

Pies, Ingo; Hielscher, Stefan

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## The role of corporate citizens in fighting poverty: An ordonomic approach to global justice

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Ingo Pies und Stefan Hielscher

# The Role of Corporate Citizens in Fighting Poverty: An Ordonomic Approach to Global Justice

Diskussionspapier Nr. 2008-10

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an der Martin-Luther-Universität Halle-Wittenberg,  
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### *Autorenanschrift*

#### **Prof. Dr. Ingo Pies**

Lehrstuhl für Wirtschaftsethik  
Martin-Luther-Universität Halle-Wittenberg  
Juristische und Wirtschaftswissenschaftliche Fakultät  
Wirtschaftswissenschaftlicher Bereich  
Große Steinstraße 73  
06108 Halle  
Tel.: +49 (0) 345 55-23420  
Email: [ingo.pies@wiwi.uni-halle.de](mailto:ingo.pies@wiwi.uni-halle.de)

#### **Stefan Hielscher**

Lehrstuhl für Wirtschaftsethik  
Martin-Luther-Universität Halle-Wittenberg  
Juristische und Wirtschaftswissenschaftliche Fakultät  
Wirtschaftswissenschaftlicher Bereich  
Große Steinstraße 73  
06108 Halle  
Tel.: +49 (0) 345 55-23387  
Email: [stefan.hielscher@wiwi.uni-halle.de](mailto:stefan.hielscher@wiwi.uni-halle.de)

### *Korrespondenzanschrift*

#### **Prof. Dr. Ingo Pies**

Martin-Luther-Universität Halle-Wittenberg  
Juristische und Wirtschaftswissenschaftliche Fakultät  
Wirtschaftswissenschaftlicher Bereich  
Lehrstuhl für Wirtschaftsethik  
Große Steinstraße 73  
06108 Halle  
Tel.: +49 (0) 345 55-23420  
Fax: +49 (0) 345 55 27385  
Email: [ingo.pies@wiwi.uni-halle.de](mailto:ingo.pies@wiwi.uni-halle.de)

*Abstract*

Drawing on an ordonomic approach, this paper argues that a theory of global justice should incorporate as a pivotal cornerstone a theory of corporate citizenship which constructively addresses business firms as agents of social value creation. We argue that, instead of relying exclusively on arguments of obligation, a theory of global justice should primarily formulate arguments of prudence in order to live up to the fundamental incentive structures that govern modern competitive markets to which we owe much of our last two centuries' moral and material progress. We develop our argument with critical reference to Thomas Pogge's seminal work on global justice.

Key Words: Global justice, development cooperation, development ethics, foreign aid, poverty reduction, ordonomics, social dilemma

JEL Classification: A12, A13, D02, D63, F02, F35, O40



# The Role of Corporate Citizens in Fighting Poverty: An Ordonomic Approach to Global Justice

Ingo Pies and Stefan Hielscher

## *Introduction: The Problem of Global Justice*

Only in recent times has global justice become a topic of political philosophy. Although certain moral aspects of international relations have long been subject to serious debates in ethics, systematic efforts to address international issues as problems of global justice started not more than forty years ago. The most important among these issues is certainly the problem of world-wide extreme poverty.<sup>1</sup>

There are two fundamental reasons why the citizens of today's world society address the problem of extreme poverty as a problem of (global) justice, and both reasons can be illustrated by scrutinizing Figure 1. The first reason is that the development of the western world shows that there are ways to escape from extreme poverty. For millennia, the level of per capita income oscillated around the subsistence level. It was only in the early 19<sup>th</sup> century that the vicious circle of the Malthusian trap could be overcome. Since this breakthrough, western societies have experienced a history of exponential growth that boosted their average per capita income more than 15-fold (upper graph after 1800).

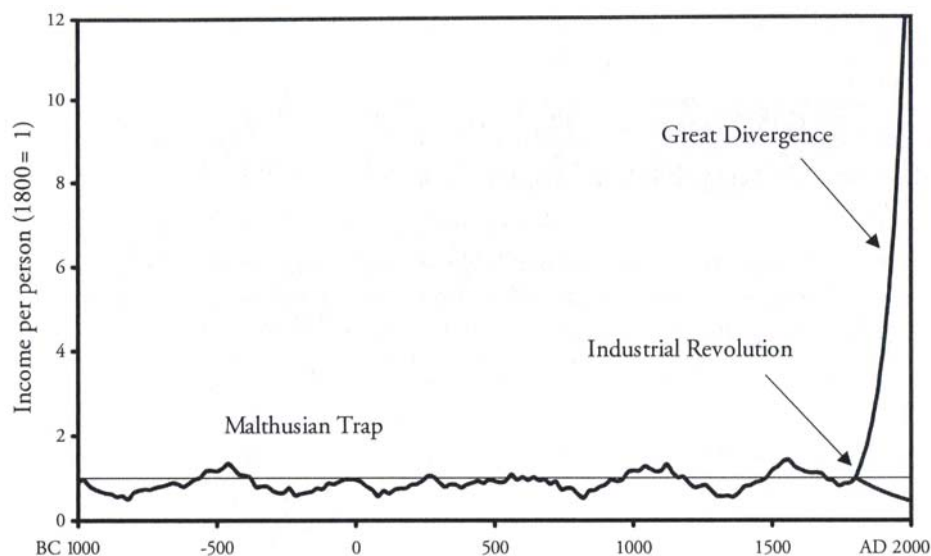


Figure 1: Per capita income 1000 BC – 2000 AC<sup>2</sup>

The second reason is that this unique growth path has, unfortunately, left some countries behind (lower graph after 1800). As a result, there is a huge discrepancy between the world's rich and the world's poor: While western countries have indeed managed to induce growth and therefore experience nowadays wide-spread affluence, many countries remain

<sup>1</sup> Peter Singer's seminal 1972 article on the moral legitimacy of famine is still today regarded as the *locus classicus* of the early work on global justice. Cf. Singer (1972, 1985).

<sup>2</sup> Clark (2007; p. 2, fig. 1.1).

poor due to the absence of growth. This implies that the very experience that growth and wealth is possible for large populations in some countries transforms the historical fact of extreme poverty in poor countries into a *normative* problem of global justice. Before 1820, this would have been unthinkable.

Given this background, to overcome extreme poverty is *the* problem of global justice. With this in mind, global justice can be interpreted as a problem of the absence of growth. Hence, there are two seminal questions to be addressed by a theory of global justice: First, how can we explain sustainable growth (that took place in some countries)? Second, how can we explain the absence of growth (in still other societies)? In order to answer these two questions, a theory of global justice needs to be based on a positive analysis that explains why there is no growth in extremely poor countries. The basic idea is: institutions matter!

This article compares two approaches to a theory of global justice. The first step briefly sketches an ordonomic approach, while the second step presents Thomas Pogge's cosmopolitan approach. The third step analyses and compares how both approaches generate arguments and how well these arguments are methodologically suited to address the main problem of global justice: the problem to alleviate and even to eradicate extreme poverty.

### 1. The Ordonomic Approach to Global Justice

The ordonomic approach makes use of elementary game theory and a rational-choice-based analysis of institutional arrangements in order to systematically explore the interdependencies between social structure and semantics. By "social structure", we mean the institutional framework of society and its incentive properties; by "semantics", we think of the terminology of public discourse and the underlying thought categories that determine how people perceive, describe, and evaluate social interactions and, in particular, social conflicts.<sup>3</sup>

The following discussion outlines how the ordonomic approach conceptualizes the problem of global justice and, subsequently, develops contributions to a possible solution for it. The remarks are divided into diagnosis and therapy.

((1)) The diagnosis of the ordonomic approach provides an answer to both seminal questions of global justice: (a) it provides an explanation for growth in modern societies; and (b) it provides an explanation for the absence of growth in poor societies.

(a) The ordonomic approach to global justice suggests viewing successful growth processes as an assurance game at the constitutional level between two actor groups: the government, including the elites that support it, (Player G), and the country's citizens, taken as a group (Player C). The ordinal payoffs indicate how the players value their strategy combinations. The number before the comma applies to Player C; the number after the comma to Player G.

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<sup>3</sup> Semantics is driven by conscious or unconscious theories: our "searchlights"—Popper (1972), "heuristics"—Lakatos (1978), "paradigms"—Kuhn (1962), or "mental models"—Denzau and North (1994).

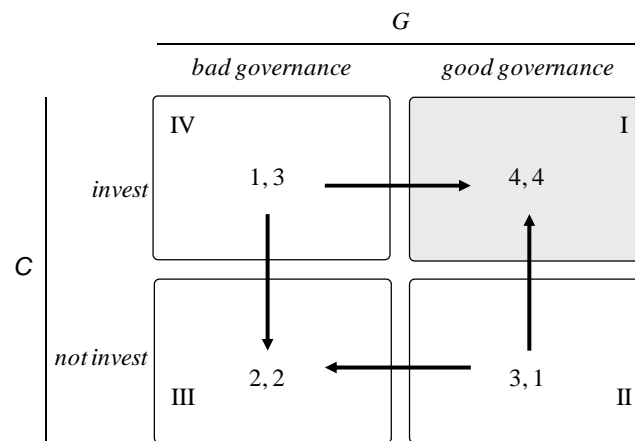


Figure 2: Assurance game at the constitutional level in growth societies

In a simple representation of this game, both actor groups have two strategies (Figure 2). The government, Player G, has to choose between good and bad governance. On the one hand, it has the option to create a legal system that establishes the rule of law and secures property rights. Furthermore, Player G can provide public goods—including a market-based system of private credit and insurance contracts and a well-designed system of social security. In this ‘good governance’ scenario, Player G facilitates access to markets for *all* country’s citizens and not only for small and privileged elites. On the other hand, the government has the option to discriminate against their citizens. In this ‘bad governance’ scenario, only certain elites benefit from secure property rights, from the rule of law and from the provision of public goods—and citizens are excluded from access to markets, which is limited to the government’s privileged supporters who profit from the resulting economic rents.<sup>4</sup>

The group of citizens, Player C, must choose whether to invest or not. One option is to use their (mobile) resources for small-scale agricultural production in order to provide for mere subsistence. The other option is to convert resources into capital and to invest into productive (and risky) production plans in (growing) markets.<sup>5</sup>

Assuming rational actors, this game can easily be solved. In both cases, Player C’s individual benefit calculus leads him to respond strategically to Player G’s strategic choice: Citizens like to invest into risky and productive production plans if the government provides good governance. A comparison between boxes I and II shows  $4 > 3$ . Thus, the right arrow points upwards. However, citizens are very reluctant to invest into vulnerable market activities if the government’s promise to provide good governance is not (or cannot be) made credible. In this case, citizens run the risk not to reap the benefits of their investment

<sup>4</sup> In recent publications, Douglass C. North together with his co-authors John J. Wallis and Barry R. Weingast develops a similar classification of social orders. The traditional formation of social order during history is the “limited access order”, while modern western societies are typically “open access orders”. A limited access order is a society in which military elites form a coalition—the state. Privileges for the members of the state—i.e. monopoly rights that limit competition—stabilize this social order. In contrast, an open access order is a society in which all citizens have free access to processes of economic and political competition. In modern societies, citizens form their own organizations and exercise public pressure in order to prevent the state from granting unproductive privileges like exemptions from the rule of law. Cf. North et al. (2006) and North et al. (2007).

<sup>5</sup> Cf. Olson (2000) and de Soto (2002).



and instead (are forced to) maintain a less exploitable agricultural subsistence production. A comparison between boxes IV and III shows  $1 < 2$ . Thus, the left arrow points downward.

A similar situation holds for Player G: if Player C does not invest into market activities, it is not beneficial for Player G to provide good governance. A comparison between boxes III and II reveals  $2 > 1$ . Thus, the lower arrow points to the left. If, however, the citizens do invest, Player G finds it advantageous to provide good governance. A comparison between Box I and Box IV reveals  $4 > 3$ . Thus, the upper arrow points to the right.

This assurance game has two Nash-equilibria in non-dominant strategies. Furthermore, the collectively self-damaging underdevelopment Nash-equilibrium (represented in box III) is Pareto-dominated by the Nash-equilibrium with huge prospects for mutual gains from growth (represented in box I). Therefore, the ordonomic answer to the first question of global justice is straightforward: Rich countries are rich because they play a constitutional game in which both players—government and citizens—find it relatively easy to coordinate their strategies and to realize a mutually beneficial equilibrium. This game can be interpreted as the result of an historical learning process of mutual adaptation. Once the growth strategies of good governance and investment are combined, the strategy combination is stable and leads to the economic miracle of the western world.

(b) In order to answer the second question of global justice, the ordonomic approach suggests to interpret the absence of growth—and especially the problem of extreme poverty—as resulting from a quasi prisoners' dilemma (PD) at the constitutional level in poor countries (Figure 3). Just as a genuine prisoners' dilemma, the hallmark of a quasi-PD is that it is a situation of collective self-damage: a situation in which a win-win solution cannot be realized due to an incentive structure that induces rational actors not to act in a mutually beneficial way, even though it would be in their common interest to do so. In contrast to a genuine PD, in a quasi-PD only one actor has a dominant strategy not to cooperate.

The main difference between the assurance game played in rich countries and the quasi-PD played in poor countries is simply that in the latter governments have no interest in good governance. Put graphically, both the upper and the lower arrow point to the left (Figure 3). There are many reasons for this. Here, we concentrate on two external factors that have played a major role in the recent history of developing countries. First, western countries have given unconditional foreign aid (and unconditional loans) to governments in poor countries, and they have—intentionally or unintentionally—supported market restricting economic policies in poor countries like state monopolies of natural resources. Second, western countries have followed the tradition to donate public emergency relief aid directly to governments in poor countries. Both western policy practices have had an influence on the constitutional game played in developing countries. These practices set a premium for bad governance in poor countries. Their effects are shown in Figure 3 as two transfers  $t_1$  and  $t_2$ .

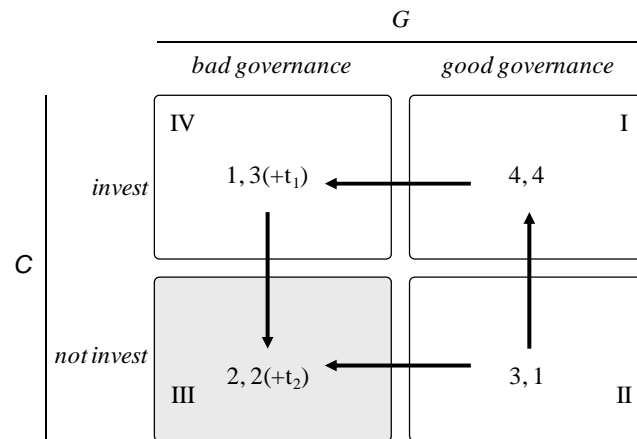


Figure 3: *Quasi prisoners' dilemma at the constitutional level in poor societies*

Transfer  $t_2$  strengthens the tendency toward bad governance when Player G is faced with insufficient investments by the citizens—a comparison between boxes III and II reveals  $2 + t_2 > 1$ . However, transfer  $t_1$  may have a more fundamental impact on the cost-benefit calculus of governments. Unconditional transfers and monopoly rents are a cheap alternative to other sources of governmental income. Hence it becomes less attractive to provide good governance in order to create the institutional infrastructure for well-functioning markets and flourishing tax revenues. If  $t_1$  is big enough, ‘bad governance’ becomes the dominant strategy for poor countries’ governments. A comparison between boxes IV and I shows  $(3 + t_1 > 4)$ . That is why the upper arrow points to the left, which is the crucial distinction between Figure 3 and Figure 2.

This distinction has a profound consequence: Poor countries are poor because they fail to reach the growth equilibrium (box I) and instead realize the Pareto-inferior Nash-equilibrium (box III). They are trapped in a dilemma situation where both the government and the citizens play underdevelopment strategies. And western countries are partly responsible for this pitiful outcome because—intentionally or unintentionally—they have rewarded bad governance strategies by the poor countries’ governments.

((2)) This ordonomic diagnosis leads to a straightforward therapy: Rich countries and their civil society actors can (and should) help to turn the quasi-PD into an assurance game. In order to do so, western societies should stop to indirectly reward exploitation strategies and stop to subsidize bad governance.

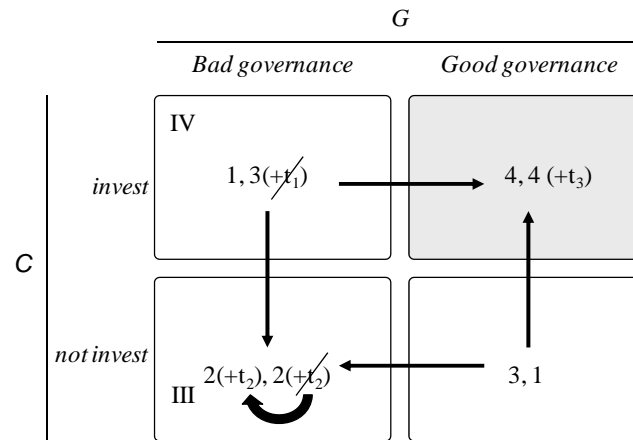


Figure 4: Assurance Game at the constitutional level in poor societies

According to our model, one can think of three different ways how to achieve this (Figure 4):

- *Stop unconditional foreign aid to governments.* As illustrated in Figure 3, unconditional loans or grants to governments may support bad governance in poor countries. Putting an end to this practice could therefore contribute to restore government credibility. This line of argument is represented in Figure 4 by cutting  $t_1$ . In effect, in the last 15 years much of foreign aid transfer has been reorganized and largely been made conditional on market-liberal reforms. Recently, foreign aid has been made conditional on good governance. But to put an effective policy of conditionality has proven to be difficult due to a problem of self-commitment of donor country governments. In the literature, the problem is often referred to as the *Samaritan's dilemma*.<sup>6</sup> The basic idea can be explained by a three-stage argument: In step 1, the donor countries offer a certain amount of foreign aid to the government of the recipient country in exchange for good governance reforms that would benefit its citizens. In step 2, the recipient government decides upon the allocation of resources to alternative uses. In general, the recipient government will leave the citizens with a lower level of public goods than contracted with the donors, simply because it will expect the altruistic donors to give extra foreign aid in step 3 when they observe that the citizens are worse off without extra foreign aid. Thus, many attempt to conditionalize aid lack credibility.
- *Give emergency relief aid directly to the poor.* As illustrated in Figure 3, disbursing emergency relief aid directly to governments (in)directly gratifies bad agricultural and other policies that—be it intentionally or be it unintentionally—facilitate the outbreak of droughts and famines. Bypassing the government so that in cases of emergency the needy people directly benefit from relief aid could therefore contribute to restore government credibility. This line of argument is represented in Figure 4 by shifting  $t_2$  from Player G to Player C.

<sup>6</sup> The classic formulation of this argument stems from Buchanan (1975). Cf. Schmidtchen (2002) for a general discussion. For an application of the Samaritan's Dilemma to development policy cf. Pedersen (2001) and Gibson et al. (2005) for an application.

- *Support self-commitments of poor country governments.* Credible self-commitment of poor country governments is *the* crucial factor that turns a quasi-PD into an assurance game with a Pareto-dominant Nash-equilibrium at the constitutional level (Box I). In modern growth societies, legal institutions and civil society organizations (including companies) provide credibility for strategies of self-commitment. While the required institutional and organizational infrastructure may often be missing in poor societies, it is possible to get help for commitments from abroad and thus to import credibility. One example of credibility import from external sources is the “Extractive Industries Transparency Initiative”. Multi-national firms operating in the extractive industry in resource-affluent poor countries and poor country governments have agreed to simultaneously follow a rule of transparency: The firms committed themselves to the rule: ‘publish what you pay’; the governments, by contrast, committed themselves to the rule: ‘publish what you receive’.<sup>7</sup> Another example of credibility import from abroad is the African Peer Review Mechanism (APRM). The APRM is an instrument for monitoring and evaluating the progress of good governance in those African countries who signed the New Partnership for African Development (NePAD).<sup>8</sup> This line of argument is represented in Figure 4 by a new ‘transfer’  $t_3$ .

It is along these lines that the world society needs more initiatives. Supporting and sustaining credible self-commitments by governments of poor countries is the key concept here. In this sense, the global learning process to achieve a better development practice has just begun.

## 2. Thomas Pogge’s Cosmopolitan Approach to Global Justice

The moral philosopher Thomas Pogge is one of the most prominent representatives of a cosmopolitan approach to global justice.<sup>9</sup> The problem of persisting extreme poverty is the intense focus of much of his work. Taking into account the tremendous worldwide gap between the rich and the poor, Pogge views extreme poverty as a moral scandal. His ethics aims at remedying this problem. Being a moral philosopher, Pogge has proposed both a diagnose and a therapy for this moral grievance, and it is the incentive structure of the global institutional order that is at the center of both.

((1)) Pogge’s diagnosis consists of the argument that world poverty is caused by a structural phenomenon. According to his analysis, it is the global institutional order that harms the poor in various ways: First, wide-spread protectionism of affluent countries—tariffs, agricultural subsidies and the promotion of exports—inhibit the poor from reaping the benefits of agricultural and commodity trade. Second, he thinks that WTO regulation on intellectual property rights (TRIPS) leads to a death toll that would be, in principle, avoidable. Third, he argues that the extensive use of fossil energy sources by the rich countries causes global warming that imposes a disproportionately high burden upon the poor.

<sup>7</sup> Cf. <http://eitransparency.org>.

<sup>8</sup> For an ordonomic analysis of the APRM/NePAD cf. Beckmann (2008) XXX.

<sup>9</sup> The following analysis of Pogge’s approach is based on Pogge (2001a), Pogge (2001b), Pogge (2002b), Pogge (2002a), Pogge (2005a), Pogge (2005b) and Pogge (2005c). For a discussion of Pogge’s approach to reform the international market for pharmaceuticals cf. Pies and Hielscher (2008).

According to Thomas Pogge's diagnosis, the two most important structural deficits of the international order are the 'resource privilege' and the 'borrowing privilege'. Both privileges derive from the common practice in international relations to accept as a legitimate representative and trading partner whichever group that takes control over the respective (developing) country's coercive power. In so doing, rich countries' representatives assign to the elite group the privilege (a) to borrow money in the country's name and (b) to command over the country's resources, including the right to legally confer ownership rights of these resources. Pogge argues that both privileges involve advantages for autocratic regimes with severe negative effects to the poor in the country.

(a) The international borrowing privilege not only helps autocratic regimes and dictatorships to stay (longer) in power, even against strong popular opposition, but it also impedes and destabilizes democratic transition: It hinders a successful start-up as democratic successor governments have to shoulder not only the reform efforts but also the debt burden of its, oftentimes corrupt, autocratic predecessors. Moreover, the borrowing privilege destabilizes democratic transition as it provokes civil unrest by setting a premium for reactionary regime overthrows.

(b) Just as the borrowing privilege, the international resource privilege comprises the right "of any person or group exercising effective power within a country to confer internationally valid legal ownership rights in its natural resources"<sup>10</sup>. This privilege plays a similarly adverse role for the poor as it destabilizes the social order and provokes civil unrest in resource-affluent poor countries. First, it is of great benefit to authoritarian rulers. Second, it provides a strong incentive to their rivals who are after such a role. Thus, in many cases, citizens do not profit from their country being affluent with natural resources.

((2)) Thomas Pogge's therapy for these two major problems entails both structural reforms and compensatory measures if structural reforms are not possible. He suggests various forms of self-commitment for governments in order to solve the adverse consequences of both the borrowing and resource the privilege.

- In order to remedy the adverse incentive effects of the international borrowing privilege, Thomas Pogge suggests a constitutional amendment by young and poor democratic governments declaring that debts incurred by future reactionary regimes are not allowed to be repaid at public expense. According to Pogge, such an amendment should have the effect that future authoritarian regimes will be able to borrow less and at higher cost. In the long run, this would significantly reduce the reward for undemocratic government takeovers with the effect of lower incentives to attempt a coup d'état.<sup>11</sup>
- Pogge envisages a similar constitutional amendment in order to remedy the negative consequences of the international resource privilege. In this amendment the country shall declare that "only its constitutionally democratic governments may effect legally valid transfers of ownership rights in public property and forbids any of its governments to recognize ownership rights in property acquired from a preceding government that lacked such constitutional legitimacy"<sup>12</sup>. Pogge anticipates this amendment to inform potential (foreign) buyers of natural resources that they might be subject to claims of compensation once democracy assumes power. Hence, such

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<sup>10</sup> Pogge (2002b; p. 165).

<sup>11</sup> Pogge (2002b; p. 153 et seq.).

<sup>12</sup> sPogge (2002b; p. 163).

an amendment would reduce resource revenues for authoritarian rulers and would act as a disincentive to undemocratic coups d'état.

In addition to this strategy of supporting (self-)commitments of poor democratic governments, Pogge envisages compensatory and redistributive measures in order to tackle the problem of severe world-wide poverty. The Global Resource Dividend (GRD) is a case in point. Its basic idea is simple, but compelling: “those who make more extensive use of our planet’s resources should compensate those who, involuntarily, use very little”<sup>13</sup>. In order to eradicate poverty, Pogge envisages a ‘tax’ on a limited number of primary resources and pollutants creating a revenue stream for redistribution, high enough to raise the income of the very poor above the subsistence level.<sup>14</sup>

### 3. Comparing Theories

At this point, the interesting question is how Thomas Pogge’s theory relates to the ordonomic approach of global justice. A simple schematic model of global governance helps to compare both approaches (Figure 5).

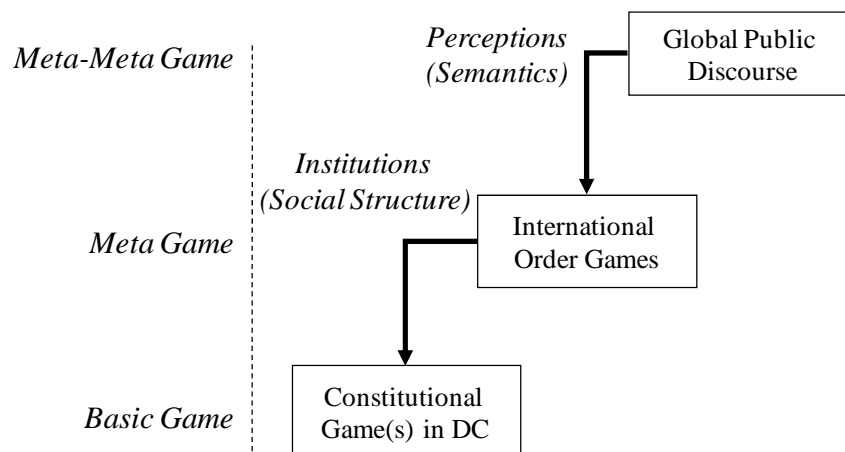


Figure 5: A stylized model of global governance

This model differentiates three levels of global governance: the constitutional game for growth in developing countries (DCs) is regarded as the basic game. The international (economic) order is seen as the meta game. In this meta game, the institutional rules are decided that shape the incentive properties—the social structure—of the basic game(s) in DCs. The third level is regarded as the meta-meta game. On this level, different perceptions and diverse ideas how to solve the problem of extreme poverty are discussed in an open global public discourse. Global ethicists and theorists of global justice join this game together with civil society organizations (CSOs), transnational corporations or state actors. It is this meta-meta game that shapes the semantics of global justice and, hence, influences the institutions of global governance that form the social structure.

In comparison, both approaches agree that on the first level the problem of global justice is a problem of extreme poverty, which results from adverse incentives in the basic

<sup>13</sup> Pogge (2002b; p. 204).

<sup>14</sup> Cf. Pogge (2002b; p. 204 et seq.).

constitutional game in DCs. Both approaches are still in the same boat when moving to the second level. Both approaches acknowledge that the global institutional order has adverse effects on the basic games in DCs.

On the third level, the interesting question is: If ethics injects arguments in the public discourse, which kind of argument is best suited for stimulating institutional reform? In ordonomic terms: Which kind of semantics is best suited in order to successfully instruct reforms of the social structure in DCs that are required in order to help the poor? On this third level, both approaches tend to differ in the generation of arguments:

(a) Thomas Pogge's theory operates with two different categories of arguments. To a large extent, his theory operates with arguments of prudence that aim at stimulating collective action for his reform proposals. Prudential arguments are arguments of self-commitment. In a nutshell, they rely on the enlightened private interest of actors in order to further public interest. To put it graphically: They aim at an orthogonal position (dashed arrow in Figure 6a).

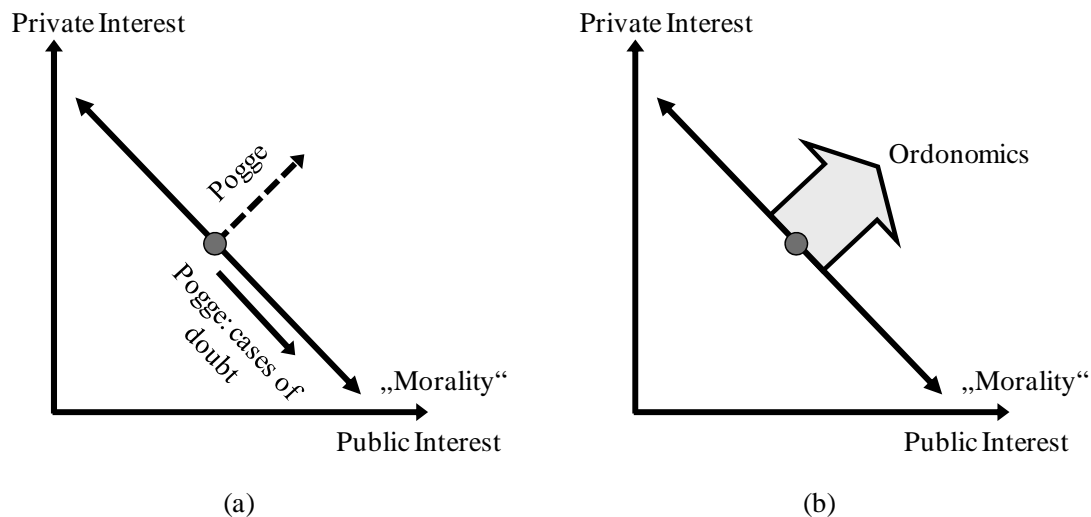


Figure 6: Semantics: Win-Lose Versus Win-Win

Interestingly, as a last resort Thomas Pogge's theory uses a normative fall-back option: the normative appeal to moral duties. In so doing, he changes his paradigm from arguments of prudence to arguments of obligation. Pogge (2001b; p. 22) writes:

“The conclusion is ... that the underfulfillment of human rights in the developing countries is not a homegrown problem, but one we greatly contribute to through the policies we pursue and the international order we impose. We have not merely a [weak] positive responsibility with regard to global poverty, like Rawls's ‘duty of assistance’, but a [strong] negative responsibility to stop imposing the existing global order and to prevent and mitigate the harms it continually causes for the world's poorest populations. Because our responsibility is negative and because so much harm can be prevented at so little cost to ourselves, the reduction of severe poverty should be our foremost moral priority.”

To put it graphically: In cases of doubt, Pogge's theory opts for the primacy of “morality”. Such a strategy runs the utopian risk of proposing in a win-lose strategy (solid arrow in Figure 6a).

(b) In contrast, the ordonomic approach consistently draws on arguments of prudence. It uses a theory design for global justice that employs a rational-choice analysis of social

dilemmas in order to identify common rule-interests in the meta-meta game. A consensus of common rule-interests facilitates the rule-reform process in the meta game. The idea is to set mutually beneficial rules for better (basic) games. Ultimately, ordonomics seeks a win-win potential precisely because it wants to foster the implementation of moral objectives in the basic game. The ordonomic approach is a heuristic to find orthogonal positions (Figure 6b).

(c) Why is this win-win perspective of such vital importance? According to the ordonomic understanding of interdependencies between social structure and semantics, a theory of global justice should display two features: First, a theory of global justice should display a theory design that constructively addresses all relevant actors. In addition to political actors, an appropriate theory of global justice should envisage business firms and civil society organizations. Second, a theory of global justice should consistently operate with arguments of prudence. Such a win-win-orientation can help to stimulate profit-maximizing business firms to take action as corporate citizens in processes of new governance.

For this reason, we argue that Thomas Pogge's approach has a blind spot with regard to processes of new governance. New initiatives such as the APRM or the EITI are just a few cases in point. Pogge's theory misses out the opportunity to encourage corporate citizenship as a means to make moral desiderata—i.e. the eradication of world-wide poverty—come true.

### *Conclusion*

Modern society is best understood as a society of organizations. As an artificial coalition of natural persons, an organization is a supra-individual entity with an essentially higher potential for individual self-commitment than ordinary citizens. In modern societies especially companies use this commitment potential to establish and to sustain mutually beneficial cooperation with their (societal and governmental) stakeholders. In this way, companies play a crucial role for technical, cultural and institutional innovation and, hence, for the creation and the dissemination of social value.

Against this backdrop, the ordonomic approach argues that a theory of justice should incorporate a theory of corporate citizenship. Such a theory should constructively address business firms as functional actors of social value creation within competitive markets. However, for a theory of global justice that addresses organizations and especially companies as relevant subjects it is advantageous to consistently operate with arguments of prudence. To put it pointedly: World-wide prosperity and poverty reduction cannot be achieved against business firms, but only together with them. The example of EITI illustrates this argument. Companies are the major engines of growth and poverty reduction and, hence, should rank among the major subjects (and objects) of a modern theory of global justice.



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