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# Book Review

**by Richard M. Ebeling**

*Misguided Virtue: False Notions of Corporate Social Responsibility*
by David Henderson (London: Institute of Economic Affairs, 2002); 169 pages; $19.95.

In spite of the end of Sovietstyle communism, the introduction of more market-oriented policies in many previously socialist societies, and the further integration of many of the world's economic activities through the process of globalization, the ideology and policies of anti-capitalism are very far from dead. Indeed, they continue to dominate the social and economic agenda of virtually every country on every continent.

Let us remember the nature of the free-market, capitalist system. The means of production are privately owned. Human relationships are based on peaceful, voluntary exchange. The businessmen and entrepreneurs who own, hire, or rent those means of production determine what goods are produced. In making their production decisions they are guided by the competitively established market prices. They pursue profits and attempt to avoid losses. To do so they must succeed in making better and less-expensive goods than their next-closest rivals who are attempting, also, to win over consumer business. The market economy, therefore, is consumer-driven, with those businessmen and entrepreneurs having to adjust what they do to what they anticipate consumers may demand and be willing to pay for.

The businessman and entrepreneur may try to reason with the consuming public and convince them that what they have for sale is the best and least costly product to fulfill someone's particular goals and purposes. They can appeal to people's vanities and passions, to their reason or their emotions, to hardheaded facts or sexual fantasies. But they do not, in the free market, have access to one tool of persuasion. The participants in the marketplace may not use violence or its threat to make people do things or to buy and sell things. Nor may they use fraudulent means to deceive people concerning the nature and quality of the goods and services offered for sale.

Does a businessman have to make what consumers seem to value most highly, as that is reflected in the prices they are willing to pay for various goods? And must the businessman only utilize those methods of production that minimize his costs of doing business?

No, he does not. He can choose to make some other product that is less intensely demanded by consumers; but he does so at the expense of the additional profits he could have earned if he had made some product consumers would have been willing to pay more to buy.

He can choose to pay his workers more than the prevailing market wage for labor performed. And he can choose to use some less-efficient resource or raw material that he deems it more "socially conscious" to utilize in his production activities.

But he may earn less profit or even suffer a loss in comparison to his supply-side rivals who can market the product for less by applying more productive materials and paying the lower, market-established wage scales for labor. The independent businessmen or the shareholders in a corporation are free to do so if they are willing to incur the possible costs of fewer customers, lower profits, or even losses that would have to be covered out of other financial sources if they are to stay in business.

The businessmen or corporate shareholders who choose to follow this latter course are, in fact, consuming a part of their productive wealth. They are either missing profits that could otherwise have been theirs or they are having to devote financial resources to cover losses that could have been used for some alternative investment or consumption use.

**Corporate social responsibility**

If certain worldwide ideological trends continue, more and more businesses and corporations will be under the pressure to follow these types of management policies, with harmful consequences for society as a whole. David Henderson, former head of the Economics and Statistics Department of the Organization for Economic Cooperation and Development and visiting professor at the Westminster Business School in England, explains this danger in his recent work, *Misguided Virtue: False Notions of Corporate Social Responsibility*.

For more than 10 years there has been a push for the idea of "sustainable development" by a variety of international organizations, including the United Nations, the World Bank, and what are known as non-governmental organizations (NGOs) representing a wide spectrum of ideological groups, many of whom are explicitly anti-capitalist and anti-globalization.

They insist that business in general and most especially those that operate on a global scale must commit themselves to a new "corporate social responsibility" (CSR). The goal would be the fostering of "sustainable development," which "seeks to meet the needs and aspirations of the present without compromising the ability to meet those of the future." (See "In Pursuit of Sustainable Development" in this issue of *Freedom Daily*.) For the businessman and the corporate executive and shareholder, CSR means the quest for profit within the context of "economic development, environmental protections, and social equity."

What does this mean in practice? It requires firms and corporations to politically coordinate business decisions with governments and NGOs to guide investment into those areas that a consensus among these three groups holds is healthy and desirable for the societies in which businesses are operating. Firms and corporations are, likewise, to follow investment strategies that incorporate the views of global environmental groups concerning where production should be undertaken and with what methods of production to maintain the natural environment and to not deplete selected resources considered essential for future generations.

And, finally, the firms and corporations are to include not only the views and interests of their shareholders in guiding the company's activities. They are to consult with "stakeholders" who are said also to have a stake in the business decisions, including local municipal governments and various special interests such as trade unions, environmental groups, and ethnic and religious minorities.

Businesses would now have a "triple bottom line" of seeing that they were pursuing all of these three targets rather than merely their own narrow profit margin.

Why are a growing number of businesses and corporations going along and endorsing CSR and the idea of sustainable development targets? Henderson suggests that one reason is intimidation. Businessmen often wish to do nothing that creates bad publicity and hurts their consumer image, or threatens increased government control over their activities. Better to go along than face an avalanche of public and political criticism.

Another is that many corporate executives and especially those who advise them on "social issues" within the firm share the ideology of interventionism and environmentalism. In other words, they believe that such policies are necessary for a "better world." This is what Ayn Rand used to refer to as the "sanction of the victim." Having accepted the indictment that capitalism cannot be trusted when left free, businessmen assist in putting the noose around their own necks.

A third reason, which Henderson does not, perhaps, give enough attention to, is the idea that for many corporations participating in the design and implementation of “sustainable development” interventions and regulations is a way to ensure that the government controls work to their advantage and against other existing or potential rivals. That is, they serve as one more tool of anti-competitive regulation to benefit some producers in the market at the expense of others as well as the consuming public.

Worst of all, Henderson warns that if the philosophy of CSR were to be generally accepted by the business community and imposed by governments and international organizations it would dramatically change the traditional idea of corporate governance and purpose. No longer would the role of business be to assemble resources, undertake investments, and innovate new products guided by the profit motive for the purpose of satisfying consumer demands in the open, competitive market.

Businesses and corporations would become even more politicized than they are already. An even greater degree of irrationality would be introduced into business decision-making than now exists with the present interventionist state. Why? Because, as Henderson points out, there are no objective or clear definitions or criteria of measurement or success with the notion of “sustainable development,” and its accompanying elements of environmental protection and social equity. These can mean almost anything and can be evaluated any number of arbitrary ways. In fact, the “bottom line” is erased. What remains is political pull, special-interest group pressures, and ideological demands.

The net effect would be the end of efficient and productive enterprise, the strangling of market competition, greater restraints on entrepreneurial innovation, and limits on the economic opportunities of those who live in great poverty around the world. The only beneficiaries would be the global social engineers who cannot give up the collectivist ghost, and who still dream the dream of centrally planning the lives and fortunes of their fellow men.

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