

Thinking about sustainable production and services in a globalised world

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Over 200 years ago, when Adam Smith set about forming his moral ideas of the free market, he made it clear that the wealth of nations requires a strong state, not a weak one. The state needs to guarantee at least three conditions:

- External peace
- A reliable legal framework—let us call it good governance
- Healthy infrastructure that benefits all competitors but is not paid for by any individual player (Adam Smith gives lighthouses as an example)

Another grandfather of modern economists, David Ricardo, also presented assumptions for healthy trade and an international division of labour. One of his assumptions was that capital was not moving. Is it very far-fetched to suspect that David Ricardo, were he alive today, would be among the protesters in Seattle, Genoa or Barcelona? These protesters say nothing in principle against international trade but do not like the élite power structures of today's capital 'markets'.

The fall of the Iron Curtain produced the globalisation paradigm

For how long have we been speaking about globalisation? Some believe that globalisation started with the ancient Phoenicians or at least when Cook sailed

around the world. This is untrue. Globalisation is a brand-new term. It emerged after 1990 and the collapse of the Iron Curtain, which we all applauded, and in the context of the Internet revolution (German Parliament 2002).

Until 1990 international capital had to seek consensus with national governments and parliaments in the North and South. In the South, governments used to play on East–West tensions to solicit official development assistance (ODA). In Europe, the spectre of ‘Finlandisation’ spelled the dangers of rapprochement with the Soviet Union. Clearly, the owners of capital considered a consensus society with some elements of a welfare state the more attractive option.

After 1990, despite a massive reduction of military budgets (by roughly USD300 billion annually), the amount of funds available for development aid and other public goods started to shrink. We have seen a steady reduction of capital taxation in all OECD states. The OECD talks about ‘harmful tax competition’.

Global governance

The private sector benefited and boomed. It may be high time to re-establish a healthy balance between public and private goods. To be sure, private capital accumulation is a public good in itself. It is a major part of the wealth of a nation. Moreover, international trade helps preserve international peace better than the nation-states have been able to do.

Nevertheless, I see a need for the world to establish an equivalent to democratic state authorities, this time on a global scale. The idea is to have a power structure matching the powers of the private sector and committed to defending public goods—in line with Adam Smith’s concepts. In effect, we are speaking about global governance (not global government!).

Three pillars

Let me outline three pillars to support global governance. Classical political science has identified the duality between the state and the private sector, constituting two of the three pillars.

- The state must seek to extend its reach to global affairs by, *inter alia*, strengthening the UN system, international treaties, regional authorities (notably the European Union [EU]). It must also secure a meaningful participation of parliaments. The International Parliamentary Union (IPU), though established as early as 1889, is far from being an adequate institution in this regard. One fascinating initiative is called e-Parliament and tries to link up parliamentarians via Internet to help them in their local and national needs to learn about parallel developments in other

countries. The idea is to enhance the level of competence and, in the end, the clout of parliaments.

- The private sector has its black and white sheep. UN Secretary-General Kofi Annan has invited the 'white sheep' to help with the UN agenda. Many enterprises have joined his Global Compact (UNGC).¹ Another road is investment portfolios focusing on 'white sheep'. Both the British and German parliaments have adopted legislation obliging private pension schemes to declare whether they adhere to ethical or ecological criteria. It is a rather new and exciting market with growth rates approaching 10% per annum (see Schumacher in Chapter 22).
- The new pillar is civil society. International civil-society organisations are booming. Although incredibly diverse, they can be strong.

We have witnessed several struggles between private-sector corporations and civil society. Perhaps the most famous struggle in the United Kingdom pitted Shell against Greenpeace over a North Atlantic oil platform. Legally, Shell was in the right: the British authorities had agreed to the oil company's plan to dump the platform. However, for moral reasons, Greenpeace objected and forced Shell to bow to them instead of the British authorities. In a sense, this event encouraged both parliamentary and civil-society actors to join forces for the common good.

A public goods democracy

The democracies of this world need to redefine their field of legal action. While technological developments should not be stopped, the political dimension of globalisation must be shaped. We should try to establish incentive structures rewarding states and companies seeking to preserve public goods. Social fairness, environmental protection, constitutionality, long-term orientation (education and science), international fair competition regulations and international solidarity are keywords for public goods.

The protection and development of public goods must be the aim of an international regulation politics, global governance. Foreign policy must make global governance a central issue.

One way nations can develop global governance based on common goods is by setting up international agreements on these goods. Such agreements were the aim of conferences such as the one for the Framework Convention on Climate Change (FCCC), which defined the protection of our climate as a public good. If our international policy goals are based on global governance, what part do companies play?

1 UN Global Compact 2002, www.unglobalcompact.org.

Companies in a globalised world

The United Nations Conference on Environment and Development (UNCED) in Rio de Janeiro in 1992 opened up new possibilities in environmental politics in the 1990s as companies started to move from mere reaction to action, from end-of-pipe to front-of-pipe solutions. To document this shift, companies recorded their environmental activities in environmental reports, today called sustainability reports. As yet only a small flock of ‘white sheep’ report on their activities, though some even publish corporate social responsibility reports to take social activities into account.

The case of Greenpeace versus Shell pointed to the even wider responsibilities that companies have for the future—the protection of our common good. Companies such as Shell and BP have changed their corporate governance and instead of rejecting now accept their responsibility for protecting a public good such as the climate. BP, for example, in 1997 committed itself to reducing carbon dioxide (CO₂) emissions by 10% by 2010 compared to 1990. To achieve this, BP in 2000 voluntarily launched a group-wide emissions-trading system for its 150 companies across the world. Surprisingly, only two years later BP announced that it had already achieved its target and that it would now stabilise emissions up to 2012 (Browne 2002). BP actively furthered global governance by proving that the Kyoto Protocol aim could be achieved.

Politics, private companies and society need to achieve a new balance as globalisation limits the possibilities of national parliaments and opens new room for action by private actors (companies, NGOs) and international institutions (UN, UNFCCC, etc.). Companies use this phase to find competitive locations: that is, unregulated free markets. But markets need regulations if social and environmental impacts are to be avoided. National parliaments and private actors (companies, NGOs, citizens) need a new world regulation system to stay in working order. According to Messner (2000), all the questions raised about the market economy in the last 250 years will be raised again from the local to the global level:

- How much imbalance is socially acceptable?
- How can social balance be achieved?
- How much economic power can democracy take?

Companies should therefore start addressing not only their stakeholders but also broader social questions that will be central to legitimising the global economy.

Unless civil society can be persuaded that private-sector companies act morally on the global market, public suspicion will persist and anti-WTO protests such as in Seattle may reoccur in future. Parliaments will remain alert to global pacts or alliances between states or international organisations and the private sector, but we need active companies that commit to reducing their CO₂ emissions. In this new international regulation system, states, on the one hand, will have to give up power to intergovernmental structures, but also to companies and the international civil society, which, on the other hand, have to accept this international

regulation system. Only an agreement between currently unequal actors can secure democratic processes in a global context much changed after the fall of the Berlin Wall and, more recently and tragically, September 11.

For companies this will mean that they have to produce more sustainably not only in the sense of resource efficiency but also in terms of social responsibility. Global players will have to ensure equal opportunities for all employees worldwide. Democratic processes for companies means endowing employees with the right of co-determination, just as shareholders have a right to information on companies' economic development. The International Corporate Governance Network is one example for international efforts toward corporate governance standards.² In Germany, a national corporate governance codex became law in 2002.³ In view of the failure of US companies such as WorldCom and Enron, the need for a more transparent reporting system is more pressing than ever. A new regulation system will have binding regulations making the Global Reporting Initiative (GRI) or the UNGC law, rather than a best-practice initiative dependent on companies' goodwill. A first step in this direction is a French law on environmental and social reporting for companies listed on the stock market.

In future companies will, besides setting up sustainable production lines and services offers, have to accept more corporate responsibility in national and international processes. Governments will have to organise these processes and include an international civil society. This seems to be the only way to save our planet Earth.

2 International Corporate Governance Network at www.icgn.org

3 www.corporate-governance-code.de