or fiduciaries of the principals that give them the fiduciary power but also of those, even if so to a lesser degree, that they do not represent but whose life they influence by their decisions. They must consider the common good of the institutions which they direct beyond their mere fiduciary duties to those who gave them fiduciary power, their principals.

VIII. The Obligation of Managers to Realize the Common Good of Their Corporations

The obligation to consider the common good is not only valid for the politician. The politician is not only the agent of her constituency and party but is always at the same time the representative of those that did not vote for her. Likewise, the manager of a large firm is not only the fiduciary of those who employed him but also of those who work under his leadership. The obligation to realize the common good of the institution is therefore also valid for the manager of the large firm.¹⁶ The manager is not only the agent of his principals, be they shareholders or single owners, and he has more duties than those of realizing the interest of the shareholder group in profit maximization only. He must consider the interest of the other stakeholders as well when he realizes the legitimate shareholder interest in return on investment. By maximizing shareholder value the manager must at the same time realize the common good of the entire firm. The manager's task to realize the maximum productivity of the firm cannot be secured by the market, competition and the price system alone. The manager must realize produc-

¹⁶ Cf. H. ALFORD and N. NAUGHTON: „Working the Common Good: The Purpose of the Firm“, in: S. A. CORTRIGHT and MICHAEL J. NAUGHTON (Eds.): *Rethinking the Purpose of Business. Interdisciplinary Essays from the Catholic Social Tradition*, Notre Dame, Indiana (University of Notre Dame Press) 2002.

tivity even where the power of competition does not force him to do so as e.g. in imperfect markets or in developing nations. This indicates that the productivity of the firm is a kind of public good for the firm beyond mere profit maximization.¹⁷

The decision-maker of an institution cannot dispense him- or herself from the responsibility for the common good of the institution by pointing to the fiduciary duty towards the shareholders. The reference to a narrow fiduciary relationship can include an element of exculpation from responsibility. Every kind of fiduciary relationship or of acting for the sake of someone else and of someone else's goals leads to a reduction in the moral obligation since, by the fiduciary relationship, the responsibility for actions is divided between the principal and the agent and can be shifted forward and backward between them.

The danger of such a reduction of the total responsibility of management for the common good of a firm can be demonstrated in the exaggeration of the shareholder value principle as the only goal of the firm. The theory that it is the task of the firm to increase the value of the firm and its shares for the owner of the firm only and that the management success is only measured by the attainment of this goal reduces the complexity of the management's obligation towards the common good of the firm.¹⁸ All other goals of groups of firm members are rendered to be only means for the final end of the return on the owner's investment. The effect is that the management can exculpate itself from the responsibility towards the other groups of the firm.

The manager is not only the agent of the owners but at the same time the steward of all groups in the firm. This distinction between agency and stewardship holds true even more for the politician who has a democratic mandate. The politician cannot be seen as the agent of his immediate constituency only. He must accept that he has the duty of office towards the common good or of representation of all voters. Politics and management are an office that does not only include the duty towards furthering the interests of the principals, be they shareholders or voters or constituency, but that implies beside the immediate fiduciary duty towards the principal a duty of stewardship towards

¹⁷ Cf. also L. A. TAVIS: *Power and Responsibility: Multinational Managers and Developing Country Concerns*, Notre Dame, Indiana (University of Notre Dame Press) 1997.

¹⁸ Cf. P. KOSLOWSKI: „Shareholder Value and the Purpose of the Firm“, in: S. A. CORTRIGHT and MICHAEL J. NAUGHTON (Eds.): *Rethinking the Purpose of Business. Interdisciplinary Essays from the Catholic Social Tradition*, Notre Dame, Indiana (University of Notre Dame Press) 2002.

the common good. The interest of the principal, of the voter or the shareholder, and the interest of all people concerned, of the total voting population or of all employees of the firm, must be considered at the same time. There is no unlimited autonomy of the voter or of the shareholder as principals to define the duties of their agents, the politician or the manager.

By giving fiduciary power to a member of parliament or to a manager, the fiduciary of this power, the politician or the manager, cannot be obliged to neglect the public interest and to realize only the interest of his or her immediate principals. In the market as well as in politics, the consumer, the shareholder, and the manager representing them as well as the voter and the member of parliament representing the voter must understand their right to decide to be an office that aims at the public interest. The politician or the manager cannot understand themselves as autonomous lobbyists or fiduciaries only of that segment of the constituency or the firm that voted for them or employed them.

The idea of the public good and of the boundness of decision-makers in government and economic institution by it is not an idea imposed from the outside and in a normative way on the principals' and the fiduciaries' individual self-interest, be they voters and politicians in the political arena or shareholders and managers in the market. The idea of the common good does not impose a situation of heteronomy on them. Rather, the idea of the common good demands the inclusion of the public interest in the enlightened self-interest of those that have power to decide. Powerful decision-makers can only realize their own and their principals' self-interest if the institutions they direct are flourishing. Decision-makers cannot reply to the objection that the public good of their institutions is not realized by replying that they acted only as agents of her principals. The politician cannot exculpate herself in cases of government failure by answering she only acted in the interest of the own voters that gave her their vote. The manager whose firm is becoming smaller and smaller while it pays high dividends to shareholders cannot justify his or her action by pointing to the fact that the interest of the shareholders have been realized.

The idea of the common good implies that the general or total interest of an institution is fulfilled. The total interest of an institution is to be derived from the nature of the task of the institution. The neglect of the common good leads to a violation of the total

interest of an institution and therefore to functional friction and to the incomplete fulfillment of the task of the institution.

The idea of the common good of an institution shows that institutions cannot reach their optimal performance and due diligence without anticipating their common good in the self-interested decisions of the people acting in them. The interest on the realization of optimal performance and due diligence leads to acknowledging the inevitable task to consider as well the common good as the self-interest of its member in the governance of institutions, be they political or economic. The purely individualistic pursuit of goals in the market or in democracy without consideration to the public interest in the individual interests of those who have to make far-reaching decisions causes sub-optimality of the institution in question, the market or democracy.

IX. Thinking in Terms of Institutions and Thinking in Terms of Intentions

It is insufficient and cannot realize the common good to found institutions on the right intentions and on the will to the common good only. The institutionalizations of the pursuit of the common good must be secured. On the other hand, institutions cannot and must not renounce the intention to the common good. It is not for the sake of ethi-cizing but for the sake of a realistic view of institutions that thinking in intentions must complement the thinking in institutions. The "reform of institutions" must be accompanied by the "reform of intentions". Members of an institution must be informed about the intention to the common good of their institution and be given the means to analyze and deliberate the common good.

Ulrich Matz¹⁹ points to the fact that individualist and pluralistic societies must be aware that they must not create a self-fulfilling prophecy by a misunderstanding of individualist theories. If individualist social theories contend that the idea of the common good is incompatible or irreconcilable with individualist societies this contended incompatibility or irreconcilability will become a social fact of incompatibility or irreconcilability by the very process of being contended and imported into the self-

¹⁹ U. MATZ: "Aporien individualistischer Gemeinwohlkonzepte (Aporias of Individualist Concepts of the Common Good)", in: A. RAUSCHER (Ed.): *Selbstinteresse und Gemeinwohl. Beiträge zur Ordnung der Wirtschaftsgesellschaft* (Self-Interest and Public Interest. Contributions to the Order of the Economic Society), Berlin (Duncker & Humblot) 1986, pp. 356ff.

definition of the society in question. Social theories contended and imported into the self-definition of modern societies become a social fact in the self-affirmation of these societies. Their presumed analytical character becomes a self-fulfilling prophecy, a prognostic and normative statement of social theory that society will and should behave as the theory predicts and prescribes. If methodological individualism contends that the intention and orientation on the common good are impossible in societies shaped by methodological individualism this intention and orientation will become impossible.

The misinterpretation of modern society in this critique of common good thinking must be criticized. It is the task of social philosophy to make clear that the mediation between the common good and the individual good is possible and that the public interest is not only realized behind the back of the acting persons by the visible hand of institutions or by the invisible hand of markets. The common good of institutions is realized also in the conscious intention of the acting persons to the common good of the institutions they live in. The intention of the acting persons, the visible hand of institution building, and the invisible hand of the market must come together and cannot be substituted for each other.

References.

ALFORD, H. und N. NAUGHTON: „Working the Common Good: The Purpose of the Firm“, in: S. A. CORTRIGHT and MICHAEL J. NAUGHTON (Eds.): *Rethinking the Purpose of Business. Interdisciplinary Essays from the Catholic Social Tradition*, Notre Dame, Indiana (University of Notre Dame Press) 2002.

ARROW, K. J.: „Political and Economic Evaluation of Social Effects and Externalities“, in M. D. INTRILIGATOR (Ed.): *Frontiers of Quantitative Economics*, Amsterdam (North Holland) 1971.

BAADER, F. v.: *Ueber den Begriff der Zeit* (1818), in: F. v. BAADER *Sämtliche Werke*, hrsg. von Franz F. Hoffmann u.a., Leipzig 1851-1860, Neudruck Aalen (Scientia) 1963, 2nd reprint 1987, Vol. 2, 47-68.

BAADER, F. v.: *Vorlesungen über Societätsphilosophie* (1831/32), in: F. v. BAADER *Sämtliche Werke*, *ibid.*, Vol. 14, 55-160.

BATOR, F. M.: „The Anatomy of Market Failure“, *Quarterly Journal of Economics*, 72 (1958), 353-378.

BUCHANAN, J. M. (1954 a): „Social Choice, Democracy, and Free Markets“, *Journal of Political Economy*, 62 (1954), 114-123.

BUCHANAN, J. M. (1954 b): „Individual Choice in Voting and the Market“, *Journal of Political Economy*, 62 (1954), 334-343.

BUCHANAN, J. M.: *Limits of Liberty. Between Anarchy and Leviathan*, Chicago (Chicago University Press) 1975.

BUCHANAN, J. M.: „Rent Seeking and Profit Seeking“, in: J. M. BUCHANAN, R. D. TOLLISON, G. TULLOCK (Eds.): *Toward a Theory of the Rent-Seeking Society*, College Station (Texas A&M University Press) 1980, 3-15.

JAMES M. BUCHANAN: „Gleiche Spieler, anderes Spiel. Wie bessere Regeln der Politik auf die Sprünge helfen / Mit geeigneten Anreizen zum Gemeinwohl“ (Same players, different game. How better rules help politics to get started / With the right incentives to the common good), *Frankfurter Allgemeine Zeitung*, Nr. 80, 3 April 2004, p. 13 (page “The Order of the Economy”).

BUCHANAN, J. M. and G. TULLOCK: *The Calculus of Consent* (1962), Ann Arbor (University of Michigan Press) 5th edition 1974.

COASE, R. H.: „The Problem of Social Cost“, *Journal of Law and Economics*, 3 (1980), 1-44.

DAHL, R. A.: „Dilemmas of Pluralistic Democracy: The Public Good of Which Public“, in: P. Koslowski (Ed.): *Individual Liberty and Democratic Decision Making. The Ethics, Economics, and Politics of Democracy*, Tübingen (Mohr Siebeck) 1987.

DAVIS, O., M. J. HINICH, P. C. ORDESHOOK: „An Expository Development of a Mathematical Model of the Electoral Process“, *American Political Science Review*, 64 (1970), 426-448.

DOWNS, A.: *Ökonomische Theorie der Demokratie*, Tübingen (J. C. B. Mohr [Paul Siebeck]) 1968 (engl. 1957).

EVANGELISCHEN KIRCHE IN DEUTSCHLAND (Ed.): *Gemeinwohl und Eigennutz – Wirtschaftliches Handeln in Verantwortung für die Zukunft; eine Denkschrift der Evangelischen Kirche in Deutschland*, Gütersloh (Gütersloher Verlagshaus Gerd Mohn) 1991.

FREY, B. S.: „Gesellschaftliche Entscheidungssysteme“, *Wirtschaftliches Studium*, 5 (1976), 153-158.

GUNDLACH, G.: Artikel „Gemeinwohl“, *Staatslexikon der Görres-Gesellschaft*, Freiburg i. Br. (Herder), 6th ed. 1959, col. 737-740.

HABERMAS, J.: „Zur Logik des theoretischen und praktischen Diskurses“, in: M. RIEDEL (Hrsg.): *Rehabilitierung der praktischen Philosophie*, Freiburg (Alber) 1974, Vol. II, 381-402.

HAYEK, F. A. v.: *Der Wettbewerb als Entdeckungsverfahren*, Kiel (Institut für Weltwirtschaft) 1968.

HEINZE, R. G.: *Verbandspolitik zwischen Partikularinteressen und Gemeinwohl – Der Deutsche Bauernverband*, hrsg. von Renate Mayntz, Gütersloh (Verlag Bertelsmann Stiftung) 1992.

HENNIS, W., P. GRAF KIELMANSEGG, U. MATZ (Hrsg.): *Regierbarkeit*, Stuttgart (Klett-Cotta) 1968.

HERZOG, R.: Artikel „Gemeinwohl II“, in: J. RITTER (Hrsg.): *Historisches Wörterbuch der Philosophie*, Darmstadt (Wissenschaftliche Buchgesellschaft) 1974, Vol. 3, col. 256-258.

HIBST, P.: *Utilitas Publica – Gemeiner Nutz – Gemeinwohl. Untersuchungen zur Idee eines politischen Leitbegriffes von der Antike bis zum späten Mittelalter*, Frankfurt a.M. u.a. (Peter Lang) 1991.

HIRSCH, F.: *Social Limits to Growth*, Cambridge, Mass. (Harvard University Press) 1976.

HIRSCHMAN, A. O.: *Exit, Voice and Loyalty: Responses to Decline in Firms, Organizations and States*, Cambridge, Mass. (Harvard University Press) 1970.

JÄNICKE, M.: „Zur Theorie des Staatsversagens“, *Aus Politik und Zeitgeschichte (Das Parlament)*, 14 (1980), 29-39.

JETZER, M.: *Öffentliches Gut und Externalität. Ein Paradigma des Marktversagens*, Diss. rer. pol., Zürich 1975.

KAHN, A. E.: „The Tyranny of Small Decisions: Market Failures, Imperfections, and the Limits of Economics“, *Kyklos*, 19 (1966), 23-45.

KETTERN, B.: *Sozialethik und Gemeinwohl. Die Begründung einer realistischen Sozialethik bei Arthur F. Utz*, Berlin (Duncker & Humblot) 1992.

KOSLOWSKI, P.: *Gesellschaft und Staat. Ein unvermeidlicher Dualismus*. Mit einer Einführung von R. SPAEMANN, Stuttgart (Klett-Cotta) 1982.

KOSLOWSKI, P.: „Market and Democracy as Discourses. Limits of Discursive Societal Coordination“, in: P. KOSLOWSKI (Ed.): *Individual Liberty and Democratic Decision Making*, Tübingen (Mohr Siebeck) 1987.

KOSLOWSKI, P.: *Die Ordnung der Wirtschaft. Studien zur Praktischen Philosophie und Politischen Ökonomie*, Tübingen (Mohr Siebeck) 1994.

KOSLOWSKI, P.: „Subsidiarität als Prinzip der Koordination der Gesellschaft“, in: K. W. NÖRR, TH. OPPERMAN (Hrsg.): *Subsidiarität: Idee und Wirklichkeit. Zur Reichweite eines Prinzips in Deutschland und Europa*, Tübingen (Mohr Siebeck) 1997, S. 39-48.

KOSLOWSKI, P. (Ed.): *Das Gemeinwohl zwischen Universalismus und Partikularismus* (The Common Good between Universalism and Particularism), Stuttgart (Frommann-Holzboog) 1999.

KOSLOWSKI, P.: *Principles of Ethical Economy*, Dordrecht (Kluwer Academic Publishers) 2001.

KOSLOWSKI, P.: „Shareholder Value and the Purpose of the Firm“, in: S. A. CORTRIGHT and MICHAEL J. NAUGHTON (Eds.): *Rethinking the Purpose of Business. Interdisciplinary Essays from the Catholic Social Tradition*, Notre Dame, Indiana (University of Notre Dame Press) 2002.

LEHNER, F.: *Grenzen des Regierens. Eine Studie zur Regierungsproblematik hoch-industrialisierter Demokratien*, Königstein (Athenäum) 1979.

LUHMANN, N.: *Grundrechte als Institution. Ein Beitrag zur politischen Soziologie*, Berlin (Duncker und Humblot) 1965.

MATZ, U.: „Aporien individualistischer Gemeinwohlkonzepte“, in: A. RAUSCHER (Hrsg.): *Selbstinteresse und Gemeinwohl. Beiträge zur Ordnung der Wirtschaftsgesellschaft*, Berlin (Duncker & Humblot) 1985, 321-357.

MESSNER, J.: *Das Naturrecht. Handbuch der Gesellschaftsethik, Staatsethik und Wirtschaftsethik*, Berlin (Duncker & Humblot) 7th ed. 1984.

MISHAN, E.: „The Postwar Literature on Externalities. An Interpretative Essay“, *Journal of Economic Literature*, 9 (1971), 1-29.

NAWROTH, E.: Art. „Gemeinwohl“, in: F. GEIGANT u.a.: *Lexikon der Volkswirtschaft*, Landsberg (Verlag Moderne Industrie) 6th ed. 1994, 325-326.

OFFE, C.: *Strukturprobleme des kapitalistischen Staates*, Frankfurt a.M. (Suhrkamp) 1972.

RENDTORFF, T.: „Gemeinwohl und Eigennutz – Perspektiven für den Dialog zwischen Kirche und Wirtschaft“, in: P. BOCKLET, G. FELS, H. LÖWE (Hrsg.): *Der Gesellschaft verpflichtet. Kirche und Wirtschaft im Dialog*, Köln (Deutscher Instituts-Verlag) 1994, 145-164.

- RUNCIMAN, W. G., A. SEN: „Games, Justice and the General Will“, *Mind*, 74 (1965), 554-562.
- SHELLING, T. C.: „On the Ecology of Micromotives“, in: R. MARRIS (Ed.): *The Corporate Society*, London (Macmillan) 1974.
- SHELLING, T. C.: *Micromotives and Macrobehavior*, New York (Norton) 1978.
- SCHÜTT-WETSCHKY, E.: *Interessenverbände und Staat*, Darmstadt (Wissenschaftliche Buchgesellschaft) 1997.
- SEN, A.: *Collective Choice and Social Welfare*, San Francisco (Holden Day) 1970.
- SMITH, ADAM: *The Wealth of Nations*, in: *The Works of Adam Smith*, Vol. 2, 1811-12, Reprint Aalen (Otto Zeller) 1963.
- SPAEMANN, R.: „Die Utopie der Herrschaftsfreiheit“ (1972), in: R. SPAEMANN: *Kritik der politischen Utopie*, Stuttgart (Klett) 1977.
- TAVIS, L. A.: *Power and Responsibility: Multinational Managers and Developing Country Concerns*, Notre Dame, Indiana (University of Notre Dame Press) 1997.
- TULLOCK, G.: *Private Wants – Public Means. An Economic Analysis of the Desirable Scope of Government*, New York (Basic Books) 1970.
- TULLOCK, G.: „Public Decisions as Public Goods“, *Journal of Political Economy*, 79 (1971), 913-918.
- UTZ, A.-F.: *Sozialethik. Mit internationaler Bibliographie. I. Teil: Die Prinzipien der Gesellschaftslehre*, Heidelberg (F. H. Kerle) / Löwen (E. Nauwelaerts) 1958.
- WEISBROD, B. A.: „Collective-Consumption Services of Individual-Consumption Goods“, *Quarterly Journal of Economics*, 78 (1964), 471-477.