# From Free to Civilized Markets:
# First Steps towards Eutopia

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**Abstract**

Unfettered market forces tend to violate basic universal concepts like justice, dignity or fairness. Therefore we suggest moving to a new concept of markets, which we label "civilized markets." A civilized market tries to ensure that free entrepreneurship and open markets are eventually compatible to these basic and universal values that also serve as moral cornerstones of the European project. We propose to establish a new European institution that should set and enforce minimum standards for goods sold on the European market in order to accomplish what we call a "civilized market."

**Keywords:** European Union, international trade, social embeddedness, market regulation, labor standards, sustainability, product quality, Top Runner Program.

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## 1. Introduction

Mathematical theorems allegedly proving the efficiency of free markets are a dime a dozen. While based on contestable assumptions, such theorems imply that free markets guarantee that the scarce resources of a society are employed in an optimal way if only there is sufficient competition among individual agents. Free markets in this context are understood as spheres of voluntary interpersonal exchange, which is supported, but in no way inhibited by, specific regulatory characteristics (like the formal equality of trading partners or contractual or legal certainty). While such models usually focus on market exchange and individual preferences, they completely neglect other aspects central to modern societies, like power, culture or morality. Power, for instance, is highly unevenly distributed, even more so than income or wealth. Applying theorems of optimal resource allocation often seems cynical as soon as exchange takes place between parties of unequal power: peasant and landowner, employer and worker, creditor and debtor, multinational corporation and government, western food corporations in the global North and farmers in the global South, western consumer and Bangladeshi seamstress, etc. In all of these contexts, we find that the powerful define moral standards. The latter are in turn often further deteriorated by the effects of intense competition, which carries the tendency of marginally lowering moral standards to gain competitive advantage (Streeck 2011) – specifically in international trade relationships.

At a time in which global inequality is at a historic peak (Piketty and Saez 2006; Milanovic 2012) and free market ideology has sent the world economy into the largest downturn since the Great Depression, the need for alternative economic policies and practices has never been greater. At the same time, high levels of public debt, soaring unemployment rates and the uncertain future prospects of the European economy leave little room for maneuvering. However, it is exactly this alleged lack of perspectives that contains the possibility for new economic thinking as well as novel economic policies because current conditions make it obvious that – to paraphrase Albert Einstein – we cannot solve our problems with the very same ideas that created them.

In this paper we argue that in order to move forward, we need a new understanding of markets. While we understand them as powerful and useful institutions, we also suppose that utilizing these properties does not afford a collective submission under whatever "competitive forces" dictate. Rather, we should try to actively govern and direct market forces in order to render them more useful and acceptable. This perspective is not only grounded in the fact that market outcomes are not always efficient (from a traditional economic perspective: cases

coined by "asymmetric information" or "external effects," which abound in the context of international trade), but also refers to the role of moral standards as a main rationale for actively regulating markets, since crude and completely unrestrained global market forces tend to effectively and broadly undermine moral standards.

In short, we argue that on a global scale, unfettered market forces violate basic universal concepts - like justice, dignity or fairness - of a "good" or "civilized" society. Therefore we suggest moving to a new concept of markets, which we label "civilized markets." A civilized market tries to ensure that free entrepreneurship and open markets are eventually compatible to these basic and universal values that also serve as moral cornerstones of the European project. In what follows, we take these normative principles as a given aim and pursue a technological analysis: First, we further illuminate these core normative principles and their relation to international trade (section 2). Second, we ask for the core mechanism inherent in free markets and global trade that tends to undermine these normative principles (section 3). Finally, we ask which initial conditions are suitable to confront this mechanism and thereby contribute to the realization of the given principles and propose to establish a new European institution that should set and enforce minimum standards for goods sold on the European markets in order to accomplish what we call a "civilized market" (section 4). The final section concludes these ideas.

## 2. A European Perspective on Universal Values in International Trade

The normative foundations of (western) European societies have undergone significant change since the era of the Enlightenment. By erasing traditional feudal norms, European societies – slowly but inevitably – tended to replace traditional feudal bonds with new conceptions of the individual, community and society. First and foremost, formal equality of individuals replaced the assignment of feudal roles, which defined relations between different individuals in a strongly hierarchical mode. In this context, formal equality was related primarily to the distinction between the public and the private sphere – specifically, the public should not make any priori differences between any two single private (wo)men. However, in their theoretical arguments, the thinkers of the Enlightenment often extended the idea of equality from the political to the social (and thus economic) realm. This tendency is exemplified in various instances in the respective literature: Adam Smith, for instance, emphasizes the role of capabilities, like empathy and benevolence ("sympathy") or self-reflection ("impartial spectator"), for creating and sustaining communities in his *Theory of*

*Moral Sentiments* (Smith 2000[1759]). Immanuel Kant, to name a second example, goes even one step further by stating that men should recognize each other not only as formal equals, but also as autonomous and self-conscious moral counterparts and therefore as a full equivalent. The Kantian perspective is not to treat any entity, which possesses autonomous free will, as a mere means analogous to a lifeless object (Kant 1968[1785]). This extension is important, since formal equality still leaves a lot of room for oppression and coercion of various forms – it just eliminates its primordial roots. Just think of slavery, which is, given formal equality, maybe no longer a question of birth and fate, but maybe one of debt and contract (Graeber 2012). This extension of equality to the social and economic realm is as a result essential for understanding the moral and political impetus of the Enlightenment and its more distant consequences, like the Universal Declaration of Human Rights (UN 2014), which serves as a prime example of a European perspective on universal values. This declaration codifies a series of ideas of basic moral rights in the jacket of formal equality, thereby mirroring not only the Enlightenment's basic contribution (formal equality), but also its most important extension, i.e., moral and social equality or "fairness".[2]

Since this paper does not set out to contribute to our understanding on the history of ideas, what has been said mainly serves as a primer for what follows. Effectively, we employ these two aspects of Enlightenment thought – formal and moral equality – as one of the main pillars of a civilized society and ask for the consequences with respect to the role of Europe as a unified political actor within world trade. Note that this is not a primarily normative undertaking: We take what we conceive as two central moral lessons from the Enlightenment as given and ask for a technological blueprint to contribute to these aims. Specifically, we try to express a set of basic conditions, which contribute to the desired normative arrangement, given some basic mechanisms of international trade. Thus we propose a technological design which takes some aims as given (and if one rejects these aims, one is, of course, prone to reject the associated design) following the concept of a "technological rule" elucidated by Bunge (1967). However, while being interested in the specific consequences of these normative viewpoints, we do not defend them as an adequate conception of morality. Hence, our question is posed in a way compatible to Max Weber's central claim that science cannot legitimize aims, but might lead the way if we accept some aims as given (Weber 1988[1917]).

When operationalizing these basic normative concepts of formal and social equality with respect to international trade, we suggest to focus on three core aspects and their

[2] Compare also Peter Ulrich 2009.

associated interpersonal relations, where the latter serve as devices for applying the (essentially interpersonal or relation-based) moral principles of Enlightenment: First, the aspect of *work* refers to the relations between consumer, producer and the latter's employees, and asks whether adequate working conditions are provided. This aspect is quite explicitly addressed and clarified in international codifications, like the Universal Declaration of Human Rights, which emphasizes that any kind of working arrangement is also subject to the question of human dignity,[3] or the standards of the International Labor Organization (ILO).[4]

Second, the aspect of *ecological sustainability* – which embodies the relation between producer, consumer and their respective social environments – asks whether the physical, biological and cultural consequences of production and consumption are modest or reckless. However, given ecological constraints, recklessness in terms of exhausting resources and creating pollution is simply incompatible with the notion of social equality inherent in Smith's concept of sympathy or Kant's Golden Rule, since it denies fundamental environmental capabilities to future generations. This aspect is made most explicit in the Brundtland Report of the United Nations, where "sustainable development" is defined as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (UN 1987: 37). That means to align the idea of equal rights of others (i.e., future generations) with current economic and ecological development.

Third, the aspect of *exchange* as a complex form of human interaction most directly embodies interpersonal relations, namely between a trading agent and his or her associated producers and consumers. Hence, the aspect of exchange most explicitly refers to questions of personal virtue and esteem. It asks for soft criterions, like trustworthiness, honesty, reliability, openness or transparency, and demands the absence of any kind of fraud, delusion or coercion. Since any kind of deception is a direct violation of Kant's Golden Rule, there exists a general need for assuring these soft criterions within the context of trade relations.

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[3] With regard to fair working conditions, it says in article 23 that "(1) [e]veryone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment. (2) Everyone, without any discrimination, has the right to equal pay for equal work. (3) Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection. (4) Everyone has the right to form and to join trade unions for the protection of his interests." Furthermore article 24 says that "[e]veryone has the right to rest and leisure, including reasonable limitation of working hours and periodic holidays with pay" (UN 2014).

[4] ILO labor standards are available at http://ilo.org/global/standards/lang--en/index.htm. Accessed February 12, 2014.

Table 1. Normative aspects in international trade.

| Aspect of international trade | Work | Nature | Exchange |
|---|---|---|---|
| Description | Treatment and living conditions of actual producers of goods. | Treatment of the natural and social environment in the context of international trade. | Role of interpersonal relationships; treatment of "others." |
| Relation of agents | Consumer – Producer - Employee | Consumer – Environment – Producer | Consumer – Seller – Producer |
| Moral question | Provision of adequate working conditions? | Reckless or sensible handling of natural resources? | Adequate and respectful form of human interaction? |
| Typical operationalization | UN Declaration of Human Rights, ILO-standards | Brundtland's definition of sustainability | Kant's Golden Rule |

In this context many Europeans struggle to sustain what they perceive to be conventional norms, traditions and routines within the context of consumer choice, since normative considerations play a significant role for many European consumers.[5] However, the very same consumers seem unable to cope with the complexity arising from diverse social, economic and ecological feedback effects (Isenhour 2010; Bilharz and Schmitt 2011) and postulate the need for more active regulation arising from this complex (Eckhardt, Belk, and Devinney 2010). In short, they suggest supplementing their sovereignty with some form of (additional) regulation (Wolf and Kopf 2010) to ease the challenge of following a "sustainable lifestyle" (Spargaaren and van Vliet 2000; Sharp, Høj, and Wheeler 2010). While the burden of resolving these issues is often placed on the shoulders of the "autonomous" and "sovereign" consumer (Grunwald 2010; Kapeller, Schütz, and Tamesberger 2013), these examples indicate that residing on consumers' rationality to eliminate inhumane working conditions, unnecessary environmental damage or fraudulent trade, is simply insufficient.

From a perspective of traditional economic theory, this result is indeed surprising, since competition on a greater scale, i.e., on world markets, should improve not only prices, but also the quality, durability, aesthetic properties and ecological characteristics of available products. Thus the next section aims to cover this blind spot of economic theory by proposing that the central mechanism of markets, namely, to derive new forms of competitive

[5] For example, de Pelsmacker, Driesen, and Rayp (2005); Shaw Hughner et al. (2007); Welsch and Kühling J. (2009); Newholm and Shaw (2007).

advantage, may not only lead to beneficial results (like technological innovation), but will also contribute to an erosion of moral standards.

## 3. The Social Embeddedness of Markets and the Relation between Competition and Morality

In this chapter we investigate the question of how market competition influences moral standards. The question of how markets and societies interact has a long tradition. Early contributions come, for example, from Thomas Hobbes (1996 [1651]), Adam Smith (2000[1759]), or from the sociology point of view Max Weber (2001[1930]). In the twentieth century, Karl Polanyi (1978 [1944]) became an indispensable reference for the understanding of globalization and the creation of liberal market economies, especially in economic sociology and in international political economy. Only in the field of economics did Polanyi`s approach receive less attention (Block 2003), possibly because "economic theorists have seldom discussed the social structure behind markets" (Jackson 2007: 235) or because neoclassical economists see market and society separately, as Dolfsma, Finch, and McMaster 2005 emphasize. One main contribution of Polanyi was the realization that the transformation from a regulated market system to an unfettered market system (what he calls "The Great Transformation") at the end of the 18th century had an immediate impact on the social structure of society. This transformation – as Polanyi points out many times – was not natural or automatic, but rather made by conscious decisions made by different groups of interest.

Before this transformation, economic systems and markets had been strongly embedded in social relations or, rather, in social conditions. In these societies, markets were only a supplemental factor of a hierarchically superior feudal framework relying on regional and familial bonds. This framework was regulated and controlled by social and political power and withstood the intended transformation for some decades. For the main aim of economic liberalism – to introduce a self-regulated market system – a strong institutional separation between the public (i.e., political and social) and private (i.e., economic) sphere served as a necessary precondition. However, achieving such a separation by itself required a transformation of politics and society. In other words, such a separation had to be politically engineered, since only a market society can provide a solid foundation for a market economy; an insight that Polanyi (1978[1944]: 194f.) describes as a paradox of economic liberalism, since the alleged free market had to be politically engineered. In this context, Polanyi further

coined the term *fictitious commodities*. A market economy has to encompass all economic activities except familial reproduction by covering labor, land and money and transforming them into ordinary commodities, which are subject to the rules of the market (as opposed to those of tradition or reciprocity). Thereby the fictitious commodities not only helped to establish markets, but became a central organizing principle of social relations and thus society as a whole. Polanyi concludes that without culture-specific institutions and social protection, in short without being *socially embedded*, the market mechanism would lead to social instability as well as ecological problems if its introduction was to disrupt conventional social bonds. This argument focuses on the stability of social relations and is thereby quite independent of the moral character of those "conventional social bonds". In this context social embeddedness may ensure justice and dignity of individuals as well as it may foster exploitation and humiliation.

In a similar vein, Rüstow, Maier-Rigaud, and Maier-Rigaud (2001: 88) criticize the "unconditional superstition" of economic liberalism that markets are a "self-sufficient" kind of social order functioning according to "eternal and unconditional laws", of a "theological and metaphysical origin".[6] Consequently they argue that the paleo-liberals, who strive to institutionalize unfettered competition, fail to see that market interaction necessarily entails a social and cultural foundation. Among these social foundations are social norms (ensured by routine) and codified laws (ensured by some governmental authority), which take the form of prescriptive rules and thereby serve as a precondition for the functioning of the market economy (Granovetter 1985). In other words: market transactions have to be embedded in social relations, if the latter should be sustained, while disembedded markets carry harmful consequences for their social foundations. Contrary to the purely market-based view on society exhibited by modern economics (Rodrigues 2004), this mutual relationship between social relations and market interaction indicates that markets are not "self-sufficient" and may alter or even destroy their foundations when operating unconstrained.

While the idea that market transactions serve as an adequate substitute for social foundations has proven inapplicable, the market as such is not an amoral institution or system. Even the most conventional theoretical perspective on markets puts a specific normative burden on agents in a free-market system. They are theoretically expected and practically agitated to embrace the holy trinity of rationality, greed and selfishness. Not doing so would

[6] Authors' translation; German orginal: "Unbedingtheitsaberglaube", "Selbstgenügsamkeit", "bedingungslose und unbedingte Gültigkeit der Marktgesetze"; "theologisch-methaphysische Ursprungscharakter".

endanger the welfare properties of the market and of the individuals themselves. So along with market competition comes a change in individual motives[7] undermining prevailing standards of social conduct and drawing on the morality inherent in social relations (Rüstow, Maier-Rigaud, and Maier-Rigaud 2001). The basic mechanism of competition in this context is not only to partially replace other characteristics – like sympathy, empathy, solidarity or cooperation – in the context of social organization (Rothschild 1992), but also to utilize and exhaust these social or moral foundations to foster own development. Essentially, market competition not only breeds on social and moral foundations; it also feeds on them. In this context, Rüstow, Maier-Rigaud, and Maier-Rigaud (2001) even speak of a parasitic or disrupting influence on morality:

> "[T]o proclaim competition as an universal principle, even for areas of life beyond the economic sphere [leads to], an advancing disruption or atomization of the social body."[8]

Recently, Streeck (2011) explicitly focuses on this aspect of competition, which is still a blind spot of conventional economic theory. He points out that the avoidance of obligations is in the spirit of the social norm of free markets as the core institution of capitalism. It can be assumed that those who act under market competition always try to evade rules for their own interests. While such a behavior might be difficult to implement in some specific setups, e.g. when market-relations are non-anonymous and interactions are iterated, it contributes to the erosion of moral standards, especially in the context of international trade. However, the general mechanism behind this argument also holds for non-economic cases where the moral consequences of competition become especially visible: One example is professional sports, where doping – although forbidden – is very common. Here rules are deliberately circumvented because it is (or seems to be) necessary to be successful given the strong competitors (who are assumed to do it as well). Another example is so-called *gerrymandering*. Coming from political science, this term describes political parties' practice to manipulate district boundaries (especially for the most competitive districts) in a majority voting system. Here a clever arrangement of district boundaries makes it possible to gain a competitive advantage despite an unchanged number of aggregate votes by packing

[7] Contrary to agrarian societies, the central motive of people is no longer to secure subsistence, but rather to make profits (Polanyi 1978[1944]).

[8] Authors' translation; German orginal: "Sie gingen gelegentlich sogar so weit, die Konkurrenz als Universalprinzip zu proklamieren, auch für Lebensbereiche außerhalb der Wirtschaft. Sobald das Erbgut überkommener Integrationen aufgebracht war, trat infolgedessen eine fortschreitende Zersetzung und Atomisierung des Sozialkörpers ein" Rüstow, Maier-Rigaud, and Maier-Rigaud (2001: 92f.).

(concentrating as many voters of the same party as possible in one district to reduce their influence in other districts) and cracking (spreading voters of a particular type among different districts to reduce their power in one district). Streeck introduces into this debate the notion of "marginal ethics", a term initially introduced by the German economist Briefs (1957) ("Grenzmoral"), which he translates from the German original as follows:

> "By 'marginal ethics' I mean the ethics of those least restrained in the competitive struggle by moral, that is of those who because of their minimal ethics have under otherwise equal conditions the best chances of success and who on this account force competing groups, at the penalty of elimination from competition, gradually to adapt in their trading to the respectively lowest level of social ethics (i.e., to the 'marginal ethics')" (Streeck 2011: 145).

The idea of marginal ethics implies that the lowest level of social ethics prevails because of the threat of elimination by competition. This effect may be further amplified by the existence of social hierarchies, an aspect that becomes particularly obvious if we look at concrete examples, like the case of child labor: While in some developing countries, child labour is perceived as necessary to produce internationally competitive commodities (e.g., textiles or fireworks), we observe deteriorating working conditions and pressure on wages in a number of European countries by the same argument of international competition. Here we see an unequal distribution of power between developing and developed countries, on the one hand, and employers and employees, on the other hand. This hierarchical aspect eventually also relates to the consumer. Due to the low increase of income levels and the high number of unemployed and precariously employed, part of the population in industrialized countries depends on cheap commodities, which are produced on a low level of social ethics. This mechanism of competition, which Streeck describes as "marginal ethics," demonstrates that international trade can lead to a situation where European countries as well as some of their trading partners adapt to the lower social and moral standards of other countries.

In the history of economics, we find many renowned thinkers, who are well aware of the tension between competition and morality. According to Kapp (1963), for instance, this tension has widespread implications for working conditions[9] and product quality, where

[9] "[…][T]the entrepreneur, in his desire to reduce costs of production as far as possible, will be generally reluctant to consider the impairment of the physical and mental health of his laborers as a part of the costs of his enterprise. Unwillingness to consider the impairment of the worker's health will be the more pronounced, the larger the number of unemployed and the lower the skill and training requirements. For, under these conditions he will find it relatively easy to replace 'worn-out' workers by new laborers. These happen to be the conditions

planned obsolescence (deliberately reducing the longevity of products to accelerate sales) is to be seen as an eminent consequence of cutthroat competition. In a similar vein, John Maynard Keynes was also well aware of the adverse moral effects of competition, though acknowledging its amenities with regard to efficiency:

> "[…] I think that Capitalism, wisely managed, can probably be made more efficient for attaining economic ends than any other alternative system yet in sight, but that in itself it is in many ways extremely objectionable. Our problem is to work out a social organisation which shall be as efficient as possible without offending our notions of a satisfactory way of life" (Keynes 1972[1926]: 294).

Since, for Keynes, this problem could only be solved in the distant future, he proclaimed that "[f]or at least another hundred years we must pretend to ourselves and to every one that fair is foul and foul is fair; for foul is useful and fair is not. Avarice and usury and precaution must be our gods for a little longer still" (Keynes 2010[1930]: 25).

In the field of behavioural economics, we find experimental evidence strengthening these allegations: Schwieren and Weichselbaumer (2010), for instance, provide empirical evidence that the pressure of competition enhances cheating as a form of competitive advantage. Shleifer (2004) argues that competition leads to a decline in ethical behavior, thereby mentioning child labor, corruption, excessive executive pay and earnings manipulation as phenomena reinforced by competition. Falk and Szech (2013) present evidence that a frame of market competition leads participants to significantly downplay or suppress any moral considerations.

To prevent this tension between moral standards and market competition, it is, according to Polanyi (1978[1944]), necessary to embed the market economy in society by introducing appropriate institutions and politics to align social structures and market competition if the former are to be preserved. In accordance with our technological approach we presume that the social and moral foundations of economic action identified in section 2 are indeed preservable and, at the same time, potentially endangered by the ongoing disembedding of market forces in international competition. In this context we suggest a mode of social embeddening, which not only tries to preserve these values, but also aims at

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of relatively less developed countries without fully developed systems of labor unions and social security legislation" (Kapp 1963: 156-7).

moderating the innovative capabilities of markets to bring forth social change in way that facilitates the extension and application of these values.

## 4. Civilizing Markets

The tendency of moral erosion inherent in market competition is especially forceful in the context of international trade, since gaps with respect to different living or moral standards can be exploited on a much greater scale.[10] Hence, moral and social standards are subject to competition and thus "marginal ethics" on a larger scale, which leads to greater moral erosion. In this context, the main question becomes whether it is possible to halt or even reverse this erosion. One possible empirical archetype for answering this question is exemplified by a principle that has been very successfully applied in Japan for the last 14 years, called the Top Runner Program (JMETI 2010). It serves as a model for reversing the impact of competition on certain product dimensions, which are deemed relevant from a perspective of social planning, but only of minor interest for or hardly observable by ordinary consumers.

The Top Runner Program imposes energy efficiency standards for 23 product categories sold on the Japanese market, among them cars, air conditioning systems, refrigerators, all kinds of cooking devices and consumer electronics as well as various other electronic appliances. Inclusion of product categories is thereby based on three basic criteria: (1) products must be used in large quantities, (2) their usage consumes a considerable amount of energy and (3) there is a detectable scope for technical improvement of products. Standards are set for a period of 3 to 10 years, where at the end of the period each product has to conform to this standard. When setting such standards, the most energy efficient product of its class is taken as a benchmark and the potential for future technological progress is also taken into account (JMETI 2010). If at the end of this period a certain product does not satisfy the standard, a "name and shame" approach is applied: First, the ministry makes a recommendation to the producer. If the producer does not comply, the authority goes public with this information. In case of further non-compliance, the producer is simply ordered to meet the standard. Although Japan had already mandatory efficiency standards in place before, they decided to introduce the Top Runner program because those standards had failed

[10] Hobbs and Tucker (2009) show empirically that in the last decades trade liberalization resulted in major job losses and a downward pressure on labor standards in many countries in Africa and Latin America. For example, in Zambia unemployment almost doubled and earnings decreased by 14% within five years of trade liberalization. Currently, 20 years after trade liberalization, 95% of the workers are living below the poverty line of $2 a day.

to induce sufficient efficiency improvements as they were rarely revised and usually had to be negotiated with the industry (Kimura 2010).

In extending the logic and scope of the Top-Runner Program to questions of working conditions, ecological and other product standards as well as trade relations, we suggest designing an institution designated to reverse the effect of competition on its social, moral and environmental foundations. In short, it aims at nothing less than directing the innovative capabilities inherent in any market-based system into improving rather than deteriorating global as well as local standards of social conduct.

We short-handedly label the envisaged institution as the *European Agency for Commodity Surveillance (EACS)*. The relevant product dimensions with which it should be concerned are working conditions, product quality and the environmental impact over product life cycle (production, usage, waste). In order to do so, the EACS should rest on two pillars: The *Division for Adherence of Labor Standards (DALS)* and the *Division for Sustainability and Product Quality (DSPQ).* Within the responsibilities of the DALS, fall all aspects related to the working conditions under which a commodity is produced. Here concern is related to the surveillance of working conditions (safety, impact on worker's health), workers' legal rights (in particular the freedom of association), social safety and worker remuneration. The DSPQ, conversely, should be in charge of product quality and environmental impact over product life cycle. With respect to the former, concern should particularly be placed on issues related to product longevity and (planned) obsolescence, whereas aspects related to the latter are energy efficiency, waste avoidance or the impact on consumers' health. Both divisions should work according to the main principle that has been very successfully applied in Japan for the last 14 years under the Top Runner Program.

The EACS and its sub-divisions should apply this established principle, thereby following a 3-step procedure:

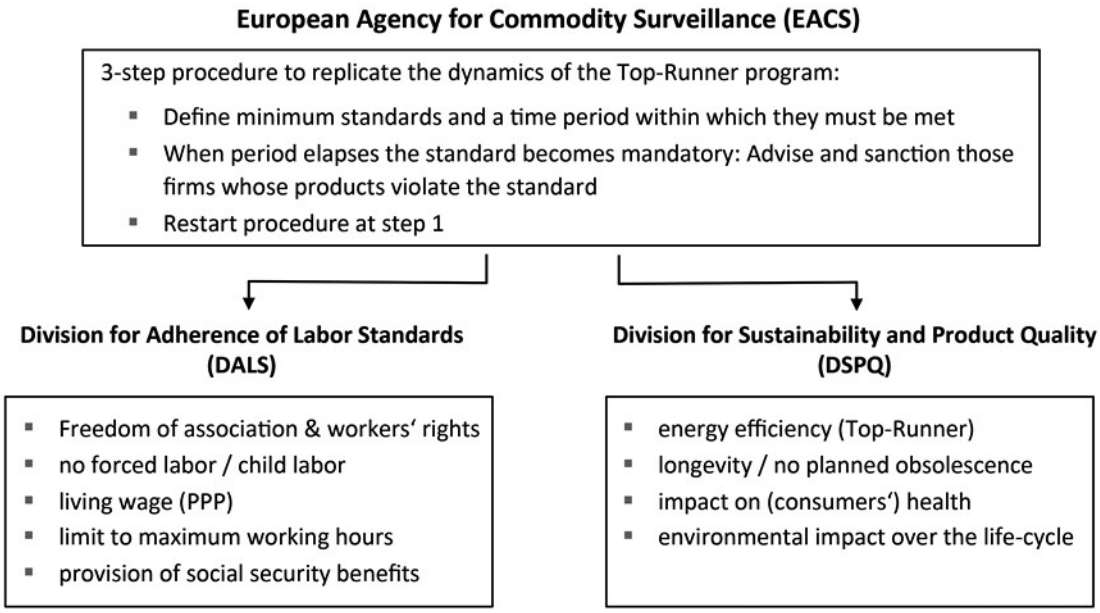
(1) Define minimum standards and a reasonable time period within which they must be met;

(2) Once this period has elapsed and the standard becomes mandatory, make sure that products meet these standards; Advise those firms whose products violate the standard and start sanctioning procedure if firms do not comply;

(3) Start again at step 1.

The resulting institutional of the EACS is summarized in Figure 1.

Figure 1. An institutional setup to reverse the deteriorating effects of marginal ethics.




The standards will apply to all products that are sold on the European market. This means that any European or non-European company that plans to sell its products within the European Union has to comply, or otherwise sell its products somewhere else. Let us now go through each of the two pillars in more detail.

### *4.1. Division for Adherence of Labor Standards (DALS)*

The duty of the DALS will be to set and enforce minimum standards with regard to working conditions in the broadest sense. If we want working conditions to reflect those basic European values highlighted in section 2, then these minimum standards should include the ILO's "fundamental conventions" (ILO 1998), which include 1) the freedom of association and the effective recognition of the right to collective bargaining, 2) the elimination of all forms of forced and compulsory labor, 3) the effective abolition of child labor and 4) the elimination of discrimination in respect to employment and occupation. Furthermore, it will be necessary to set standards with respect to maximum working hours, social security, workers' rights and wages. With respect to the latter, standards will have to be set on a country-specific basis, since living costs differ widely across countries. The idea of minimum wages is to enable workers and their families to live in decency, which is referred to in the literature as "living wages". Anker (2006) provides an example for how such living wages can be computed as well as the difficulties involved in this process.

Living wages as well as what is perceived as decent working conditions are relative concepts, reflecting whatever is perceived as decent, where notions may be different both between and within societies (e.g., What leisure activities should be affordable with a living wage?). Other questions relate to working hours (e.g., How many hours per day are reasonable? How many days of paid vacation should one be entitled to?) or social insurance (e.g., Which treatments should be covered by health insurance?). Since we observe significant differences in these areas between advanced economies and some less developed economies (e.g., five weeks of paid vacation per year), a certain notion of endogeneity (or self-adaption) has to be introduced: in this context, the 3-step procedure introduced should offer a feasible way to gradually raise the standard for what is perceived indispensable for a decent life.

Generally, this approach would promote exactly what the ILO recommended in its recent country report on Bangladesh, which is increasing "the collaboration between international buyers and their supply chains" (ILO 2013: 8). In our proposed setting, international companies are compelled to care about the production conditions of their suppliers. If companies are importing goods from countries that do not, e.g., provide a minimum wage or freedom of association rights suitable to meet the standards imposed by the DALS, the company is deemed responsible to ensure that these standards apply at least within those factories they are cooperating with as condition for importing these goods. In such a setup also suppliers themselves would have a high incentive to comply with the DALS-standards because otherwise they would lose those companies as customers that sell their products on the European market. Therefore, it may be profitable in this situation for both parties to engage in cooperative collaboration.

As a reaction to increasing pressure from the public, a number of corporations have already introduced voluntary programs to improve working conditions, especially in the apparel sector. While those *corporate social responsibility* (CSR) programs, where corporations hire external monitoring firms or create their own ones to enforce the corporation's (voluntary) standards, did lead to some improvements in the past, they nevertheless have the disadvantage that the funding of the monitoring agency depends almost solely on those corporations they are expected to monitor and that corporations are always free to quit. This constellation makes them vulnerable to "regulatory capture" (the interest groups "capture" the agencies whose initial purpose was to regulate them). As a consequence, those CSR programs are not doing a good job when it comes to promoting workers freedom of association (FoA) rights (Anner 2012). Instead they focus on the enforcement of minimum

standards such as wages, working hours and safety,[11] since the latter increase the corporation's legitimacy and reduce the risk of unfavorable media coverage, whereas the former reduces the control of the management without bearing significant reputational value (Anner 2012: 609).[12] This problem is quite serious, since - as Dana Frank points out quite sensibly -, if we want to serve those workers' interests, "the goal needs always to be empowerment of workers' own self-defined organizations" instead of treating them as mere passive victims (Frank 2003: 375). This is also highlighted by Rodríguez-Garavito (2005: 206), who additionally points to the importance of cross-border political pressure to promote FoA rights. By making FoA rights a strictly enforced minimum requirement, this is exactly what our regulatory regime would aim at.

Of course, not only would the suppliers have to meet the DALS standards, but also the suppliers of the suppliers. On the one hand, this follows necessarily from the above discussion on European values; on the other hand, this is also necessary to avoid outsourcing of "dirty" production. It should be clear that this necessarily involves a considerable amount of supervision and inquiry, not only from the DALS authorities but also from the companies themselves if they want to comply with the standards. Therefore the DALS authorities should not primarily act as a judge, but as an advisor if problems with a company's products emerge. Sanctions in the form of a public warning or, at a later stage, a ban from the market, should only be taken if the company refuses to cooperate.[13] As Locke, Amengual, and Mangala (2009: 328) point out referring to work by Kagan and Wilson (1984), "the 'good inspector' behaves very much like a 'good cop', tough but sensitive to particular situations, using his of her discretion to promote problem solving and rehabilitation rather than coercion and punishment" (see also Wilson 1968). When inspectors act as advisors (with the threat of sanctions more as a "background condition" or "fallback mechanism"), so the latter point out, standards can be enforced more effectively, since it renders the inspection process less bureaucratic and promotes that factory managers actively engage in the problem solving process rather than trying to do only the absolute minimum to pass the standards (i.e. interpreting rules in a bad faith or manipulating books) (see also Bardach and Kagan 1982). In order to develop such a relationship of trust, it is, according to the authors, crucial that

[11] For evidence see also Locke, Amengual, and Mangala (2009: 334).
[12] According to Anner (2012), CSR programs are a "delicate balancing act" for corporations, since "[i]f there is too much perceived corporate influence, the program loses legitimacy", while if influence is too litte, "the program may run the risk of incurring real costs on corporations by empowering the workforce in their suppliers and resulting in costly collective bargaining agreements" Anner (2012: 618).
[13] Kimura (2010: 4-5) reported in that in case of the Japanese Top Runner Program the threat of a public warning is already enough to ensure full compliance with the authorities.

inspectors are assigned only a limited number of factories, which in turn enables them to visit these factories in regular frequency.[14] In a similar vein Pires points to the importance (presenting the Brazilian Labor Inspectorate as a positive example) of having a regulatory bureaucracy that gives labor inspectors at the front line sufficient discretion, while at the same time a set of internal mechanisms preserves accountability (Pires 2013).

Finally, the last point takes us straight to the practical limitations of this approach: Although we would like to see our normative premises fully reflected in all products sold on our market, we will necessarily have to limit the scope of application to certain product classes. Analogous to the criteria used by the Top Runner Program, the product categories should be selected according to the following three criteria: (1) products must be sold in large quantities, (2) their production involves substantial amounts of wage labor and (3) there is a detectable scope for improving working conditions. Eligible product categories according to these criteria would for example be apparel, but also natural resources (e.g., rare metals used in the IT industry, gold, diamonds) (see e.g., ILO 2010; Obert 2011; UN 2012) or agricultural products predominantly produced on large plantations (e.g. sugarcane) (see on this e.g. Coslovsky and Locke 2013). Actually, in the latter case the Brazilian Superior Labor Court already provides a regulatory approach taking up the suggestion proposed here: In its effort to improve labor conditions in the domestic sugar industry, it ruled that buyers (in this case sugar mills) can be deemed responsible for violations of labor laws committed by their suppliers (in this case sugarcane producers), which according to Coslovky and Locke (2013: 514) contributed to an overall improvement in working conditions because sugar mills suddenly could not be ignorant any more about the conditions under which their raw material had been produced and therefore started to monitor their suppliers.[15] Hence, the role of human dignity and working conditions acquired a different and less neglected role in the search for competitive advantage.

Among the possible consequences of such a regulatory regime could be more and more suppliers of raw materials concentrating on fulfilling DALS-standards, since the latter

[14] As an additional important factor they stress the inspectors' ability to explain factory managers why certain measures are important (e.g. to increase worker safety), since this increases the sustainability of compliance (Locke, Amengual, and Mangala 2009: 343).

[15] Actually the Brazilian labor law entails another very interesting legal directive: When the Brazilian government increased efforts to enforce its labor laws in the 1990s, more and more sugar cane producing farms outsourced the harvest to labor contractors who brought their own workers and charged only for production (and against which law enforcement proved to be more difficult). As a reaction, the Brazilian Superior Labor Court in 1993 issued a legal directive which contained less than 200 words and stated that businesses can outsource only *support activities* but *not core activities* (Coslovsky and Locke 2013: 514).

would be more attractive partners to companies producing for the European market. In this respect, also the emergence of private rating agencies seems possible, which rate foreign suppliers and thereby provide some kind of assurance to importers. Again, there would be incentive for the exporting company to receive good ratings in order to become attractive to companies selling on the European market. Other possible consequences include horizontal concentration (when single firms control a greater part of a single step within an overall supply-chain) as well as vertical integration (where single firms control a greater part of their supply chains) (see on this Coslovsky and Locke 2013: 517-518), both potentially accommodated with positive (e.g. better working conditions, economies of scale, technology transfer) and negative effects (e.g. concentration of market power). Most importantly, its impact will depend on the way such standards are implemented. Generally, a gradual approach (sensible minimum standards, sufficient adjustment periods and proper assistance) should aim at a smooth transition process that does not fully overburden those economies, which have to carry the largest burden of adjustment. There is a growing development literature suggesting that better labor standards reinforce innovation and labor productivity and should therefore have a positive effect on international competitiveness when implemented in a sensible way (see on this Pires 2013; Rodrik 1997; Stiglitz 2000; Milberg and Houston 2005; Bernard and Boucher 2007; Abrami 2005; Posthuma 2004; Bazan and Navas-Aleman 2004).

### *4.2. Division for Sustainability and Product Quality (DSPQ)*

The first task of the DSPQ should be to adapt the Japanese Top Runner Program for the European market: This means that the DSPQ will be concerned with setting energy efficiency standards, where the most energy efficient product of its class works as a benchmark and room for future technological progress is taken into account. In line with the Japanese Top Runner Program, it should work according to the 3-step procedure described above.

Another task of the DSPQ would be to set and enforce product quality standards. The period of use of products is often regarded as insufficient or declining (Cooper 2004). A product can become unattractive to its owner because fashion has changed or technically more advanced variants have become available. Though this so-called relative obsolescence accounts for considerable waste and consumption of natural resources, this is typically not regarded as a reason for concern. What does however raise concern is when products become

useless because they turn fully or partially dysfunctional. In case of this so-called absolute obsolescence, the replacement of the product by the consumer is not a voluntary act (as in the case of relative obsolescence) (Cooper 2004). From the perspective of the producer, absolute obsolescence can either happen completely unintentionally, unintentionally but accepted (which is the case when producers try to gain a cost advantage by decreasing product quality) or intentionally (so-called planned obsolescence).[16] In order to deal particularly with the latter two cases, it makes sense to extend the mechanism of the Top Runner Program to criteria of product quality and longevity. Furthermore one could also extend the Top Runner logic to the amount of toxic ingredients in consumer products. Analogous to the Top Runner Program the three relevant criteria for including product categories would be again (1) that products are sold in large quantities, (2) that they account for considerable use of natural resources, environmental damage or adverse effects on human health and (3) that there are technical options to reduce this impact. In general, the potential to increase longevity should be large for a great variety of consumer durables, since - as Cooper puts it - "[u]ntil the middle of the 20th century consumer durables were generally viewed as investments and, within reasonable cost boundaries, were designed to last as long as possible. Since then, however, planned obsolescence […] has become commonplace, driven by, for example, a need for cost reductions in order to meet 'price points,' the convenience of disposability, and the appeal of fashion" (Cooper 2005, 57; see also Cooper 2004). See e.g. Allwood et al. (2007) for the respective potential in the garment industry. Examples for products that could be included due to their content of toxic ingredients are plastic bottles (see on this issue Shotyk, Krachler, and Chen 2006) or toys (Becker, Sally, and Massey 2010).

Such an approach of course also contains the danger of overregulation, implying an unnecessary economic burden on private firms. This argument rests on the view that regulation generally raises costs and, hence, harms competitiveness. However, a body of research shows exactly the opposite effects. Early works of Ashford et al. (2007) and Porter and van der Linde (1995) discovered a spillover-effect of environmental regulation to innovation and thereby introduced a more dynamic perspective on product regulation by pointing out that properly crafted regulations trigger innovation and firms benefit from this more than the costs of complying harm them (Porter and van der Linde 1995). This so called "innovation offsets" can even lead to absolute advantages over firms in foreign countries without such regulations. More recently, case studies (Beise and Rennings 2003) identified

[16] The first prominent case of planned obsolescence took place in 1924, when the leading producers of light bulbs agreed to limit the longevity of their products to 1.000 hours (Marsiske 2012).

strict regulation as one of the main success factors for leading markets of environmental innovations. Especially the case of Denmark shows how the strict regulation of wind energy contributed to establish Denmark as a leading market and as a country with the highest usage of wind energy as a share of total wind potential.[17] In a similar vein, Jänicke 2008 argues that "smart" regulation and growing business risks for polluters are the driving forces for ecological modernization or progress. The main explanation for the innovation-impact of environmental regulation is that firms respond more flexibly to regulations than one would expect. If policy makers set obligatory standards that cannot be met with existing technologies, then firms are forced to develop technological innovations. An example for this was the ambitious goal by the state of California, which stated that 10 percent of sold cars should be Zero Emission Vehicles by 2003. Although this target was eased due to political lobbying of the automobile industry, a number of environmental innovations were developed because of this target (Jänicke and Lindmann 2010). A comparison of case studies (Ekins and Venn 2006) on regulations concerning $CO_2$ emissions of cars, energy efficiency of electronic appliances, solar photovoltaics, emissions from pulp and paper production and substitution of chemical substances in Europe, Japan, Germany, Sweden, Denmark, UK and USA show that especially those policies which combine market based instruments and regulation have the highest innovation[18] effects. On basis of this realization, Jänicke and Lindmann (2010) conclude that this is, by transforming environmental aspects to essential elements in inter-firm competition by means of adequate regulatory prescriptions, a promising route for economic policy:

> "[T]he complementarity of market-based and regulatory instruments [is striking]. Innovation-oriented environmental policy is most likely to succeed if regulatory 'fine-tuning' through command and control measures (a 'regulator core') is complemented with market-based 'trend-steering' through economic instruments" (Jänicke and Lindmann 2010: 135)

The proposed mixed instrument approach for DSPQ does fulfill this request. Therefore, if applied rightly, it could greatly benefit the environment, consumers and firms. In case of the latter, the potential benefit is increased technological progress (as Kimura 2010 has shown for Japan) and therefore increased international competitiveness.

[17] It has to be mentioned that the empirical evidence from this study is only until the year 2000.
[18] In this study innovations means "any change in technology, management procedure or behavior, and eco-innovation was innovation that led to environmental improvement" (Ekins and Venn 2006: 7).

## 5. Conclusion

Looking at the tasks of the EACS, it is obvious that EACS must be of a considerable size in order to have an impact, meaning that it would involve a considerable amount of human and financial resources. While the DSPQ can be entirely situated within Europe, the DALS will have much of its staff and offices located outside the European Union. Therefore the latter should work in close cooperation with local governments, organizations that already have internationally located offices and expertise (e.g., the ILO) as well as existing fair trade labels and CSR programs. This leaves us with two questions: First, do we have sufficient human resources to manage this task? Second, and probably more important, do we have the financial resources to do this? Well, considering the substantial unemployment even among highly educated young people (especially in the crisis countries), a lack of available human resources should not be a problem. Therefore, we suggest locating the seats of the EACS primarily in those countries with the highest unemployment rates (i.e., the crisis countries). This way we can also answer the second question: Of course expenses will be considerable, but so are expenses for those currently unemployed, not to mention the immense social costs involved. Looking at it from this perspective, establishing an EACS would present a fiscal stimulus package from which all member countries would benefit.

In this article we have argued in the tradition of Polanyi (1978 [1944]). The proposed approach is based on Polanyi's argument of the complementarity of law or regulation and markets. More recent works (Caporaso and Tarrow 2009) show that the European market is already embedded to some extent through the European Court of Justice (ECI). Our Eutopia contributes to this debate by offering a possible next step to embed the European market within a set of universal values (equality, fairness) originating from the Enlightenment.

Moving towards a civilized market bears the opportunity to make Europe more efficient, greener and to render international trade fairer. Such a transition should guide the innovative capabilities inherent in any market-based system, the core mechanism of markets, into improving rather than deteriorating global as well as local standards. Similar to the Top Runner Program, which aims at making energy efficiency a more important criterion for inter-firm competition, the EACS aims at reversing the trend of eroding social and moral standards associated with marginal ethics by making morality matter in market competition. If we can establish this as an international role model, the benefits could potentially be much more wide-ranging than the costs.

**Acknowledgements**

For helpful comments we would like to thank Leonhard Dobusch. Remaining errors are ours.

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