



# ***Ethical Economy***

*Adam Arvidsson & Nicolai Peitersen.*

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## **RESUMÉ**

# Ethical Economy

Adam Arvidsson & Nicolai Peitersen<sup>1</sup>

*‘En af de væsentligste drivkræfter for innovation i hele samfundet er en effektiv konkurrence.’*

Konkurrencekraft og innovation, regeringens debatoplæg til mode i Globaliseringsrådet, 2-3 februar, 2006

*‘Finding community-building talent is the single most precious resource in the modern world’*

The Late Peter Drucker, International Management Guru (as cited in *Financial Times*, 31/1-06).

These two quotations sum up the prevailing perspectives in, on the one hand *Globaliseringsrådet*, the Danish government working group on globalization and, on the other hand, the contemporary business vanguard, those who really understand how, when and why value is produced. Both groups share a common vision: old-style material, industrial production is bound to recede into the background in most developed countries (although by no means disappear completely) and the key to future development and prosperity lies with the ability to stimulate and promote a new kind of immaterial production, the production of knowledge, innovation, services and, more generally, ‘creativity’. Both perspectives would also agree that such a reorganization of the Danish economy will require a broad mobilization of a wide range of social forces and resources, way beyond the narrow range of the economy:

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<sup>1</sup> Background research by Anders Røe Edvardsen. The ideas and understandings expressed in this working paper can solely be attributed the two authors and does not necessarily represent those of Kesera or any member of the Kesera Forum.

individual creativity must be stimulated, but so must institutional creativity, the productivity of education and resource and, not least the flow and flexibility of communication and networking. But there is a fundamental disagreement on the way to get there. Globaliseringsrådet represent a neo-liberal model that stresses competition and private property. But this model has already been surpassed by the real development of the productive forces. It is continuously disproved by new applications like Skype, Google, Wikis or the Open Source and P2P movements; by the creativity of 'underground' subcultures and, not least by the present craze about 'user led innovation'. All of these examples present cases in which the creation of value instead builds on sharing, social utility and cooperation. If Denmark really wants to achieve a creative take-off (and not just protect the interests of entrenched institutions and actors) it should embrace this new model and learn from what is cutting-edge today. Neo-liberalism is no longer the way forward, the ethical economy is.

## **FIVE FAULTS FOUND**

The perspective of Globaliseringsrådet builds on five cardinal misconceptions about the productive forces unleashed by today's revolution in Information and Communication Technologies (ICTs). If translated into policy, these misconceptions will actually act to stifle Denmark's potential for a creative take-off. These cardinal misconceptions are the following.

### **First Fault: Individuals own knowledge.**

The rhetoric of Globaliseringsrådet presumes that individuals can 'have' knowledge. The immanent policy implication is to try concentrate on

attracting particular talented individuals or to stimulate training and the accumulation of individual competences. While these measures might not hurt, they miss the key point: Valuable knowledge today is increasingly generated in processes that are communicative and socialized. The key to value is not primarily attracting or training talented individuals (that might have been the case in the bureaucratic organizations of industrial society where each ‘man’ had ‘his’ place). Instead it lies in stimulating and nurturing the collective creativity that now lies immanent in social relations: the capacity for ‘mass intellectuality’ that is an intrinsic feature of a sociality structured in media enhanced networks. New business models like user-led innovation systems, the use of cool hunting or trend scouting by the fashion and advertising industries and the management of brand communities testify to the fact that vanguard business practices have realized and come to presuppose such a process-driven and social nature of knowledge creation.

### **Second Fault: The key to creativity is competition**

This might be true in the Darwinian reality of material production where resources are scarce. In such a situation competition leads to the victory of the fittest, those equipped to manage scarcity in the most economical way. But knowledge, creativity and immaterial values in general are not scarce goods. They are not consumed by being used. On the contrary they multiply and proliferate. Consequently, sharing and communality favour productivity. This has long been evident from the world of academic research. The extraordinary advances of science during the twentieth-century have built precisely on the fact that knowledge has been put in common. Today the kind of collaborative knowledge production that has traditionally been located to the academia is becoming an aspect of immaterial production in general. Measures that aim at favouring competition by restricting the circulation of knowledge are not only unnecessary. They tend to be counterproductive. We have seen this clearly in how the commercialization of medical research restricts its overall productivity, and how the expansion of intellectual property rights of makes life more difficult for cultural producers (like, for example documentary film makers who now need copyrights for material that they recycle).

### **Third Fault: People are lazy**

The emphasis on competition and accompanying measures like ‘activation’ of those unable to compete is premised on the assumption that people prefer passivity to activity. This in turn builds on a social model where work and life are clearly separated. Pleasure is found in the passivity of private life, while the drudgery of productive activity only provides pain and humiliation. Today however, productive activities are increasingly also social activities. People produce value by doing things that matter to other people. The drive for peer recognition and the production of economic value coincide. We see this in phenomena like the open source movement, the diffuse creativity of blogging and the Wikipedia movement as well as in the dynamism of subcultural fashions in clothes, art and music (hip hop and graffiti art were driven by the desire for ‘respect’ before they were driven by the hunger for money). We see this principle at work in corporations trying to constitute themselves as communities that matter to employees in many ways beyond the pay package. Indeed, the today’s central business model, the brand, thrives on its ability to put sociality to work. A successful brand is one that enables people to create community and to matter to each other. In today’s ethical economy there is no opposition between the human desire to matter, to be a morally and socially relevant actor, and the economic impetus to make money.

### **Fourth Fault: Predictability**

The vision of Globaliseringsrådet builds on the idea that social and economic development is predictable. And, consequently that experts and expert institutions should be charged with the responsibility to plan for the future. Both ideas are wrong. Firstly the creative process in itself is unpredictable. It is impossible to know from the start what will be the eventual valuable outcome. This makes the whole idea of predicting and planning the unfolding of creative practices absurd. Creativity should be empowered, not planned. A key to successful development is to embrace contingency, to keep as many possibilities open as possible. Secondly, in cooperative production systems- be

this an artistic subculture or a flexible specialized high-tech firm- creativity thrives on unpredictability. Indeed one could argue that top-down social planning has been an antithesis to creativity. A policy that aims at maximizing creativity must thus aim at minimizing the predictability of everyday life and maximizing the probability of unexpected events, encounters and connections. This means two things. It means generality: to keep the infrastructure as general-purpose as possible. This is particularly important in the key institution of the knowledge economy: teaching and research. To make universities adapt to the particular requirements that business has today is not a very smart strategy. By the time these slow-moving monsters have adapted, the skills they teach or the applied scientific research they produce is likely to be outdated (and businesses prefer to use consultants, who work quicker, to produce the immediate knowledge that they need). It also means flexibility. Specific actors know best what is likely to be a winning strategy in their field. Let the unemployed develop their own projects for 'activation', they are far likelier to become productive citizens that way, than by spending 8 hours a day learning skills that some bureaucrat thought useful two years ago.

### **Fifth Fault: Fear**

The position of Globaliseringsrådet builds on the presupposition that Denmark, 'the small country' needs to be protected against powerful threats and enemies, Muslims, the Chinese and so on. Globalization is portrayed as a set of challenges and risks that the national community will have to face. But the national interest matters less than ever before. Information and communication technologies have enabled an unprecedented transnationalization of productive networks. This is true for material production (your ordinary computer is produced in a global assembly line that transpires many different national contexts) as well as immaterial production; the linux operation system is co-produced by actors located all across the globe. In knowledge production terms there is no national interest to protect, and nothing to fear from globalization. On the contrary, fear of the foreign is counterproductive. Firstly, the drive to create national replicas of institutions that are internationally successful is generally wasteful. Instead of trying to

create a Danish MIT, send Danish students to the real MIT. Secondly, excessive national bias risks alienating the globally mobile creative class that Globaliseringsrådet and other policy makers are so keen to attract. More generally, fear is not a progressive attitude. It's the enemy of creativity and productivity. If the new mode of production does not seem to fit with an established idea of the national interest, then that idea has to be changed. One has to embrace and affirm the real development of the productive forces, or one will be left behind for real.

## **THE ETHICAL ECONOMY**

What then is this real development of the productive forces? There have been lots of terms tossed around in recent years in order to describe, the 'New Economy' that is replacing the old, Fordist, industrial society: Information Economy, Knowledge Economy, Creative Economy, Experience Economy or New Economy (tout court) are some of the most frequently seen of these terms. We would like to introduce the concept of an Ethical Economy, not just to add another term to the list, but because we think that the Ethical Economy describes something more fundamental, something that lies beneath the surface of all or these concepts: cooperation.

The ethical problematic is intimately linked to the issue of cooperation. It is because people cooperate and create things together that they are ethical beings. Traditionally ethics and economics have been kept apart. Economics have been understood as the realm of objective needs and rational calculus, while the 'softer' ethical problem of how we matter to each other was thought of as something that arose only when one left the workplace and engaged in other forms social intercourse. Now however, things like ethical consumerism, or corporate ethics indicate that this boundary is no longer as rigid as before.

Now the introduction of ethics into mainstream economic thought is precisely a response to the new economic centrality of cooperation. Of course cooperation has always been the secret productive force of capitalism. Both Adam Smith and Karl Marx stressed how the efficiency of industrial production rested mainly on its ability

to create new and more efficient forms of co-operation, like the division of labour in manufacture, and latter the assembly line and the complex production and distribution systems that developed around it. Marx was particularly foresighted in this respect. In an obscure passage from Grundrisse (a collection of sketches and notebooks that he never intended to publish himself) he argues that as large-scale industry develops and becomes more complex, the main productive force will be cooperation itself. He called this General Intellect, by which he referred to a sort of social intelligence, a collection of competences, know hows and skills that arose organically out of the complex forms of cooperation and social interaction that the large factory made possible. Machines were an important part of this General Intellect, but they did not exhaust the concept. Firstly, Marx argued that machines (or technology) was the result of this social intelligence, they were a materialization of knowledge and skills that had already developed through previous forms of cooperation. Secondly, he argued that the most important contribution of machines and technology was that they permitted more complex forms of cooperation, and thus further unleashed the key cooperative, or ethical productive force.

Marx wrote this in the 19<sup>th</sup> century. When he thought of General Intellect he thought of the transmission-belts of huge steam-driven factories. But today's Information and Communication Technologies has generalized this enhanced capacity for cooperation across the whole social body. The General Intellect of the factory has become a mass intellectuality that empowers the cooperative potential of social relations generally. This is the fundamental element of the new economy. The production of knowledge, of experiences, of creativity of all the immaterial goods that Globaliseringsrådet hope will keep Denmark wealthy is in every case premised on the ability to activate and utilize the productive potential of social cooperation. It is the cooperation of the many, of the networked multitude, its ability to produce an ethical surplus, social relations, experiences, knowledge and styles, that supplies the raw material for the new, ethical economy. We would go as far as to say that the main economic contribution of information economy has been that it has enabled these new forms of productive cooperation, this new ethical economy.

That a generalized, technology-enhanced capacity for manifold cooperation has become the main productive force means that there is no longer any contradiction

between ethics and economics. On the contrary, the ethical ability to open up to and share with others has become the most fundamental quality of a successful economic agent. This also means that the old models for institutionalizing ethics and economics, representative democracy and private property are becoming obsolete. Politics is no longer a separate practice, best handled by expert politicians. On the contrary the basic political practice of constructing a common social world, an ethical surplus has become a fundamental aspect of economic production. A brand community is like a social movement, open source is a political program, and a self-managed slum or a cooperative micro-credit system is also a project for a different political order. Private property, particularly as applied to immaterial goods like knowledge and innovations goes against the whole logic of maximizing sharing and cooperation that stands behind the new economy. This means that a successful policy for the new economy cannot just be a matter of surface alterations to an outdated neo-liberal model. The whole institutional order of society needs to be thought through again. It must be geared towards maximizing the cooperative abilities, the ethical productivity of the many. We have some modest suggestions.

### **The principles for the ethical economy**

We use the term ‘ethical economy’ not because we think that present productive conditions are necessarily nicer or more socially conscious, but because the economy of technologically enhanced networks of cooperation puts the ethical dimension of human existence directly to work. This in the sense that the ethics of the particular encounter is a determining factor behind its economic productivity. Value, the value of an actor or a service becomes primarily based on his, her or its ability to matter in an ethical sense, to give something back, to expand the ethical surplus that is produced in the encounter. We suggest that the three general principles put forth by Peitersen and Skibsted can be useful to think about the ethical productivity of actors and encounters.

#### **Proximity**

Actors are best suited to matter to those things or people to which they feel closeness. This means that actors should be empowered and given maximum freedom to determine their own horizons of action. It also means that the

management and evaluation of a productive activity should occur as close as possible to where it matters, ideally by the actors that are present in its proximity-horizon

### **Maximization**

The productive potential of each actor should be maximized by choosing the actions that generate the greatest additional value to his or her proximity-horizon. On a macro level, this means improving sharing instead of competition and encouraging self-organization instead of discipline.

### **Expansion**

An economic agent is more productive the wider his or her horizon of proximity. Thus, it is of economic importance for the agent to continuously expand its feeling of closeness: to get involved with more people and situations. Actors should be encouraged to learn from and coach each other, policy should encourage the highest degrees of tolerance and respect. Not primarily because these are nice humanistic values, but because, as Richard Florida has so convincingly demonstrated, they are key economic resources.

## **FOUR MODEST POLICY PROPOSALS**

### **Value & Rights**

When a text, a music piece, a picture or a film can be copied and distributed freely and without any loss of quality, when a still greater economic growth driver is social processes and multi-authoring, and when the consumer increasingly becomes co-creator, re-creator and distributor of the product, almost all existing rights mechanisms erode. And worse still – the whole immaterial rights system will act against the development, distribution, experience AND the economic valorization of ideas and innovations. Hence in the Ethical Economy, we need to approach the contract between individual and society differently.

The past few years have seen a debate raging between those that want to expand and strengthen the intellectual property rights and those that advocate open source and no rights. We feel that when value is increasingly based on social uses, this discussion is both obsolete and misses the point. A more constructive and progressive path would be to look at the *application* of rights, i.e. the ethics of rights. We suggest introducing “normative rights” where the right holders stipulate the “normative conditions of use” to guide the proliferation of the idea for continued value creation. This turns the holders of rights into “value guardians” that allows everyone to re-use, re-create and distribute as long as they do not violate the values behind the idea. One could then think of various ways in which actual users could influence the normative frameworks of use. This contrasts markedly with today’s prevailing practice of fighting anyone *however* they apply the idea. Today’s practice relies on the idea that economic value is a reflection of the height of your stack of rights and patents. Our suggestion presupposes that economic value primarily derives from the social uses of ideas and concepts. It is an irrational strategy for value creation to guard a monopoly by enforcing your patents and rights if this restricts the build-up of social capital. Thus, it is a right to matter and a matter of value!

## **Value & Welfare**

The social democratic model of welfare was built on the notion of full employment. Unemployment was considered an anomaly that should be corrected by placing the unemployed individual in such life-long full employment, thereby reintegrating him or her into the system. Today that model is increasingly obsolete. Instead unemployment agencies have come to function mainly to guarantee that unemployment is at least as unpleasant as employment, by means of various strategies of humiliation, known as ‘activation’. The principles of the ethical economy suggest that it makes more economic sense to confide in the individuals wish and ability to matter as an ethical agent. Thus people are not ‘lazy’ nor do they need to be ‘activated’. Rather it is the system that needs activation to learn how to liberate the immanent economic/ethical potential of social cooperation. This is best done

by maximizing cooperation and enabling individual to matter to the many. We would like to suggest that activation is used as a last resort, rather than as the default option. First let unemployed people present their own projects for how they are supposed to spend their time on benefits. (Our research shows that the comparative flexibility in unemployment benefits in the mid 1990s was a crucial factor behind the creative explosion of the Copenhagen underground, something that has made a substantial contribution to transforming Copenhagen into an attractive global city). According to the proximity principle they are best suited to know where they matter the most ethically/economically. These projects should be continuously evaluated, but preferably by a set of proxies chosen by the unemployed themselves. (If I want to launch a line of fashion clothing I am best judged by other fashion designers.) To maximize the productivity of these projects, education, technology and administrative and marketing services and other immaterial resources should be made widely and freely available. It is mainly the monopoly over the means of production and distribution (studios, filming equipment, marketing channels) that remains the main obstacle that prevents the existing ethical economy of the ‘creative underground’ from going to market. Activation stifles all this potential productivity. It should be saved for that small minority who are unable to activate themselves.

## **Value & Research**

If the idea of a creative society is to be taken seriously, we need to build policies on the nature of creativity rather than on the rhetoric about creativity. The outcome of creativity is by nature unpredictable, otherwise the result is not a new creation but “old wine in a new bottle”. Creation is the conceiving of a being that is a reflection of the parents but has its own unpredictable “use” – you do not now what the child will become beforehand. The only thing you as a parent are in power to do is respect the being and try the best to optimise the conditions for it to thrive and for it to become a value creating member of the community. Hence, we see no problem in the increasing efforts to explore the “use” of research in society. However, the measures for achieving it equal the parents telling a child what to do and what to become. The problem is not

down to the lack of useful applications but the lack of an independent market for research and a mechanism to guide it. Without this market research money will go to the actors that have the best networks rather than those that have the best ideas. As a result, the system not only institutionalises conflict but acts as an actual burden on the creativity and innovation that Globaliseringsrådet, among others want to foster. Moreover, the absence of a market mechanism creates irrationally high transaction costs, forcing researchers to spend large chunks- as much as one third- of their time preparing and writing applications, trying to mould their projects and ideas to fit into whatever “indsatsområde” the few has decided. The Danish Højteknologifonden is a good example of this highly irrational state of affairs. In other words, we do not only need competition on the supply side of research but also on the demand side! And the larger and more heterogeneous demand the more and better use of research.

We call for a value creating exchange that:

- ? Centralises demand for and supply of research
- ? Assures the quality of the holder (e.g. a research department) and buyer (e.g. a corporation) of the underlying asset (research innovation).
- ? Supply a price mechanism that aligns demand and supply.
- ? Standardises the transaction in order to lower transaction costs, and hence broadening demand for and supply of research innovation.
- ? Makes the market transparent by categorising research and innovation, and by setting standard requirements for listings.

## **Value & Innovation**

Present suggestions for boosting the innovative capacity of the Danish economy centre on the notion of ‘user-led innovation’. Companies, universities and other institutions are encouraged to develop what amounts to information and business intelligence solutions that will allow companies to get a better grasp of what consumers might want from them and what niches there might be for product development. While this is fine and well, user led innovation is useless without innovative users. It needs to be recognised that

the main raw material for innovation is a creative society. Policies for user led innovation thus need to be paired with policies that aim at maximizing the ethical productivity of many-to-many interaction.

Our suggestions have all been centred around the idea of such an ‘optimized emergence’ of creativity. This means creating a playing field where the possibility of creative encounters is maximized, and the risks associated with daring to do something different are minimized. Ultimately this entails a decoupling of basic necessities, or the reproduction of life, from the insecurities associated with any kind of enterprise: a guaranteed acceptable standard of living for all that comes with no bureaucratic ties. It means favouring rules of the game that ensure optimized forms of rewards and evaluation. Present forms of bureaucratic or personal network based models of regulation should, as far as possible be based on transparent models of peer to peer evaluation where, in so far as possible, evaluation is located in the proximity of the actors concerned. Finally it entails producing criteria of participation that maximize the productivity of particular encounters.