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Discussion Paper No. 03-2

**Wittenberg Center
for Global Ethics**

Ingo Pies

**GLOBAL SOCIAL CONTRACT
On the road to an economically-sound
Ethics of Globalization**

Edited by

Research Institute of the Wittenberg-Center for Global Ethics
in collaboration with the Chair for Economic Ethics at
Martin-Luther-University Halle-Wittenberg and the Economic
Section of the Stiftung Leucora at Lutherstadt Wittenberg



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GLOBAL SOCIAL CONTRACT

On the road to an economically-sound Ethics of Globalization

by Prof. Dr. Ingo Pies[♦]

Forced individualization, increasing pluralism and overwhelming practical constraints, particularly in the business arena, characterize our modern world. Ruthlessness, especially in competition, often seems to be the order of the day. Against this background, many people ask themselves whether business practice and moral principle contradict one another. I am going to answer this question not from a moral but from an economic point of view. It would be, in the most literal sense, a “waste of capital” not to make use of the wisdom of the great world religions and the ancient tradition of ethical reflection in theology and philosophy. In my opinion, it is one of foremost responsibilities of modern ethics to tap this stock of traditions, for the sake not of the past but of the future.

Let me now go directly “in medias res”. I would like to present some of the ideas which will guide me in my work both at the University and at the Wittenberg Center. To this end, I have chosen the programmatic title “Global Social Contract”, which for the time being I intend literally: The phrase stands for the social contract of a global society.

I. Global Social Contract: problem and analytical approach

By “social contract“ we usually do not mean a written document, such as the constitution of the Federal Republic of Germany. It is rather that set of normative ideas that guides us when we go about changing any particular constitution. A social contract is not a text, not a piece of paper; but the democratic idea of an agreed set of rules. It is an idea that helps us identify what is useful for our living together so that this can, if necessary, be written down and stipulated in documents.

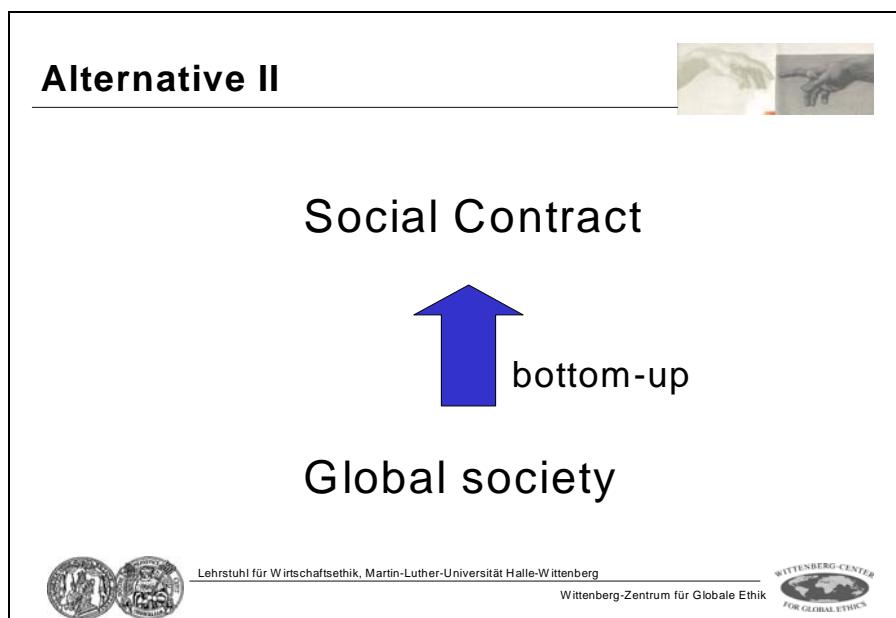
The term “social contract“ indicates the normative foundations of ”society“ - the coexistence of human beings and their peaceful and productive co-operation. In this context, the term “global society” describes the result of what the term “globalization” characterizes as a process. In other words, it indicates the increasing permeability of technical, political and informational barriers, the integration of markets previously separated along national borders,

[♦] Lecture held by Prof. Dr. Ingo Pies on the occasion of his festive inauguration as the Academic Director of the Wittenberg Center for Global Ethics on Reformation Day, October 31st, 2002 at the Leucorea in Wittenberg.

the emergence of a worldwide division of labor and of globally organized production alliances facilitating worldwide procurement and sales, and increasing interdependence as a result of the above. Metaphorically speaking, it describes the merging of continents to form a “global village”.

Having said that, two possible approaches to this topic present themselves. The first begins with the idea of the social contract and then transfers the resulting understanding of normativeness onto global society. Methodologically, this is a top-down approach. It transfers normative categories of thinking from the national to the international level simply by expanding their regional extent. I am not going to follow this approach. Instead I will do the exact opposite. I will pursue a bottom-up approach (Fig. 1). Let me give you just one reason for choosing such an approach, to which I attach a systematic importance .

Figure 1



II. The characteristic feature of the global society

Nation states originate in communities such as the family, village or tribe. You may remember that the names of many German federal states - Bavaria, Saxony, Westphalia - still recall the tribes that settled these areas during the “Great Migration”. The area around Milan, Lombardy, where my wife and I have a house, owes its name and to a large extent its cultural identity to the simple fact that around the seventh century the Lombards settled here. Literally translated, the name refers to a tribe of wild Nordic men with long beards.

Such communities have a lot in common. They have a common history, enjoy common customs and traditions, speak a common language, share a common culture, often practice a common religion and live in the same territory. They also share common experiences, a

common cultural understanding and a common identity. Over long periods of time, these communities, bound by fate, persisted and established common values, to some of which they often still adhere as societies.

Matters are quite different for the global society. Global society does not speak a common language, shares no common culture and, above all, possesses no history that might unify people of different skin color or from different continents. On the contrary, in many instances history is perceived in categories of perpetrators and victims. It separates people rather than uniting them. Think of the history of modern slavery, or the historical expansion of European claims on non-European territory that started about 500 years ago.

Condensed into a thesis: On a global level, there is no such thing as a world community. Humanity is not “a people” nor is it “a family”. This constitutes a fundamental difference between a nation-based society living in a geographically delimited area and the developing global society. And it is precisely this difference which is theoretically important for ethics, because it forces us to rethink and revise our traditional understanding of normativeness.

III. Social contract: Normativeness and the ethical paradigm

Normativeness in the traditional sense usually refers to a publicly recognised obligation. The underlying idea is that the person to which normativeness is addressed tacitly accepts standards of which she needs only to be reminded in order to cause a change of behavior in her. For example, if someone constantly interrupts you while you are talking, you only need to remind that person of the norm of reciprocity and appeal to her to grant you the same right that she claims for herself, i. e. to finish a sentence without being interrupted. Such a practice may work, particularly in small groups, where a tacit and informal yet quite effective social control mechanism is at work. However, it may also fail. The chances that it will fail are greater the larger the group and the lesser the extent to which informal incentives have an effect.

Let me illustrate this with a few examples. Imagine you go to a restaurant with a large group of people. If everyone pays for his own meal, we will observe a systematically different behavior than if all expenses are added and shared so that everyone pays only an average. In the first case, everybody will read the menu from right to left. In the latter case all will read it from left to right. I'm sure you know what I'm driving at. Let me give you a second example. Originally I come from *Sauerland*, a typical beer drinking region. We celebrate “Schützenfeste”, an archery competition and festival. This comes in two different versions, one of which is famous, the other notorious. Famous are those festivals where party-goers pay for every well-brewed beer they are served. The notorious version is the one in which customers pay a high admission fee and are served free beer in the Schützen tent. It goes

without saying that in the second case, people have an incentive to get their money worth, which will lead some of them to drink more than they can handle. A third example might be the German statutory health insurance scheme. Here we play according to exactly those rules that have proved to be rather counter-productive in a restaurant or beer tent. Regular cost explosions do not come as a surprise in a system where it is rational to behave in exactly the way you are afraid others might behave.

What does this imply for an appropriate understanding of normativeness? In a small group, a publicly accepted reason is automatically linked to a social control mechanism as an instrument of enforcement. Reason and implementation incentive become one. In a large group, however, things are different. Here reason alone is not enough. Under these circumstances it is important to use additional incentives to support any given reason. Normativeness becomes the heuristics of finding institutionalized incentives which will cause everybody, not just the individual, to experience their situation differently and, consequently, to adjust their behavior.

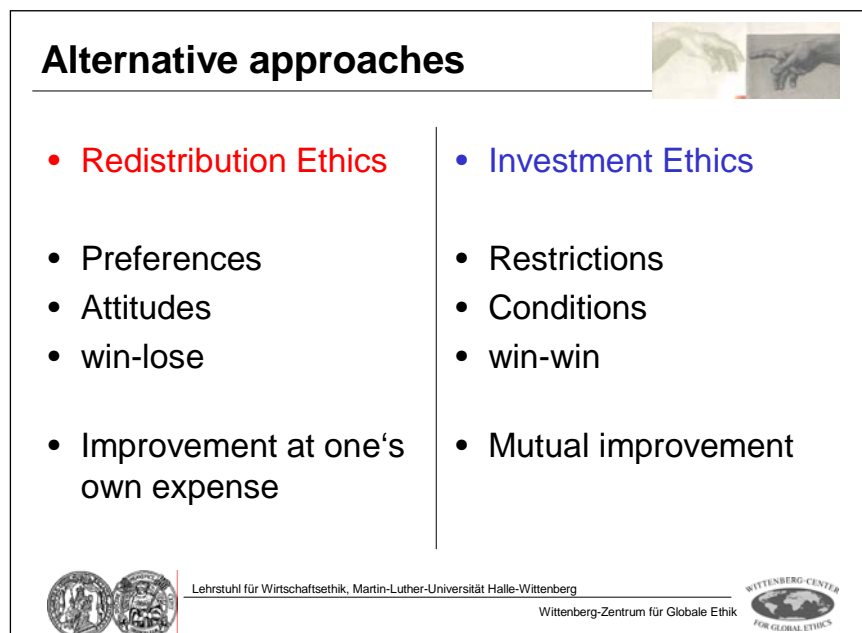
In a social dilemma, a rationality trap, normativity must no longer be understood in terms of reasons for an individual to change his behavior. It must be understood in terms of finding incentive structures which will solve the social dilemma rationally. In the modern world, normative considerations are increasingly unable to persuade a person to behave differently in a given game. However, they may well help us play increasingly more intelligent games and correct perverse incentives institutionally. Sensitivity for moral concerns needs to be focussed properly. In many cases, it is not an individual's moves but the rules of the game that are the right point of focus. It is not about "choice within rules" but "choice among rules". Let me give you an example. If the father of a family is able to make more money by collecting social security benefits than by doing a proper job, we are in no position to demand that he behave differently. From a moral point of view, we should appeal to society to liberate him from this insane situation by implementing institutional reforms rather than calling him a loafer.

Another example: All over the world, corporations find themselves in situations where they face the choice of either participating in the general practice of corruption or not participating. If they participate, they violate the law and face all the risks that go with such a practice. Yet if a company decides not to participate, it may jeopardize its business and thus the jobs it provides as an employer. Such a situation puts a corporation between a rock and a hard place. In the light of such alternatives, some business ethicists advise an open breach of the law while others recommend that one simply leave the market in a morally correct manner. In my eyes, both alternatives are unsatisfactory. If there is no way out in a given situation, one needs to change the situation. It is not enough to contend oneself with given alternatives; one must create new ones. Ethics can help us by broadening our horizon.

But ethics may also do harm by narrowing our moral perspective. By not considering the difference between the small and the large group or by not differentiating between the *Gemeinschaft* on the one hand and the *Gesellschaft* on the other hand, we generate appeals which at best die away without any effect. What one might call the “Redistribution Ethics” urges or even requires the individual to accept personal disadvantages without any reassurance that others will follow his behavior. In many instances we are not even aware of the fact that therefore such a code of ethics violates the traditional maxim “*ultra posse nemo obligatur*“. In other words, it defies the principle “ought implies can”. Furthermore, such a Redistribution Ethics exposes moral commitment and moral standards to the risk of erosion. In my opinion, such ethics do a disservice to morals. However, if we keep in mind the fact that the global society is a *Gesellschaft*, not a *Gemeinschaft*, the path is left open for an “Investment Ethics”, where morals and personal interests are not played off against each other. Instead, through incentives, such a code of ethics puts an individual’s institutionally channeled interests in the service of moral goals.

Let me compare these two approaches (Fig. 2): An individual’s personal preferences serve as the starting point for Redistribution Ethics, whereas Investment Ethics is based on social restrictions applicable to a large number of individuals. Redistribution Ethics is an ethics of individual attitudes and convictions whereas Investment Ethics is an ethics of institutionalized conditions. Redistribution Ethics aims at bettering the others’ lot at one’s own expense, while the Ethics of Investment intends to improve the others’ lot to one’s own advantage. The motto of Redistribution Ethics is “win-lose” – moral behavior must hurt. On the other hand, Investment Ethics creates “win-win“ situations, in which all concerned experience morals as something useful. Thus Investment Ethics culminates in a particular understanding of human dignity according to which human dignity encompasses the idea that a person is to be protected against the unreasonable demand to permanently violate her own basic interests.

Figure 2



IV. Ethics of Globalization

Other differences between Redistribution Ethics and Investment Ethics become very clear in the context of globalization. To illustrate this, I am going to focus on a single aspect, the discrepancy between the rich and poor on a global scale.


Currently nearly six billion people live on the earth. The multitude has to make ends meet on less than one dollar a day. Many of these people have to endure terrible conditions such as malnutrition and even acute hunger. They suffer from diseases which are in principle easy to treat. They suffer from lack of education. They fall through social networks or may even experience social exclusion. With their future perspectives limited, they suffer from crippled self-esteem, despair and apathy. Extreme poverty is not just a material issue; it also has immaterial effects. Since grinding poverty limits a person's opportunities to realize her potential, it would be desirable from a moral point of view to defeat this malady efficiently.

This leads me to the following question: What do we see when we consider this particular issue from a redistributive and, alternatively, from an investment perspective (Fig. 3)? From a redistributive point of view, one is tempted to believe that by appealing insistently to the conscience of the wealthy, they might simply be persuaded to give up some of their wealth. The logic of redistribution operates according to the principle "less poverty through less wealth". The problem of the poor is an issue for the rich because it demands that the latter subordinate their personal interests to the former. This approach rests on an understanding of sharing that produces victims.


Figure 3

Global poverty problem

<ul style="list-style-type: none"> • Redistribution ethics • Sacrifice • Sharing = Distribution • Disabling the market • Less poverty through less prosperity 	<ul style="list-style-type: none"> • Investment Ethics • Investment in rules • Sharing = Involvement • Using the market (Inclusion) • Less poverty through more prosperity
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From an investment-ethical perspective, however, the problem looks completely different. Here the task is not to fight the poor's poverty at the expense of the wealthy. On the contrary, the idea is to decrease poverty by creating more wealth. Consequently, we do not need to ask how much sacrifice are we able to afford. Instead, we should ask ourselves how much longer we, the wealthy, can afford to lose the immense exchange potentials resulting from a strictly market-oriented co-operation with six billion people. Is it smart to continue not to use the opportunities for co-operation in a real world market where no-one is left out?

I will briefly say a few words about the economic background. The poorest of the poor are mired in grinding poverty not because globalization impoverishes them, but because they do not have a chance to partake in globalization - they are not part of the global division of labor. In many cases, they find the doors to the global markets locked. They have no access to capital markets in order to credit investments in real capital and, above all, in human capital. They lack access to the labor markets in order to generate legal monetary income. And they have no access to the production of goods and services, primarily for export, in order to make use of their comparative advantages. Throughout the world, the majority of the poor lack access to even elementary infrastructure facilities in the fields of education and health care. And in many cases, they are partially or totally excluded from political participation.

An investment-ethical perspective does not try to disable market logic for well-intended purposes but instead to utilize it while attempting to include global society to the greatest extent possible. In this scenario, sharing is understood as market participation in global co-operation. The objective, therefore, is to build a world society through the global economy, recognising that functioning markets do not spring up naturally but need to be cultivated. They require their own proper framework which needs to be tended carefully. That is the reason why a productive global economy is constitutively dependent on global socio-political processes.

As a result of the United Nation's "Global Compact" we can currently witness the way in which new forms of international policy coordination are emerging and new players, such as non-governmental organizations and especially corporations, are entering the stage of world politics. Companies start to see themselves and act as political, even moral agents. To reflect on this fascinating process, study programs for economists and management experts as well as further educational programs for political leaders and leaders from civil organizations and businesses should be available. This is where I intend to focus my future work both at the University and at the Wittenberg Center for Global Ethics. It is my intention to organize and facilitate learning processes centered around such terms as "sustainability", "global governance", "corporate responsibility" and "corporate citizenship".

V. Concluding theses

Ladies and Gentlemen, coming to a close, I would like to present some theses in brief. The ethical research program which I have presented here does not provide a perfect solution to each and every global challenge. Easy answers are hard to come by, but it helps to ask the right questions. In many cases, normative mental blocks prevent us from asking the right questions. Dualisms, the most important one probably being the one between personal interest and moral standards, obstruct our view of the really relevant alternatives. Please understand the following as a provocative inspiration to question and overcome other dualisms.

All in all, the investment-ethical research program presented here strives to stimulate a change in perspective. We need to shift:

- from the “market versus state“ dualism to an understanding of the potentials of prudent politics to use competition as an instrument for co-operation within society. On a global scale, it is often easier to successfully deal with moral concerns by utilizing the dynamics of the market instead of disabling them.
- from the ”less poverty through less wealth“ dualism to fighting poverty by creating “prosperity for all”. The path to reaching this objective could be described as “public purpose capitalism”. It requires a global policy process that includes corporate players and provides world markets with a general framework aimed at total inclusion. This approach is based on the guiding principle of creating a global society through the global economy.
- from the interpretation of social policy as redistribution, and the underlying dualism between equity and efficiency, to a new understanding of worldwide solidarity in order to create win-win instead of win-lose scenarios. To this end, we need insurance schemes in order to set free productivity, because people are only willing to make risky investments if they know for sure that by doing so they are not going to lose everything they own. The most important investments, however, are not those in real capital but in human capital, i. e. in the minds of people. For that reason, it is global solidarity’s first and foremost responsibility to invest in people, or, more precisely, to shape overall conditions in such a way that people are encouraged through incentives to invest in their own future in order to create their own opportunities for emancipation by themselves. Let me use a metaphor to make this clear. A social policy based on solidarity is like a brake in a car. When driving a car, the real purpose of a brake is not to enable the driver to go slower but, on the contrary, to enable him to drive *faster*. In both cases, however, it is important to use this instrument prudently, otherwise the control will fail and, if taken to the extreme, one may not be able to move at all.

- from the “ecology versus economy“ dualism to sustainability created through environmental markets, such as trading of emission certificates for greenhouse gases. Such a policy is not concerned with the limits of growth but the extension of limits. In order to protect the environment on a global scale, it is necessary to fight poverty all over the world.
- from the traditional, patronizing approach of providing development aid to real development co-operation that focuses on finding common solutions for common challenges on a global level. Here we may term the guiding idea as “Building Global Co-operation“.
- from a perception of international politics as struggle for power to an understanding of international politics as a learning process. This approach is not about the “law of power” but the “power of law” and calls upon not only governmental actors but also organizations of civil society such as “Amnesty International“ or “Transparency International“, which fight torture and corruption respectively.
- from redistributive demands to the investment-ethical perspective in order to effectively fight poverty throughout the world. On a global level, we do not need a community ethics approach but rather an economically-sound societal ethics. While not moralizing, it is an ethics that through changed incentives establishes the worldwide validity of moral ideals.

Put in a nutshell, the described shift is about a change of priorities with regard to the relation of World Ethos and Global Social Contract. Since we cannot base the advancing world economy and the evolving global society on pre-existing common values, we can at least find the modern world on common interests, which may develop into values over time. I would not object to calling these a “World Ethos”. But we should be careful not to confuse cause and effect. Please don’t misunderstand me in this regard. For me, the term “World Ethos” does not describe a legacy from the past but a responsibility for the future. If I could put these ideas into a formula it would run as follows: Through world economy to a global society and through the Global Social Contract to a World Ethos. In order to achieve this goal we do not only need a dialogue of cultures, we also need a dialogue between the social sciences and the humanities. Ethics and economics in particular need to come to a mutual understanding: Economics without ethics is empty; ethics without economics is blind. In Adam Smith’s day, the two still walked hand in hand. In this respect, we need to start from scratch again.

Ladies and Gentlemen, I have covered a wide range, from abstract ideas about a theoretical design for modern ethics to concrete examples and projects. The way I would like it to be understood, my approach to Economic Ethics is a theory for practice, a theory which has a lot to offer to both students and postgraduates, instructing them in analyses of social structures and semantics, thereby providing opportunities to form one’s personality and acquire social

competence. Economic Ethics has something to offer because its first and foremost goal as a science is not to make people better but to make citizens wiser.

Having said all that, I'm well aware of the fact that the responsibilities I have briefly outlined exceed the capacity of any individual human being by far. I won't be able to shoulder myself all I intend to achieve. I will need active help and support both in word and deed. That applies to funding too, but not exclusively. In case of doubt, suggestions and criticism may be much more important, especially creative ideas and the courage to embrace unconventional solutions. In this sense I would like to assure you that each and every constructive contribution to the project I sketched out will be more than welcome and received with gratitude, in no matter what shape or form it comes. Thank you very much for your patience and interest.

DISCUSSION PAPERS

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