

Translation from “L’Essai sur l’oeconomie” by Pierre Calame, published at [Editions Charles-Léopold Mayer](#), Paris, 2009. Translated from French by Michael C. Behrent, reviewed by the author. All rights reserved.

Part II: The General Principles of Oeconomy

Chapter 3: The Legitimacy of Oeconomy

1. Oeconomy Must Be Legitimate

“The World Is Not For Sale”

This short sentence is the alter-globalization movement’s historic achievement. It stops in its tracks what Philippe de Woot, referring to the modern corporation, has called the “unbound Prometheus”: the unbridled expansion of commerce at the expense of all other kinds of relationship, society’s gradual dissolution into a purely instrumental construct, and the eradication of politics and the sacred. The slogan clearly leaves no doubt as to the questions that underpin it. What makes system of production and exchange legitimate? On this basis, why is the current system illegitimate? And what are the social consequences of trying to develop an illegitimate system?

To answer these questions, we must first clarify the difference between legality and legitimacy, terms that are often conflated. “Legality” refers to the elaboration of rules that are

consistent with existing laws and to the fact that individuals and organizations, particularly those in power, obey them. “Legality” thus relates to concrete fact. “Legitimacy,” however, is an ideal. It expresses society’s aspiration to be well-governed and to undergo constraint only to the extent that it serves the collective interest: it is acceptable that authority constrain me, as long as I feel that it does so in my (or society’s) interest.

Over the last fifty years, democratic societies have discovered that legality alone does not render power legitimate. Legality became recognized as a political dead end. If democracy means that citizens chose their own laws and rulers, how could they later decide that these laws and leaders were illegitimate? Strange as it sounds, this has clearly happened.

To what extent does legitimacy apply to producers, distributors, and the financial sector? Political power’s legitimacy derives from the fact that it limits each individual’s freedom and autonomy in the interest of the common good. Can legitimacy thus understood be extended to companies, supermarkets, and banks? Corporate executives do not restrict individual freedom and autonomy in the same way that legal restrictions or fiscal regulations do. However, in my view, the question of legitimacy is applicable to power in all its forms. Let us consider an example. Since 2003-2004, there has been a great debate, in the United States as well as Europe, over executive salaries. Corporate boards replied to their critics strictly on the basis of legality: chief executives are appointed by corporate boards, which had no objections to these salaries, which themselves was approved by the salary committee ... and so on.

But the “legality” of these decisions did nothing to make the situation less scandalous. This was not merely a debate internal to corporations; it was a debate occurring within society at large. Major corporations are, as it has been said, the “pivotal actors” of our age: the entire system is built around them. They play a decisive role in determining our hierarchy of values and in distributing social status. The hierarchy implicit in corporate salaries reflects society’s self-image. Moral guidelines are even more important than laws to social cohesion. Consequently, society does not see the public regulations that companies are required to follow and the private rules resulting from its internal organization as separate realms, one public and the other private. Rather, they are seen as two mutually constitutive components, which reflect social values and that must thus be exercised in a legitimate way.

Any power, be it public or private, must be considered in terms of its legitimacy. This question applies both to power’s origin and to its practice. The problem of legitimacy is simultaneously a philosophical, ethical, historical, political, and sociological question. Our present economy refuses to distinguish the juridical problem—a company’s legal status and the law that regulates its activity—from operational issues—the optimal actions required to achieve a company’s goals. Consequently, we simply accept the assumption that the market’s “invisible hand” will inevitably result in the common good. While this could potentially be true of a network of small companies, in which no one company has an identifiable impact on social life, it

becomes absurd when the vast majority of production and exchange is structured into major global supply chains, which themselves are organized by and around multinational corporations.

This is so true that corporate leaders have begun to define the common good in their own terms. Is this taking things too far? Paul Dembinksi, in *Finance & The Common Good/Bien Commun*, describes a report published in early 2006 by the World Business Council for Sustainable Development (WBCSD).¹ It presents “enlightened corporate leadership’s” vision of business’s future role. With no hint of irony, the authors describe themselves as “tomorrow’s leaders.” Taking note of the inability of political leaders to manage a globalized world, they assert their moral obligation to take command. This is the kind of rhetoric that has become familiar at Davos. One can only applaud this sense of responsibility; however, what follows sends shivers down one’s spine. “Tomorrow’s leaders” deem that “shareholder values” (i.e., profit on investments) is the moral standard that business offers to society. They further believe that business must enter into realms of human activity to which it has hitherto been denied access, bringing more people into the market system, and thus making them happier. Paul Dembinksi concludes: “tomorrow’s” [self-proclaimed] leaders” take themselves to be the judges of the common good, as if they had particular insight into what it is and how it can be attained! This is the breathtaking pretention that the slogan “the world is not for sale” denounces.

¹ *Finance & the Common Good/Bien Commun* 24, Spring-Summer 2006, Observatoire de la finance, Geneva.

For oeconomy, the question of legitimacy can be approached from two angles: the legitimacy of the system and the legitimacy of actors. In this chapter, I shall focus on the latter. The legitimacy of the system will be addressed when considering the institutional arrangements that organize production and exchange. Oeconomy's legitimacy arises from the ability of human societies to subordinate production and exchange mechanisms (i.e., the economic system) to non-economic ends and to create mechanisms that optimize the use of scarce resources. The two ideas are related. Even a child knows that to make the best of scarce resources, you need to know what you are trying to achieve! An old Chinese proverb says: "When the wise man points to the moon, the fool looks at his finger." Our exclusive focus on optimizing mechanisms and our ignorance of ultimate ends have turned us into a society that can only stare dumbly at the wise man's finger.

Speaking of China, let us consider Lu Jia. Twenty-two centuries ago, he wrote *New Principles of Politics* (or *Xinyu*) for Liu Bang, the founder of the Han Empire. Its purpose was to explain why certain dynasties last.² "Why do regimes fall?" he asks. His answer: because they are based on false principles and unworthy men. He adds: "The more wars that Qin [China's famous "first emperor"] fought, the more insurrection raged, the more the law punished, the more the empire went up in flames." Under a legitimate regime, however, "subjects are respectful without the threat of punishment and zealous without the hope of reward." This outlook is worlds apart from the values that lead to the brutal dismissal of CEOs who fail to give stockholders their much

² Liu Jia, *New Principles of Politics*.

hoped for profits or that dangle stock options before greedy executives. Lu Jia offers a perfect definition of legitimacy's two major elements: just principles and worthy leaders (by worthy, I mean that they are both competent and reliable). These are the two elements that this chapter will explore.

Applying the General Principles of Legitimacy to Oeconomy

In my previous book, I identified five criteria that define legitimacy:

- A. Power must be exercised in the name of a need expressed by a community, of a common good;
- B. Power and its rules must be fair;
- C. Power must be exercised in a way that is consistent with shared and recognized values and principles;
- D. Power must be exercised efficiently by competent and trustworthy leaders.
- E. Legitimacy Implies the Principle of "Least Possible Constraint" must be exercised according to the rule of the lesser constraint.

In what follows, we shall use these five criteria to consider what makes an oeconomy legitimate.

A. Oeconomic Activity Must Fulfill a Communal Need

A company is only legitimate to the extent that it contributes to the common good. Yet when arguments for the common good lose their relevance and urgency, constraints imposed in their name will be increasingly ignored, losing their legitimacy in the process. The same principle is also at play within companies. In an economy that increasingly relies on cooperation and mobilizing knowledge, talents cannot be enlisted in the kind of mechanical way appropriate to hiring workers for an assembly line. You can't address slices of "available brain power" (as Patrick Le Lay, the CEO of the French television station TF1, once put it, speaking of the way commercials often appeal to viewers). This is so true that there are even those who prefer perfunctory jobs that keep their minds free to "difficult" jobs requiring them to devote their mental energies to goals that are not of their own choosing. As added value is increasingly produced by non-mechanical labor, and as mechanical labor is either automated or replaced by cheaper manpower in other countries, it has become increasingly necessary to convince all employees that the pursuit of purely economic ends (i.e., profit) contributes to the common good. Yet when this charming fable loses credibility, companies find themselves compelled (often publicly) to consider the social value of what and how they produce.

A study of the oil sector commissioned in the early 2000s by the investment bank Goldman Sachs suggests why companies must recruit talented employees.³ Adopting the perspective of a long-term investor, the report essentially recommends investing only in oil companies that are already deeply committed to renewable energy and that have acted as “good citizens” in their host counties. While this statement is interesting in itself, the reasons for which Goldman Sachs chose to endorse it are even more instructive. The oil business, according to Antony King, the report’s author, is growing increasingly complex. It participates in a competitive international market. It depends on drilling and transportation techniques that are becoming increasingly sophisticated, even as accessible resources diminish. In other words, the days when all an oil entrepreneur needed to become rich was a geologist to find a place to drill and a driller to drill a hole are definitely over. The companies that will be successful over the long run are those that can manage complex projects. And this depends on their ability to attract young talent. Yet talented young people, the report observe, are not motivated by money alone. Offering them piles of money is not enough: they want meaningful lives. Imagine that! Would they even consider working for companies that deliberately ignore the common good?

The Goldman Sachs report reaches conclusions similar to those of the international investigation led by Vincent Commenne and Écosol on the social and environmental

³ The report is available on Goldman Sachs’ website: <http://www2.goldmansachs.com>.

responsibility of economic actors.⁴ Of the various factors that contribute to a sense of social and environmental responsibility, Commenne places the search for “meaning” near the top. The more employees are qualified and potentially mobile on the labor market—i.e., the more attractive they are to companies—the more the meaning of their work is likely to matter to them.

A philosophy teacher at a prestigious business school once told me: “My students fall into three groups. First, there are the madmen, who are completely invested in the system, think of nothing but their careers, and will continue to do so, without regrets, for the rest of their lives. Then there are the seekers, who wonder about the meaning of it all—and particularly the meaning of traditional business; they tend to seek out careers in not-for-profit organizations, even if this means they will earn considerably less than in business jobs. Finally, the largest group is always those who fall somewhere between these extremes: they believe what they are taught, yet, forty years down the road, they find themselves lying on a shrink’s couch.

Corporate legitimacy also depends on the social prestige of top executives. Gilles Merritt, the chairman of Friends of Europe and a former correspondent for the *Financial Times* (who, consequently, can hardly be suspected of leftism) once observed that “companies have already lost the media war.” A Gallup Institute international public opinion polls confirms this insight. In terms of public trust, corporate executives come in near the bottom (only politicians fare worse). For a system that is supposedly based on democracy and business, this news is hardly reassuring.

⁴ Vincent Commenne. ed., *Responsabilité sociale et environnementale: l’engagement des acteurs économiques*, Éd. Charles Léopold Mayer, 2006.

But it gives us a concrete example of the discrepancy between legality and legitimacy. Thierry Jeantet and Jean-Philippe Poulnot have analyzed the recent popularity of businesses based on the principles of “social economy,” which, once the late nineteenth-century enthusiasm for mutualism lost out to unrestrained global competition, seemed on the verge of losing their identity. Three billion people, Jeantet and Poulnot observe, participate directly or indirectly in cooperatives (you, reader, may also participate through a mutual company). The reason that such companies are being born again is that they are congenitally concerned with the nature and distribution of the goods they produce, as well as with the right of each individual to be a full-fledged economic actor.

While legitimacy is a question that companies grapple with internally, it is one posed even more acutely externally. In a previous chapter, we showed that when companies seek to apply market laws to the production and distribution of goods that by their very nature fall outside their purview, companies cease to fulfill a communal need.

When this occurs, companies try to re-legitimize themselves by paying lip-service to well-meaning generalities, such as “wealth creation,” “job creation,” or “knowledge creation.” These mantras, which CEOs chant to prove their civic virtue, are often professed by the self-proclaimed “enlightened leadership” of the World Business Council on Sustainable Development (WBCSD). Their arguments remind me of the post-World War II “social contract” between scientists and society. This contract (which has been nicely explained by Jacques Mirenowicz) is founded on

the following reasoning: now that the war is over, all the scientific energy that was mobilized to save democracy (symbolized by the Manhattan project) must be converted back to civilian purposes; this means advancing science through public funding; this funding will stimulate applied sciences, which will stimulate innovation, which will stimulate growth, which will ensure social cohesion and peace. This reasoning, it should be added, has yet to be proven.

I am tempted to describe the “Thirty Glorious Years”—the period of postwar growth covering roughly 1945 to 1975—as resulting from a similar pact between society and business. The society relinquished its right to define economic priorities, allowing business to do so instead. Society’s needs and the laws of the market being what they are, the thinking went, business would have no choice, if it wanted to survive and grow, to meet real needs. In return, business would guarantee prosperity, economic development, and full employment.

Yet for science as well as for business, the implicit post-war contract has lost its meaning. Consequently, science and business have lost their a great deal of their legitimacy. The more educated people are, the more likely it is that they will be skeptical about technological progress. Similarly, the better they are informed, the more likely they are to doubt the current economy’s capacity to produce goods and services that satisfy genuine collective needs. It is evident that businesses are desperate to create new needs simply in order to keep the economic machine going, forcing it consume more and more non-renewable resources. In 2007-2008, the financial system went into a tailspin and the price of oil shot up. Awakening from a dream isn’t easy.

In order to keep some legitimacy in the developed countries where they once were founded, companies can play two cards: job creation and the preservation of higher standards of living than developing countries. Both cards need a second look. Clearly, most companies are joining the service sector: services, particularly people-oriented services, are what create jobs. The path to new forms of economic activity is wide open. As I see it, they will blend features of the traditional company and the mutualist, territorially-based company: they will be able, like the former, to recruit intelligence and talent, while, like the latter, addressing a community's broader needs. As for higher standards of living, are companies really well positioned to defend them? This desire is best symbolized by the Lisbon declaration. Europe, it declares, is destined to be the most competitive and prosperous continent, because it is on the cutting edge of innovation and the knowledge economy. As we have seen, this is why Daniel Cohen maintains that the United States will remain supreme despite the costs of empire: American growth, he argues, is "Schumpeterian," in that it depends on a capacity for innovation. Yet this argument will most likely be valid for only another twenty or thirty years, but not more. In the first place, knowledge and know-how are goods that multiply when they are shared. Using them to create monopolistic income is deeply illegitimate. Secondly, large Asian countries, particularly China and India, are, in the long run, equally if not better equipped than Europe and the United States to develop knowledge-based economies. Moreover, they are driven by a spirited and legitimate desire for revenge. One way or another, they are winning back the position of prosperity they deserve.

Whether by negotiation or force, they insist on their legitimate right to the planet's natural resources. This is the message that China's leaders sought to send to the world through their spectacular handling of the 2008 Olympics.

There is, consequently, no economic alternative to legitimate actors and processes—i.e., meaningful contexts, frameworks, and solidarity whose activity is clearly aimed at social goals, evaluated on the basis of social utility, and contributing in a measurable way to the population's overall well-being. This is what institutional arrangements must seek to invent.

B. Economic Power Means Fairness

“It's not fair!” What parent, grandparent, or teacher has not heard a small child utter these words? They are usually followed by an adult patiently explaining why things are the way they are. These might include fairly sophisticated economic explanations, perhaps relating to price formation or the nature of competition. Still, the child will often reply: “Fine. But it's still not fair!” The child, needless to say, is often in the right. A society can function without equality, but it cannot function over the long run—and, more importantly, it cannot expect sacrifices of its members—unless social inequalities rest on criteria that are commonly accepted.

As they pertain to governance's legitimacy, the terms “right” and “just” must be considered in a moral rather than a strictly juridical sense. “Just” does not simply mean “in

keeping with the law.” One only has to think of how the most powerful states and companies hire the most expensive lawyers to take full measure of the difference between juridical and moral justice.

I remember a French construction company (whose name I will generously omit) that would start a grievance file on the very day it signed a contract. Warren Buffet, the American billionaire who recently handed over most of his fortune to the Bill and Melissa Gates Foundation, has observed: “More people have been killed by pens than guns.” Another, older anecdote is a useful remind of fairness’s importance to a system’s legitimacy. In the early nineties, there was an unused offshore drilling platform named the Brent Spar. The company that owned it, Shell, had planned to sink it in the Atlantic in 1995. Greenpeace threatened a campaign, arguing that the platform still contained 5000 tons of oil and 1300 tons of chemical products, creating a serious pollution risk in the North Atlantic. This campaign (in which European consumers boycotted Shell products) proved so effective that the company retreated, cancelling the decision to sink the platform. Yet it turned out that the information disseminated by Greenpeace was false—as its executive director, Lord Melchett, admitted in a letter of apology written on Shell’s behalf. The interesting thing about this story (which, incidentally, encouraged Shell to take sustainable development seriously) is what it says about the impact on public opinion (particularly in Great Britain) of information that is false yet nonetheless credible, at least at first glance. Several years later, an English friend offered an explanation that I found quite

persuasive. English households, he explained, face pressure to conform to environmental regulations. They know what it will cost them if they are caught loading an old washing machine onto a boat to dump it in the sea. Yet because Shell is big and powerful, it gets away with dumping into the sea the equivalent of an enormous washing machine!

Fairness is about ends, not means. “Is each person or each people (regardless of their power) given equal consideration and an equal opportunity to be heard? Is each person treated similarly? Does each individual receive the same rights? Are he and she subject to the same constraints, demands, and penalties?” This is how, in my previous book, I defined the principle of fairness. But how does it translate into the field of oeconomy? Once again, I will distinguish between the internal functioning of economic actors, on one hand, and to rules and contracts, on the other.

The most familiar meaning of the fairness principle is “to each according to his merits.” This notion is, of course, eminently subjective. Clearly, because different societies define merit and effort differently, their conceptions of what a fair wage is vary considerably. On the other hand, the idea that some wage disparities are acceptable seems universally accepted. It is for this reason that the debate in the early 2000s about executive salaries is so significant. At a macroeconomic level, the pay received by several hundred executives is, after all, rather insignificant: even if their salaries are exorbitant, so few individuals are concerned that the aggregate sum is negligible. Even so, the discrepancy could demoralize society as a whole. This

is all the more true when, as was the case with Vivendi chairman Jean-Marie Messier, the reward principle only goes in one direction: i.e., you get an enormous bonus when the company does well, but when its shareholder value crashes disastrously, you still get a golden parachute. The losses are recouped by the little guy. Following on the heels of the Jean-Claude Haberer affair (relating to the former chairman of Crédit Lyonnais), the Messier affair lent credence to the belief that an economic, administrative, and political elite exists which follows its own laws and even its own honor code, rather than those followed by everyone else. In France, the president's legal immunity and his right to grant selective amnesties reinforce the idea that the system is corrupt—the very idea upon which populism has historically thrived. Society needs standards. It needs to believe in its institutions, and it needs that public and private morality be based on the same principles.

Jared Diamond goes one step further.⁵ He claims that the societies which are prone to self-destruction or which are particularly vulnerable to foreign aggression are those, like the Incan Empire, in which political rivalry is so intense that they cannot unite even when faced with a life-threatening danger, and in which political and economic “elites” are shielded from the dangers that afflict common people. In his remarkable book, *Le Management de l'extrême* (The Management of the Extreme), Michel Berry, the director of the Paris Management School,

⁵ Jared Diamond, “Et si nous disparaissions comme les Mayas?,” in *Courrier international*, 751, March 24-30, 2005.

discusses several crisis-ridden companies.⁶ Having leaders who are “in the same boat” (both literally and figuratively) as everyone else is crucial, his examples suggest, to a boat’s ability to weather a storm.

We all have a profound need to belong to society, to institutions, and to the human adventure. “Give them a tower to build, and you will make brothers of them,” the African historian Joseph Ki-Zerbo liked to say. Yet it is important, when the fruits of common effort are distributed, not to feel betrayed.

I have already described the historical circumstances that led shareholders, first in the United States and then in the rest of the Western world, to reassert their power against the growing autonomy of corporate structures that would systematically reinvest profits in pursuit of relentless growth. The pendulum swang back to what might be called “shareholders’ values.” In *Le nouvel âge du capitalisme* (Capitalism’s New Era),⁷ which deals with the Vivendi and the Enron affairs, Eli Cohen shows how Michael Jensen replaced John Kenneth Galbraith as modern capitalism’s economist of a choice. Galbraith celebrated the role of technical structures and maintained that replacement of capital by organized intelligence was crucial to economic development. According to Jensen, however, this replacement produced bad business strategy: “Certain executives’ desire to extend the scope of their companies’ activities reduced the deployed capital’s efficiency, as a company that branches out into several different activities

⁶ Michel Berry, *Management de l’extrême. Des patrons en pleine crise*, Autrement, 2006.

⁷ Eli Cohen, *Le nouvel âge du capitalisme*, Fayard, 2005.

cannot achieve optimal success in any one of them.” According to Cohen, this new theory of the firm emerged out of the serious crisis that American companies faced in the early eighties, when they were threatened by corporate raiders.⁸

Unfortunately, one of the consequences of the reassertion of shareholder power, in the triangular game played by employees, executives, and shareholders, was to lure executives into taking the shareholders’ side. This was the purpose of stock options. Corporate prestige now meant pay, not power. Consequently, to return to Diamond’s model, solidarity between employees and executives broke down. In the short term, this collapse may have facilitated the rapid restructuring of the American entrepreneurial system. But over the long run, its sociological drawbacks were severe. It destroyed trust in the corporate elite. Business leaders now seem to be living on another planet. The next time a serious crisis strikes, they most likely will pay dearly.⁹

For leaders, one of the most basic principles of fairness is a willingness to expect of oneself the same things one expects of others. “To each according to his merit” does not fully encompass the fairness principle. It also implies equality in treatment.

Let me mention two applications of this principle. The first, which has already been mentioned, concerns natural resources and water, a natural good and a life necessity. Oeconomy

⁸ “Corporate raiders” were financial entrepreneurs who tracked down companies that were either poorly managed, or which had failed to adapt to deregulation.

⁹ Note from December 2008: The crisis has now occurred. Society can now see that business leaders viewed themselves as subject to different laws and a different ethical code from everyone else. In France, the public coffers that the President had recently declared empty were suddenly full enough to rush to the financial system’s rescue. However sound the objective reasons of such actions might be, ordinary people, seeing that the corporate executives who caused the failure were not even contrite, can only conclude (like children): “Yes, but it’s not fair.”

can deprive no one of basic goods, especially when they are not man-made. This is why the principle of fairness stipulates that whatever the technical and economic demands of water management, everyone is entitled to a minimum, non-negotiable share. The second application relates to climate. During international negotiations in the eighties, the fairness principle was ably defended by the Indian environmentalist Anil Agarwal. He observed that the reason why the climate was not changing faster, despite rich countries' massive carbon dioxide emissions, was because "carbon wells" in the biosphere were absorbing much of the surplus. Did this imply that the carbon wells belonged to the earth's inhabitants in proportion to the amount of pollution they emitted? Obviously not—that would completely violate the fairness principle. This principle should lead us, when we consider institutional arrangements in detail, to a formula that defines negotiable quotas which are premised on an equal distribution of the earth's limited resources between its inhabitants.

The question of equal treatment can also be applied to the rules of international negotiation in the economic realm. I have personally observed the international order's potentially demoralizing effects when wealthy countries take advantage of their asymmetrical relations with poor countries to apply a judicial double standards. It can be summed up as: "do what I say, but don't say what I do." The West, led by the United States and France, is liberal when it is out to conquer new markets, but protectionist when it wants to defend its farmers or leading national companies. It thus permanently damages trust in the prospect of an equitable

international order. As La Fontaine once said, a court will see you as white or black depending on whether you are rich or poor. The most recent failure of the Doha cycle, in the summer of 2008, confirmed this attitude.¹⁰ One might thus propose a more expansive fairness principle, based on moderating the use of force. Oeconomy is constantly creating relations between actors that differ dramatically in terms of power: small and larger companies, corporations and financial institutions, territories and corporations, unqualified and qualified labor, and so on. These relationships often boil down to one between immobility and mobility. The former have to play the game, whereas the latter have a choice. The relentless and reckless deployment of power relations leads to profound inequities. The “rational” implementation of power relations may appear to benefit the most mobile, but only at the serious cost of undermining oeconomy’s legitimacy itself.

Only rules imposed by public authority can reestablish trust. Doing so requires a moral posture of self-moderation. Thus no matter how sophisticated the structures that one deploys may be, oeconomy, like democracy, ultimately rests on shared values. As it should!

C. Oeconomy’s Legitimacy Rests on Shared and Recognized Values and Principles

¹⁰ The Doha round is a series of negotiations held sponsored by World Trade Organization. They seek to liberalize international trade. One of their goals is the development of the South.

There can be no oeconomy without trust or a shared ethos. A society rests on values. Governance cannot disregard these values—though this often occurs in the economic realm, when efficiency is placed above all other concerns. Nor can governance abide by ethical codes that the rest of society sees as alien.

It was by studying governance in Africa, Latin American, and in former colonies that I realized that successful governance must be rooted in a society's culture.

This is particularly true for oeconomy. At the end of the day, oeconomy depends on relationships of trust. This has been paper money's historical problem. What kind of alchemy convinced us that worthless bits of paper were as valuable as gold? One word: trust. The subprime crisis that struck the United States in 2007 and which, thanks to the generalized securitization of dubious loans, subsequently spread across the world, offers an excellent example of the importance of trust. In this crisis, trust was twofold: the trust that ordinary citizens had in their banks, which were presumed to be competent and aware of their risk exposure; and the degree to which major banks trusted one another—a belief on which the entire system depends.¹¹ In this sense, the subprime crisis was not just another speculative bubble that burst, like the Internet bubble in 1999-2000. These busts can always be analyzed in the same way: an excessive interest in a particular good pushes up prices, as expectations about the profits to be made from reselling the good increase—until the moment when a reality check turns the very mechanism

¹¹ See, for example, Robert Guttman, "A Primer on Finance-Led Capitalism and its Crisis," *Revue de la regulation* 3/4, 2nd semester 2008.

that had been generating profits into one that produces losses. Thanks to the subprime crisis—to which one must add, in France, the Société Générale affair (in which a single poorly supervised trader supposedly cost his bank five billion euros), ordinary citizens discovered that major banks are unable to control their own employees and have only the vaguest idea of the value of the securities in their possession, and thus of the risks to which they are exposed. More serious still, major banks ceased to trust one another, paralyzing the international credit system. Trust is so essential that in the real economy, much information is transmitted orally, whether it be financial decisions, relations between suppliers and sub-contractor, or matters discussed by a single work team. Written confirmation often comes later, “just to follow the rules,” “for the accounting department,” or “for the archives.” This is why both companies and territories are often called “islands of trust”: that is, a system of relationships founded on mutual dependence that is resistant and permanent enough to discourage their members from trying to “play smart” and betray each other’s trust. Such confidence is not simply based on mutual interest; it depends on a feeling of shared community, culture, and values. Oeconomy, like governance, could never exist without ethics.

In *La Démocratie en Miettes*, I explained that a system in which interdependency is globalized (which the economy is twice over, because it undergoes some forms of interdependency passively, while accepting other forms voluntarily), there could be no transcendent ethical foundation, as the world’s different societies shared no common faith.

Consequently, the ethical foundation that social life, and particularly economic life, requires must be constructed. I thus suggested that global society must be a contractual society—i.e., a society based on a contract.

By “contract,” I mean both the moral and social sense of the word, rather than its strictly juridical meaning. A contractual society is a community that is united both by shared values and mutual obligations.

This is an important distinction, as the following anecdote illustrates. At the beginning of the 1990s, a study examined misunderstandings between European and Chinese companies. The conclusion could be summed up in a single sentence: whereas for the Chinese, trust between company leaders ensured that (juridical) contracts were respected, for the Europeans, respecting contracts fostered trust.

On what can a common ethical foundation be based? Intercultural and interreligious research carried out by the Alliance for a Responsible, Plural, and United World shows that the shared ethical foundation of global society—and indeed, of any contractual society—is responsibility.¹²

The very nature of responsibility, which is the counterpart of interdependence and freedom, has, as Hans Jonas demonstrated, changed as the scale of interdependence has changed.

¹² See the Charter for Human Responsibilities at : <http://www.carta-responsabilidades-humanas.net>. To learn more about how the Charter was written and adopted by the World Assembly of Citizens at Lille in December 2000, see [voir www.alliance21.org](http://www.alliance21.org).

Material responsibility towards small communities has given way to far more extensive responsibility to the human community in its entirety.

The Charter of Human Responsibilities, which was drafted by the Alliance, identifies three forms of responsibility:

- I am responsible of the direct and indirect impact of my actions, even if this impact is not predictable and even if its effects only become apparent when many others behave similarly.

For example, my responsibility for the greenhouse effect or the ozone hole is proportional to the emissions I release into the atmosphere, even though these emissions are only disastrous insofar as a very large number of people behave in the same way that I do. Responsibility for an action thus becomes dissociated from the intentionality of the actor and the immediacy of its impact.

- My responsibility is proportional to my knowledge and to my powers. In other words, each of us, whether weak or mighty, has some measure of responsibility—but it is a function of our actual or potential capacity to impact the world.

- I cannot plead impotence to justify my lack of responsibility unless I have done everything in my power to work with others to give myself the ability to effect change. In other words, power is not merely given; it is constructed. We all have a duty not to be impotent.

Naturally, these three forms of responsibility apply to oeconomy. It could even be said that thinking about responsibility has been one of the main driving forces for practical change over the past decade.

Consider consumer responsibility. What began as a few individuals' personal desire to bring their actions in line with their convictions (buying organic products, avoiding driving, boycotting companies that mistreat their employees) has become an undertaking that is genuinely political, in the original sense of the word—a willingness to act collectively to change economic and financial behavior. This is how, for instance, major consumer-driven media campaigns were led against Nestlé, Nike, and Shell, among others.

Consumer movements realized that in the new economy, major companies owed much of their value to their brand's reputation. Trust in brand-names was quasi- and even explicitly contractual: it significantly determines the value of the product and services they sell.

D. Legitimate Power Is Exercised Efficiently by Competent and Trustworthy Leaders

The legitimacy of our present economic leaders depends on two questions: are they competent? And are they trustworthy? I mean “trustworthy” in the literal sense: worthy of being trusted, worthy of being followed.

Versions of these questions have been asked since the earliest times. It becomes particularly important in the age of economic globalization, for in a system of globalized production and exchange, the lag between leadership decisions (particularly in large companies) and the ultimate impact of these decisions has increased considerably. Nothing illustrates this lag

more than aggressive corporate expansion through mergers and acquisitions. Though this trend may be economically justified, to the public, as well to for the employees of the companies concerned, it looks like a giant Monopoly game, in which they are pawns that can be bought and sold, and used as currency.

There has always been a gap between the interests of shareholders, who are a company's owners, and those of employees. The internationalization of the economy as well as of shareholding has nonetheless created the impression that corporate executives are no longer on the same planet as ordinary employees, and that their respective ways of thinking have become completely alien to one another.

Will this gap continue to exist? It is unlikely. Can it be overcome? Certainly. To do so, two paths need to be explored.

The first path involves bringing the activity of production and a product's final distribution to consumers into closer contact, making the production process more concrete. I will consider this hypothesis' scope and limits later in this book, so I will not linger on it for now.

The second path, assuming that the production system continues to be organized on an international scale, seeks new guarantees from international corporate executives in response to three questions:

- Who chooses them? What have they committed to achieve?
- What are their ways of thinking?

- To whom are they accountable?

First, who chooses them? As long as production- and distribution-oriented companies remain, legally speaking, an association of shareholders (i.e., co-owners of capital), it is difficult to imagine that it will not be they who choose their leadership. Even so, this selection could, in the future, be subject to several conditions. This trend would belong to a broader transformation in property rights: rather than being understood as absolute, in the Roman sense, property is becoming increasingly “functional,” i.e., it is recognized insofar as a certain number of principles are respected or a certain number of goals are achieved. One could imagine the selection of a chief executive requiring a preliminary stage, in which the candidates would be required to present their core beliefs—the principles to which they are resolutely committed, whatsoever the consequences for the company might be—to their employees, suppliers, sub-contractors, and clients.

This would, in short, be a way of recognizing the fact that today the power wielded by major companies is genuinely political, and that its capacity to impact the common good is so great that the commitments of business leaders cannot be exclusively to their companies ‘shareholders.

Second, what are the ways of thinking of business leaders and particularly of pension funds managers? Are they able to make commitments over the long run? Are they genuinely engaged in their companies’ project, or are they exclusively concerned with short-term gains?

Are they exclusively and solely committed to their shareholders? Or are they also concerned with the wellbeing and prosperity of those (such as their suppliers, their sub-contractors, their employees, and consumers) who depend on their actions? Are they concerned with society's prosperity overall? These questions are anything but secondary. Consider the business leaders' declaration at the World Business Council on Sustainable Development. These leaders declare themselves to be tomorrow's leaders; it's useful to know what they are thinking and where they intend to take us. By "tomorrow," do they mean behavior that leads us to a long-term transition, upon which humanity's fate depends? Or do they simply mean a lot of short-term sequences added up?

Research presented several years ago by the Paris School of Management explains why family businesses—that is, with a core of family capital—do better than others over the long term. The reason is obvious: for companies based on a family capital, lasting achievements (which are often closely identified with family tradition) trump short-term profits. Who wouldn't put their trust in an individual or a group that ties its destiny to a collective undertaking, even if they occasionally make mistakes? Companies lose their legitimacy the more they resemble mining operations, which seek to make the maximum possible profit in the least possible time, even if it means leaving ruins behind them. A representative of the Protestant Federation of France once said: "I trust people who plant oak trees more than those who plant poplar trees, because the former know that they won't be around to enjoy their efforts." Is it possible for business leaders

to be oak tree planters? Can legislation be pushed in this direction? This is a vast terrain that needs further exploration.

Concerning pension funds, for instance, the 2004 report of the United Nations Environmental Program on responsible investment, which draws on fourteen studies of supply chains by financial analysts, concludes that existing financial analyses do not take into account the “unpaid environmental debt.”¹³ The report recommended to modify legislation pertaining to the responsibility of financial managers, especially pension fund managers, whose excessively limited mandates (“act in the best interest of one’s employees”) promotes short-term profits.

Why not, for instance, defer a portion of business leaders’ pay, making it dependant on their companies’ prosperity fifteen or twenty years down the line? This would be a way of bringing their way of thinking more in line with family-based companies. Or, contrary to the current stock-option system, part of their pay could depend on overall global prosperity. I will return to these points in the chapter on currency, by showing how currency’s “reserve value” function might work in the future.

Third and last question: to whom must leaders answer? Law and political systems lag behind reality. The discourse of international institutions on political governance emphasizes accountability. But this applies only to the relationship between citizens and political leaders on a national scale. Yet national political leaders—the very embodiment of immobility—find

¹³ UNEP Finance Initiative, Innovative Financing Force Sustainability. See its website: www.unepfi.net.

themselves in positions of weakness compared to international capital—which is, on the other hand, extremely mobile. And because global governance is behind the curve, capital is accountable, yet again, to no one but its shareholders. The usual juridical and political framework, which treats companies as a homogenous category of economic actors, no longer reflects reality. A chasm lies between a multinational corporation and one of its local subcontractors.

In the first part of this book, I explained why very large corporations (say, the 800 largest, which represent more than two-thirds of stock market capital) are the modern world's pivotal actors. Consequently, they should be subject to international law. The direct and indirect impact of corporate behavior and the legal responsibility of shareholders and business leaders should fall within the jurisdiction of an international court. We already have class action suits, and they pose a real threat to shareholders and consumers. But these are cases tried in national courts, or, in the United States, in state courts. The classic example is the class action that American consumers brought against tobacco companies.

Trade disputes are now decided by the WTO. But even these cases only concern relations between states. WTO should see its jurisdiction extended, allowing it to consider disputes between major corporations and other relevant parties. Where does one draw the line separating that which continues to fall under national law and that which is subject to international law? The facts speak for themselves. One could adopt broader criteria—for instance, companies that make

over 50% of their sales outside their home country's territory; narrower criteria—such as consolidated sales in excess of a particular sum, for example \$10 or even \$50 billion; or, measure companies in relation to national GDP—i.e., companies whose turnover exceeds the median of national GDP.

Creating such jurisdiction would have two consequences: a juridical effect, which would most likely be quite limited initially, as enquiries would presumably be long and complicated; and another, more immediate effect, that would perhaps act as a deterrent: the largest companies would be far more concerned with their reputation than with a fine. A threat to one's reputation is more serious and more lasting.

Furthermore, major companies must start keeping consolidated corporate balance sheets, incorporating not only their branches but also their sub-contractors. These balance sheets must demonstrate the ways in which they manage the four kinds of goods and services.

The UNDP report (mentioned above) emphasizes that the social and environmental impact of companies is at present difficult to determine accurately, given the diversity of national legislation. The establishment of common rules for the largest corporations at an international scale would be a partial solution to these problems. It could also be contagious, and lead nation-states to establish rules that are tailored to small companies. There is no question that, at the outset, the business community will kick and scream at the new regulations. But it will quickly realize that it stands to lose more if the system ceases to be considered legitimate. This is what

George W. Bush—who is hardly associated with the alter-globalization movement—realized after the Enron affair; this is what led to the nearly unanimous adoption of the Sarbanes-Oxley Act by both houses of the US Congress in July 2002: it is better to accept the new constraints than to undermine trust in the system as a whole. The Sarbanes-Oxley provoked considerable controversy in the United States. It made several important innovations.¹⁴ Some are fairly conventional. They spring up each time a financial crisis occurs; they relate to auditors' conflicts of interest, investment banks, rating agencies, and insider trading. Others are less familiar, and are on the same page as my own arguments: they seek to increase the legal and even penal responsibility of business leaders, whether they be board members who “do not act in a full capacity or lack the expertise required to understand the company's complexity” (nicely put, it's about getting rewarded for making decisions while having no clue as to what their consequences might be) or chief executives who are now personally accountable for the veracity of their financial reports. The law makes cooking the books, destroying accounting records (as occurred with Enron), and white collar crime more generally punishable by jail.¹⁵

¹⁴ Wikipedia has a very learned entry on the Sarbanes-Oxley Act.

¹⁵ Note from December 2008: It is a shame that Sarbanes-Oxley did not take its provisions on the legal responsibility of board members who fail to understand their companies' complexity to their logical conclusion. If they had, prisons might not have had enough room to lock up all the board members of financial companies that invested in subprimes or investment instruments that Madoff devised!

More generally, as Yann Queinnec and Marie-Caroline Caillet of the Sherpa Association argue, the Sarbanes-Oxley Act has become an “instrument for internationalizing market law.”¹⁶ Indeed, it applies to all companies that are publicly traded in the United States or that are subject, for whatever reason, to the rules of the Securities and Exchange Commission (SEC), the “US policeman” of the financial markets.¹⁷ Sarbanes-Oxley is thus a kind of rough draft of international corporate law, but a rough draft that reveals the existing chasm between the actual impact of major corporations on the market and the legal conditions in which they operate. The rules enacted by Sarbanes-Oxley are, in the first place, “international” only to the extent that most large companies are traded on the New York Stock Exchange. It is thus not a form of new international law defining the responsibilities of very large companies, negotiated on a global scale and implemented by various national jurisdictions, but a national law, adopted by the US Congress, which happens to have an international impact by virtue of the central role that the United States plays in the operation of world markets. This is true to such an extent that the law’s detractors complain that it encourages companies that can afford to leave the New York Stock Exchange to do so. Above all, the new law had only one primary objective: that of reassuring shareholders and restoring trust in the financial system. On this point, at least, the law has clearly

¹⁶ Yann Queinnec and Marie-Caroline Caillet, “Quels outils juridiques pour une régulation efficace des activités des sociétés transnationales ? ,” (What Juridical Tools Can Efficiently Regulate the Actions of Transnational Companies?”), www.asso-sherpa.org.

¹⁷ Note from December 2008: It must still be proven that those in charge are not corrupt and have at their disposal adequate means to exercise control. The Madoff affair displayed, however, the SEC’s tragic weakness. As for the means of control, the United States has reduced them as it has focused its efforts on fighting terrorism. According to a paper given by Bill Black before the Group of Paris, held in New York in November 2008 (available at www.i-r-e.org), only two inspectors are available for every 500,000 instances of financial fraud committed.

failed. One of the Enron scandal's most salient features was the fact that "several of the most important banks had agreed to make significant loans to the company, without understanding or in complete ignorance of the risks they were taking." Compared to the subprimes crisis of 2007, when most of the world's major banks bought securities that were based on bad loans "without understanding or in complete ignorance of the risks they were taking," the Enron affair looks in retrospect like child's play. To my knowledge, no bank executive has yet to face penal consequences for this "indiscretion." And, like good captains, most of them remain "courageously" at their ships' helms.

But with the exception of the issue of responsibility to shareholders, Sarbanes-Oxley leaves the question of international law applied to large corporations completely unresolved. Basic principles of common sense—that an actor whose actions have an international impact should be subject to international jurisdiction—are completely foreign to our existing legal system.¹⁸ Despite of their transnational character, major corporations, as private legal persons, remain subject to local law. The only legal entities subject to international law are states; in theory, it is they who must punish corporate behavior. But when one recalls the relative size of states compares to that of the largest corporations, and when one remembers that the "mobility" of these companies that puts them in a stronger position in relation to the relative "immobility" of the state, it becomes clear that this assumption about the role that the state can play is highly

¹⁸ I am drawing from the article made available by Sherpa, cited above, which is very well documented. See the publications available on the site at www.asso-sherpa.org.

unrealistic. Then there is the fact that companies draw much of their power precisely from their networks of branches and sub-contractors, each of which is juridically independent from the parent company. This is known as the “*corporate veil*”—a smokescreen that allows the parent company to avoid responsibility for the behavior of its sub-contractors, despite the fact that this behavior is *de facto* determined by the policies and constraints imposed by the parent company.

Sherpa is, in France, at the forefront of practical efforts to force law, or at least the French law, to become more creative, even as it relies on existing means, in dealing with French-based transnational companies when they act irresponsibly in other countries. Their legal interventions include: strengthening requirements concerning social and environmental reporting; broadening certain legal concepts (such as concealment, in the case of goods produced by illegal means, or complicity); treating branches as representatives of parent companies in order to make the legal responsibility of the latter evident; increasing the opportunities of NGOs to sue before a court of law; and strengthening the role of national contact points (NCP), which have jurisdiction when companies fail to respect the OECD’s Guiding Principles. These proposals were submitted, in the fall of 2007, to France’s environment summit (“*Grenelle de l’Environnement*”).¹⁹ The question of the legitimacy of very large corporations, in relation to the way they put their responsibilities into practice, is currently one that is discussed in “alter-globalizationist” circles.

¹⁹ See www.asso-sherpa.org.

Addressing the environment summit on October 25 2007, president Sarkozy, a man who freely flaunts his friendship with big business, solemnly declared “it is not acceptable that parent companies are not held responsible for the environmental impact of their branches.” Obviously, this statement takes the legitimacy of the existing system as its basis, rather than that of law strictly speaking. But this is precisely what makes me think that it is now possible to go much further in imagining institutional arrangements that will lead the oeconomy’s actors to act with more responsibility, in the three ways the word has been defined by the Charter for Human Responsibilities.

There is an interesting idea to explore in Sherpa’s emphasis on contract law and competition. Many companies voluntarily adopt codes of conduct. They are typically part virtuous hot air, part clever advertising, and part genuine conviction. Catching those who violate their own codes of conduct red-handed, in the name of consumer protection and on the grounds that they have violated the contract between buyer and seller: this is an idea worth pursuing.

More generally, the question of the responsibility of oeconomic actors brings us to the idea of the contract. Sherpa has promoted the concept of the “sustainable contract,” by analogy with “sustainable development.” A sustainable contract between public and private actors would be one that respects contractual standards that might eventually be adopted as international law and contractual obligations in which “economic, social, and environmental aspects overlap.”²⁰ I

²⁰ See www.asso-sherpa.org.

will return to and expand upon this fruitful idea in the chapter on oeconomy's institutional arrangements.

E. Legitimacy Implies the Principle of “Least Possible Constraint”

Collective life and the common good require that rules, which are also limits on freedom, be respected by all. These restrictions exist in all societies. We all understand why. In most societies, these rules are so important that they have a sacred status by virtue of a reference to a transcendent (religion) or semi-transcendent (the “founding fathers” of a community) principle.

For governance to be legitimate, the limits placed on freedom and autonomy must be reduced to the strict minimum required for protecting the common good. This is what I call the principle of the “least possible constraint.” Our current economy, however, is far from satisfying this principle.

The first kinds of constraint are those that limit the freedom to engage in business. I have already mentioned the scandalous fact that there are so many idle hands in our societies while so many needs remain unsatisfied. When local exchange trading systems (LETS) began to develop, using local currencies, states had to confront the question of whether these systems were legal or whether they were simply tax shelters. Yet as long as full employment is not guaranteed, and as long as idle hands exist alongside unsatisfied needs, this question—which is perfectly natural

from a strictly fiscal perspective—is scandalous. Instead, one should ask: how can fiscal approaches, at any given moment, connect idle hands to unsatisfied needs?

In France, moreover, corporations have for years fought to limit the activities of voluntary associations, which they view as engaging in illegal competition by providing social services. But how can one argue—whatever these associations’ shortcomings—that using volunteers to help a population’s most disadvantaged members should be forbidden or severely restricted? Similarly, as we have seen, the recent European Commission directive on social services endorsed the principle that free trade regulations must acknowledge the social reality of voluntary labor (rather than the reverse).

Thus one can only admire the pragmatism that led the British, in 2005, to endow social companies with a new juridical status, dubbed the CIC (Community Interest Company). This status seeks to marry the flexibility of corporate structures with the pursuit of collective goals. In effect, Parliament indirectly adopted the principle of least possible constraint: if (as the legislation puts it) a “reasonable person” would conclude that the company is pursuing a collectively beneficial goal, then it can be declared in the “community interest”; an “asset lock” prevents it from being steered away from its goals; and limits restrict the ability of shareholders to profit from their investments. In particular, the new legislation avoids the trap into which, in the United Kingdom as in France, regulation governing the not-for-profit sector has fallen: because their executives cannot be paid, “social entrepreneurs” who created these businesses

cannot guide them effectively, leading to many loopholes. Success seems likely: 1700 CIC have been created in two years.²¹ The institutional arrangements of the future must necessarily unite many diverse factors and will need to enlist many different abilities to serve the public interest. It is through such pragmatic innovation that the goal will be achieved.

Each time that legal constraints, whatever their justifications, appear morally unjustifiable, swindlers will become Robin Hoods: genuine popular heroes, defenders of “true” justice against official justice, which merely looks after the interests of the powerful.

In Europe, GMOs offer a particularly interesting example. There is a real schism between the population, which is often supported by local officials, and major corporations and the judicial system. On the one hand, the GMO “crop saboteurs” remind us, through their actions, that we have been cheated out of a public debate on the use of genetically modified organisms (despite their importance). On the other, corporations are eager to call upon the judicial system to do its job because they sense the fundamental weakness of their own position. The same problem has been posed at an international level by the issue of generic medicine. The debate has been so exemplary that, in this case, corporations were forced to concede. On the one hand, we had a judicial system committed to enforcing intellectual property rights. But on the other, there were millions of sick people who lack care because of the ban on producing generic brands of medicines that still have valid patents. This situation was untenable. When legality, however it

²¹ I would like to thank Hugues Sibille of the Crédit Coopératif for having introduced me to this interesting social and juridical innovation. An interesting presentation of the CIC can be found on the following British government site: <http://www.cicregulator.gov.uk/>.

justifies itself economically, puts itself on the side of private interests and condemns virtue to illegality, economy's entire legitimacy is called into question.

The common denominator between genetically modified organisms and medicine is intellectual property—that is, the intrusion of a commercial logic into goods and services that multiply when they are divided. This is one of the reasons why the existing economy is seen as illegitimate. Contrary to what one would expect, our market economy is very far from obeying the principle of the least possible constraints. I have already mentioned the example of farmers' seeds. One could also mention the kinds of knowledge tied to traditional pharmacopoeias in countries where biodiversity is very rich. The introduction of intellectual property does not merely, as in the case of AIDS, deprive a people of knowledge indispensable to its survival; it also robs it of its traditional use-rights. The parallel with nineteenth-century colonization, which seized collectively-held land on the grounds that it belonged to no one, is patent. We know what the results were.

By cracking down on the informal economy; by jeopardizing, in the name of fighting unregulated work, family and neighborhood solidarity; by expropriating entire communities of their traditional use-rights; and by restricting recourse to vernacular knowledge of body care (to the benefit of specialized institutions, as well as of reason and science), we have gradually rendered the entire economy illegitimate.

More anecdotally, recall how European directives forbade, in the name of hygiene, traditional cheese-making and free-range poultry. Hygiene could also be invoked to forbid schoolchildren from eating the food that they themselves had prepared. This requirement, made in good faith by technocrats who think one-dimensionally, has encountered so much resistance that it has been forced to retreat. But these efforts reinforce the impression of a growing gap between common sense and technical and economic ways of thinking.

It is essential that every community, whatever its size, be in a situation to determine its own rules. Without this, authorities will be inevitably discredited by the forces of free markets and the market unification. If things continue along these lines, even the most beautiful speeches and the best supported arguments will not save the economic globalization from disaster. Ireland's rejection, in June 2008, of the Lisbon Treaty, coming from one of the countries that most profited from joining the EU and right on the heels of French and Dutch "no's" in 2005, is perhaps a manifestation of this popular revolt against a generally discredited legitimacy.

Oeconomy must obey to general objectives of governance

I have already referred to Deng Xiaoping's famous slogan, in the years immediately following China's market-friendly reforms: "A cat's color does not matter, as long as it can catch

a mouse.” Breaking with Mao Zedong’s ideological dogmatism, he emphasized the priority of ends over means, of pragmatism over dogma.

Chinese society’s goal, as its citizens see it, is to develop its productive capacities and to increase its population’s standard of living. If capitalism can do this better than socialism, then three cheers for capitalism—even if it is dressed up as a “socialist market economy.” Deng was right. Economy cannot harbor independent goals—producing for the sake of producing, consuming for the sake of consuming, accumulating for the sake of accumulating, innovating for the sake of innovating, believing for the sake of believing, or winning for the sake of winning—goals without risking its sanity.

What holds true for communism also applies to our current economy. Can it catch mice? And what kind of mice? And what goals is it trying to achieve? They are stated in oeconomy’s very definition: to “ensure humanity a maximum degree of well-being through the optimal use of technical capacities and human creativity, while being unwaveringly concerned with preserving and enriching the biosphere and with conserving the interests, rights, and capacity to act of future generations, under conditions of responsibility and equity to which all can adhere.” This definition entails nothing less than the subordination of production and exchange to governance’s primary goals: internal harmony; protection from foreign threats; peace; and an ongoing equilibrium between society and its natural environment, upon which our long-term survival

depends. These goals are interdependent. Peace and protection from foreign threats cannot be separated from equilibrium between society and its environment.

A. Oeconomy Must Contribute to Fulfillment and Well-Being

Studies have identified three decisive factors contributing to well-being: a predisposition to happiness; life circumstances; and living according to one's beliefs. According to these studies, "life circumstances," including income, account for only 10% of happiness, whereas living according to one's beliefs account for 40%.

In an oeconomy that seeks individual well-being, everyone must be guaranteed the chance to produce and to exchange. They must, in other words, be guaranteed: dignity and basic economic and social rights; the chance to create; social capital and a sense of self-worth; and a life consistent with one's beliefs.

Let us consider each of these four aspects.

Dignity is a concept that is suggestive, but difficult to define. In economically underdeveloped countries, poverty and misery refer, for those at the same income levels, to two distinct realities. The first is compatible with dignity, while the second is not. In affluent societies, dignity is usually associated with political, economic, and social rights. Dignity implies freedom of speech, both at the workplace and elsewhere. It includes economic, social, and cultural rights; the right to decent lodging; the absence of degrading relations of subordination;

good quality food; and the possibility of transmitting one's own values to one's children. But a rights-based approach is insufficient. A long list of rights isolates us from others, rather than integrating us into society. Social integration requires a balance between rights and responsibilities. Furthermore, the cultural dimensions of dignity seem to be grossly underestimated. Can one have a dignified life when medical and educational institutions deny us an ability to know ourselves, our environment, and our family? I doubt it. Can one have a dignified life while being nothing more than a machine that consumes industrial goods and public services, an anonymous cog in a production system whose ultimate purpose is completely mystifying? I doubt this, too. The experience of the welfare state suggests that an affluent society, with the means to redistribute wealth, can satisfy everyone's essential material needs. Dignity, however, cannot be bought.

The second dimension of well-being is the chance to create. In any given society, there are enormous reservoirs of intelligence and creativity. But what portion of them is put to use? In France, craftsmanship has been largely devalued. It has many drawbacks: the work is hard, the pay is uncertain, regulations and taxes are tiresome. But these problems—and any lingering romanticism—aside, consider what we learn simply from watching artisans renovate an old building. We see the sheer practical ingenuity that can be brought to bear in finding solutions to very different problems. Similarly, in bureaucracies, consider the difference in attitude between

an employee who is simply asked to follow a routine, and one who is allowed to problem-solve on his own.

In my previous book, I showed that the governance revolution meant that the principle governing how bureaucrats solved problems was no longer conformity but relevance. They seek, in other words, the most appropriate solutions, in a way that allows for both greater harmony and greater diversity. Relevance is also, within the framework of bureaucratic work, a way of harnessing an employee's creativity. This means, at a minimum, that the work itself must be meaningful enough to engage one's creativity. Employees must have, in short, a clear sense of their social utility.

One way to achieve this goal, in oeconomy as well as administration, is to create pockets of freedom, within which products and services can be adapted to the infinite diversity of local situations. This requires "learning" organizations, in which each work group must draw upon its own experience, as well as that of others, in order to progress. This brings us back to the previous point: are a company's goals meaningful from their employees' perspective, and, if so, is this meaning deserving of a share of their creativity? Nothing is less certain. Companies realize this: consequently, they actively encourage motivational retreats, which use methods that border on psychological manipulation. Is it reasonable, over the long run, to expect that the full scope of our intelligence can be mobilized to achieve goals that we do not all share? Of course not.

The third dimension of well-being is having social capital, as well as a sense of one's utility. Many retirees and unemployed people, whatever their material means, feel isolated. Some sociologists speak of "disaffiliation." Personal well-being is directly tied to the feeling of having a place in society and to a resulting network of relationships. Oeconomy is not the only way to build social capital, as the richness of associative life and the vitality of local communities demonstrates. Yet professional relations remain, even so, a crucial factor in building social capital.

Exchange, including commercial exchange, is an undeniable social bond. However, it should contribute to making the world intelligible and to finding one's place within it. The need for stronger local economies is not the result of some misguided desire for autarky, but of this search for coherence and meaning—for a personalized relationship between oneself and the world.

We need the esteem of others as much as we need to eat. The core insight of Claire and Marc Heber-Suffrin, the founders of a knowledge-exchange network (*mouvement des réseaux d'échanges réciproques de savoirs*, MRERS), is that most people achieve greater satisfaction from providing knowledge than from receiving it. Indeed, one of the contradictions of the welfare state is that it relegates more and more people to the status of passive beneficiaries of the state's generosity. Oeconomy's institutional arrangements must respond to the demand for the respect of our peers.

Finally, the fourth dimension of well-being is life led according to one's beliefs. Harmony with oneself is the epitome of happiness. It cannot be reduced to material interests. Is this merely philosophical question, and thus irrelevant to oeconomy? Clearly not. Several years ago, several Northern European companies adopted a program called *Natural Steps*, launched by the Swedish doctor Karl-Henrik Robert. It sought to calculate the degree to which company behavior contributes to sustainable development. I asked its advocates about the impact of this program on the companies. The answer at first seems surprising, though it is understandable if one considers what has been said previously: many employees (remember that we are talking about Northern Europeans, who are very attentive to environmental issues) are frustrated by the tension between their deepest convictions and their companies' behavior. High turn-over is a symptom of this unhappiness. But when companies commit themselves to more rigorous efforts to preserve the biosphere, employees feel better about themselves. Consequently, they are much happier spending long hours at the company. The similarity between this conclusion and the one relating to Goldman Sachs (see above) is worth noting.

B. Oeconomy Must Contribute to a Peaceful World Community

Peace—which means social cohesion internally and nonviolent relations externally—is always one of governance's goals. Yet as I have already pointed out, the fact that our domestic

space (i.e., our *oikos*) is henceforth the planet as a whole represents a fundamental anthropological shift. We no longer have external enemies. *We* are our own enemy. In particular, our enemy is greed. As Gandhi once said, we have “enough for everybody’s need, but not enough for everybody’s greed.”

I now turn to the ways in which the globalization of production and trade might contribute to establishing and managing a genuinely peaceful international community. If I speak of the need of establishing such a community, it is obviously because one does not yet exist. Thus we must begin by considering oeconomy from the standpoint of its foundational capacities: that is, of its capacity to promote interdependence and solidarity and to turn Platonic ideals into ordinary reality, based on cooperation, mutual responsibility, and fairness. The recognition that a common interest and a “community of destiny” actually exist is a necessary precondition for establishing global governance that can meet the challenges we face. Today’s economy is Janus-faced: one side is turned towards peace, the other to war. We are turned towards peace because interdependence promotes peace, and because trade requires it; we are turned towards war because competition fuels conflict. On the one hand, the economy, by multiplying exchange, weaves together the strands of a genuinely global community; on the other, by creating insatiable needs and social distinctions founded on material wealth, it puts the world community on a path to destruction, as the world’s major regions compete with increasing violence to control scarce energy sources and raw materials and as the excessive consumption of these resources

jeopardizes the delicate balance upon which the biosphere—and thus our survival—depend.

What is at stake is the transition to an oeconomy of peace. However much one may criticize our current economy, it has played an auspicious part in shrinking the planet to a global village. A “global society” is being born on *Mère-Patrie* (“homeland Earth”), to use Edgar Morin’s apt expression. Today, this global society lacks the rules, rights, and regulations that are worthy of this shift; but it remains a truly global society all the same.

Today’s teenagers increasingly share many traits: those who belong to the middle class play the same online games, listen to the same music, are glued to similar TV sets to watch the same World Cup, seek out the same clothes brands, and so on. One can, of course, say that the glass is half empty, and bemoan the standardization of a world enslaved to advertizing and manipulated by television. But let us not forget that the glass *is* half full: recognizing the existence of common behavior is a way of deconstructing the very idea of “the enemy.”

The way that multinational corporations operate, at least at the highest level of leadership, recalls the European Commission. Their teams are often multinational and multicultural. A learning process of historical significance occurs. This learning process has its limitations and its downsides: it is the experience of an “elite” that is increasingly cut off from ordinary people; the leadership’s shared culture often consists of little more than American-style economics. But it is important not to mischaracterize or dehumanize these people; we must remember that all genocides, including the most recent, the Rwandan genocide, begin with a symbolic

dehumanization of the “other.” The current push for free trade, we should recall, was launched after the Second World War to build peace. The world had just lived through the suicidal experience of each country turning inward, hiding behind its borders. European construction was a response to this inward turn. Its primary goal was—and remains—peace. The creation of a single market within the European Union was never an end in itself, but a response to the failure in 1953 to establish political union. For the same reasons that, at a global scale, only one solution is available: responsible, plural, united, and controlled globalization. Needless to say, a community cannot be created simply because people listen to the same music and drink Coke. For oeconomy to become genuinely peaceful, two conditions are essential.

The first, mentioned earlier, is the creation of a shared ethical foundation, along the lines of the Charter of Human Responsibilities. This requires going well beyond existing forms of corporate social responsibility (CSR) and putting responsibility at the very center of production and exchange. I have already given several examples relating to the responsibility of business leaders. International law must go much further, putting responsibility—in the three definitions that the Charter of Human Responsibilities gives it—on the same level as rules governing competition.

The second condition is that for each of the four categories and goods and services, global governance regimes must be established that are consistent with the nature of these goods and

services. This is the definition that I will now emphasize, by revisiting what I said about each of these categories in the preceding chapter, while clarifying their global dimension.

In the charts found in the annex, which illustrate the previous chapter, I have summarized the governance regimes that apply to the four categories of goods and services. These regimes take into account both the category and various other characteristics, such as whether the goods tend to be diffuse or concentrated, and whether the roles of managers and beneficiaries tend to overlap or diverge. Here, I will limit myself to recapitulating the implications for the global community. The simple fact of drawing up a list and initiating a dialogue (with a time schedule) to examine ways to regulate and preserve each category would help establish an international community.

Let us begin with first category goods, those that are destroyed when they are shared. These are goods that are shared by the whole world. However, they are also very diverse: while the global community must be concerned with each of them, the solutions to be prescribed vary considerably.

Second category goods are those that are divided when shared, but which are not limitless. They include the vast majority of natural resources. They, too, lie at the heart of global community building. A community means: “the ‘other’ is like me.” This is why the name by which many peoples refer to themselves (and which is often turned into a proper noun) is in fact simply their word for “human being.” The “other,” who is like me, has the same inalienable

rights to those blessings from the earth that human beings did not create. Whether one considers these blessings to be a divine gift or an outcome of the history of the universe, the conclusion is the same. Henceforth, each individual and each people must have an equivalent right to these resources. This is the basis of the idea of an inalienable ecological debt. Oeconomy thus implies not only that no one should take from the planet anything that cannot be regenerated (a question to which I will return), but also that use rights should be equal. The market mechanism to sell greenhouse gas emission rights, as provided for by the Kyoto Protocol, represents a first if very timid effort to link oeconomy to the management of second-category goods. The idea of “emission rights” translates into concrete terms the principle that a company’s environmental impact should be calculated as part of its assets. This is a first step towards more responsible investment practices. Recognizing the legal right of each individual to a share of nature’s riches gives the idea of an ecological debt a grounding in philosophy as well as accounting. Rich countries’ debt towards poor countries, which refers to past extractions, should lead to massive technological transfers.

Let us turn to third category goods, which are divisible, but unlimited. They lie at the very heart of the commercial economy. They create the connections that help build a world community. Production and exchange create social bonds. But for these bonds to be tangible, they must be made visible. This means that each major supply chain must be visualized.

Traceability within each branch and personalized exchange require the creation of a worldwide information system, which should become a shared good in itself.

The global market has nothing in common with the “perfect market” postulated by economic theory. It is a social construct, built by very large corporations that established massive chains of added value. Rather than deploring this fact and seeking, in the name of theory, to reintroduce some semblance of competition into the system, wouldn’t it be better to acknowledge the situation for what it is, and build stable relationships that make traceability a rule and through which the distribution of added value can be negotiated? I will defend this point in chapter 6.

Today, consumer preferences no longer determine supply (i.e., what we call a “consumer pull”); rather, technology shapes consumer preferences (i.e., a “technology push”). Examples of this trend include the internet, cell phones, and genetically modified foods. Sony’s famous slogan—“You dream it, Sony does it”—is cute but untrue. In reality, Sony “did it”—and then convinced you that you were dreaming it! Consequently, we now face the question, as a world community, as to how we might express our collective preferences more consciously, in a way that is less conditioned by profit-oriented habits of thought. The expression of collective preferences, occurring at different geographic levels, in no way implies a return to rigid planning. The example of the way the European Union establishes a seven-year research framework program suggests a possible option. The seventh framework program, which began in 2009,

while it does not go in the direction I have been recommending, is nevertheless based on a process that could be applied on a global scale to the articulation of collective preferences.

If it has the support of the major states, the world community does have the resources to act. To innovate, industrialists need predictability, which itself depends on knowing collective preferences. The example of industrialists developing energy efficient cars, hearing systems, and home appliances is ample proof. Could we not imagine a system in which, for example, every seven years, the world community would come together, grouped into different “colleges”—legislators, businessmen, investors, consumers, scientists—which would deliberate on collective preferences for the future?

Finally, goods that multiply when they are shared—so-called fourth category goods—are, by their very nature, community-building goods, as they develop through trade, cooperation, and sharing. I have already provided many examples, so I will just mention a few. First of all, seeds. Their richness comes from mutualization. The establishment of a global exchange system of farmers’ seeds—a vast forum of supply and demand constituted as a global network for exchanging knowledge—would offer a wonderful symbol of a community in the process of being born. The same would be true of territorial experience-sharing networks. Where do cities promote social cohesion as well as energy conservation? How does one implement social auditing? How does one manage water resources at a given geographical level? How can the internet be used to stimulate democracy? Examples abound of the ways in which the unhampered circulation of

experience would bring human beings closer together, create affinities between groups, and foster communal bonds (comparable, perhaps, to the kinds created by the distribution of free software).

A final example is the symbolic significance of digitizing artistic and literary works. A lot has been said about Microsoft's and Google's projects in these areas. Clearly, they are unacceptable if they lead to the privatization and commercialization of goods that multiply when they are shared. This would render the economy illegitimate; it could never last for long. On the other hand, who is not moved by the prospect of a new, digital, twenty-first century library of Alexandria, where one could find most of what the human mind has created since the dawn of time? *The New York Times*' slogan is: "All the news that's fit to print." Why not dream of a library that would include "*everything* that's fit" to be preserved, and to be made available to all. Building a global community requires collective projects. "Give them a tower to build, and you will make brothers of them." The towers to be built are countless. Because of our former vision of the relationship between man and nature, characterized by the will to power and domination, the only projects that we could think of as collective were feats of science and technology: the conquest of space and the decoding of the human genome, to mention two. But I believe, like Thierry Gaudin, that tomorrow's project will be to re-garden the earth,²² bringing to a symbolic close the cycle described by the Book of Genesis: man, banished from the Garden of Eden, is called up unto to transform the earth into a garden that all human beings will share. To achieve

²² See Thierry Gaudin, Fondation 2100.

this goal, as many scientific and technological resources as are needed will be mobilized. This is Carl Linnaeus' vision of oeconomy applied to the new *oikos*—our planet.

What Would Become of an Oeconomy That Most People Deem Illegitimate?

We will conclude where we began—with Lu Jia's adage: if its principles are false and if its leaders are unworthy, a regime will surely collapse.

All systems are based on trust. Sacrifices made for the collective good, even when enforced by a tax authority, nonetheless depend mostly on consent. There are countless scenarios by which our system could collapse. It could be the result of international political turmoil resulting from ecological catastrophes, or, at a national level, of widespread defiance of political and economic elites, leading to a swift rise in nationalism and populism. The system's collapse would leave "every man for himself." Each reprisal would lead to a new reprisal. We would soon be heading for war.

One could also imagine a process of generalized civil disobedience. For instance, if corporations and advocates of the existing economy stubbornly insisted on commercializing fourth category goods and services, there might be a wildfire effect, as has already occurred with the pirating of software and the illegal copying of movies and music.

When Robin Hood has become the people's hero and the incarnation of justice, no police force anywhere can restore order. One day, a group of developing countries might decide to systematically nationalize all foreign investments as a repayment of the ecological debt. They would be acting like a creditor enforcing his rights against a debtor who refuses to pay—a right to seize physical property. Civil disobedience; environmental crisis; geostrategic tension; protectionist isolationism: one thing we are not lacking, alas, is catastrophe scenarios.