

Degrowth and CSR in the New Eco-Social contract



Abstract:

UNRISD (United Nations Research Institute for Social Development) has published a major work in 2022, titled *Crisis of Inequality: Shifting Powers for a New Eco-Social Contract*. In this work, major issues are addressed with regard to how international policy needs to change for a sustainable future. In this reply, I argue that a more aggressive approach to Corporate Social Responsibility than the one that UNRISD is suggesting is going to be necessary. Furthermore, I argue that the driving force behind the implementation of these principles needs to be a shift away from ideals of growth, towards a degrowth economy. Principles of degrowth are shown to not decrease quality of life by any meaningful standard, regardless of fear mongering about such a situation by neoliberal governments. At the same time, I demonstrate how degrowth is absolutely unavoidable if any meaningful change with regard to sustainability is to be made.

Defining CSR

Corporate Social Responsibility (CSR) is the way in which businesses choose to go beyond the ethical demands put forth by the laws by which they have to abide. The current interpretation is a voluntary expression of goodwill by companies. In this article I will argue for a more expansive, compelling interpretation where government demands of corporations' ethical behaviour are examined and increased. These demands should be a central part of the New Eco-Social Contract that the UNRISD (United Nations Research Institute for Social Development) is developing.

If terms like greenwashing, pinkwashing and virtue signalling seem uniquely pertinent to the 21st century, we need to remember that those are the expressions of the ethics of business in our time.

The history of CSR goes back to the time of the New Deal in the United States when one of the new deal architects, A.A. Berle, debated law professor M. Doyle about the role of corporations in society. Should enterprise be legally compelled to serve the interests of society?¹

When the topic of business ethics was first openly discussed in the 1970's, the simultaneous rise of neoliberalism led to

the Friedman Doctrine becoming common practice within corporate governance.² Corporate Social Responsibility is in essence a reply to this doctrine. It is important to remember one of the important replies to the Friedman Doctrine, posed by R.F. Duska. In his reply, Duska argued that Friedman failed to identify an important distinction in the existence of businesses. Businesses exist because of two reasons; individual interests, and sanctioning by the public.³ It is an increased awareness of this principle which I believe is changing the nature of the corporate landscape.

The UN has been using language similar to CSR principles since the original Universal Declaration of Human Rights in 1948, formally adding to this ambition with later statutes as the UN started to recognise the impact of companies on Human Rights causes. However, it has mostly been a "soft language" of CSR, leaving much on the table to be defined by individual governments and companies.⁴ I argue that a transformation to more of a "hard language" is necessary.

By going beyond the legal requirements of Social Responsibility, companies can

¹ A.A. Berle (1932), E.M. Dodd (1932)

² M. Friedman (1970)

³ R.F. Duska (2007), P.10

⁴ UN, "Corporate Social Responsibility": see link below



assure themselves a place in the future of business.

Stakeholder theory is one central tenet of the original Corporate Social Responsibility theory that acknowledges that there are more people involved in the stakes of a business than just those who profit.⁵ Stakeholder theory places a business centrally within society; acknowledging all facets of its sphere of influence. Not only profits are acknowledged, but all of the effects on society and the climate are considered. There are some national or international attempts to write these principles into law, to varying levels of success.

An example is the EU directive regarding the “*disclosure of non-financial and diversity information by certain large undertakings and groups*”.⁶ This directive claims that CSR principles must be written into national law, although EU countries may decide how to do so. In reality, because EU governments are still under neoliberal rule, this directive is considered difficult to implement because it conflicts with profitability and neoliberal governments are scared by companies threatening to leave.

CSR has seen many (national or firm-level) implementation attempts in the

global North⁷ and South⁸, as well as sporadic other implementations. However, these are often done at firm-level on a voluntary basis, or as national recommendations, leaving room for improvement in terms of obligated trans-national or mondial commitments. Similarly, many United Nations Observers (for example: OECD) as well as the United Nations itself have made policy recommendations to be adopted nationally. These recommendations have been made by the UN since the 1980's, and have seen varying levels of success in terms of national adoption.

CSR and the New Eco-Social Contract

UNRISD has identified several problems with Corporate Social Responsibility accounting which can help us identify issues in its utility that exist currently⁹:

- Key structural issues often constitute blind spots by ignoring structural conditions such as skewed power relations, ownership and governance structures that favour shareholders and management over equitable distribution, gender disparities, adverse public policy environments

⁵ B. Sheehy (2015), P.635, R.E. Freeman (1984)

⁶ <http://data.europa.eu/eli/dir/2014/95/oj>

⁷ P.C. Leyens (2018), p.165

⁸ K. Fukuwaka (2009), P.A. Haslam (2004)

⁹ UNRISD: measuring corporate sustainability (2020)



- shaped by corporate public influence (Lobbying);
- Qualitative data is favoured over quantitative data
 - Metrics are often presented in a decontextualized manner;
 - Progress is difficult to measure (as a result of a lack of standardised metrics of improvement, and a narrow focus on incremental change as opposed to systematic improvement);
 - Reporting follows an annual structure, instead of more comprehensive reporting that tracks across longer periods;
 - The process to decide which data is relevant in decision making is often myopic.

It is for this reason that CSR principles need to be better integrated in the New Eco-Social Contract. This term was coined by the UNRISD, and posits that there needs to be a renegotiation of the social contract to rid the world of deeply entrenched inequality.

UNRISD has some recommendations to improve CSR reporting:

- Implementing quantitative standards of (wage) equitability within a company;
- Reviewing gender pay gap metrics to include often overlooked factors;

- Improving the way in which companies assess fair taxation through an honest look at the tax gap;
- Engagement in the labour rights movements, and actively promoting the percentage of workers covered by collective bargaining;
- Quantitative acknowledgements of political involvement, and ceasing most (if not all) lobbying efforts.

There are several major blind spots that UNRISD fails to account for:

- One of the major sources of unfairness between employer and employee is not between CEO and employee, but between shareholders and employees. To fundamentally change the ethics of CSR, a critical analysis of how society treats capital and how it originates in business ownership is necessary. Instead, companies should be obligated to set hard targets about how to limit capital flow towards owners and to increase profit sharing.
- UNRISD recommends fair tax assessments and acknowledgement from companies on the use of tax havens, whereas a more direct impact must be made through

international treaties on corporate tax reform (as acknowledged in a special UN meeting on taxes¹⁰). A valuable addition to this would be a reimagined use of taxation, away from just taxing profits, towards taxing resource use.

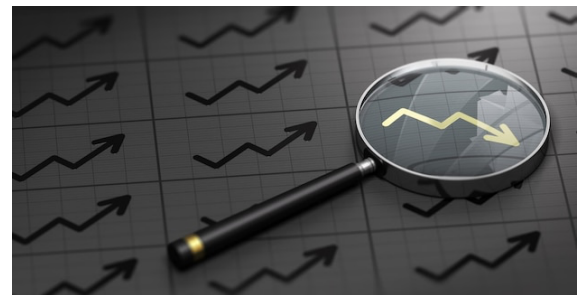
Degrowth economics

Why does CSR have to hold such a central locality in the New Eco-Social Contract?

The main argument of this work is that CSR must be a central element of this contract because the fact that corporate irresponsibility is in large part cause for the need for the New Eco-Social Contract. Large corporations have been responsible for human rights breaches, ecological disasters and societal inequalities since the advent of liberal society and capitalism. So far nations have tried to solve these issues while avoiding stepping on any corporate toes, for fear of economic decline (or realistically, for fear of *decreased growth*). This was done on the basis of economic convictions that are mostly outdated. The paradigm shift needed for the future includes giving up on the misguided ideal of infinite economic growth.

Therefore, a fair, clean and sustainable future requires corporations and the wealthy to be the ones who give back. The

only way for this to happen on the needed time-scale, is to set explicit norms for governments in terms of CSR. This should include taxation goals, as states currently experience an incentive to compete with each other for lower corporate tax rates. Going below an internationally decided tax norm should be sanctioned by other countries to disincentivize lowering corporate tax rates. If sanctions are not included, this creates a prisoners' dilemma, so sanctions must be central to an international tax policy.



This article is written as a recommendation *not to fear* economic decline as a result of fairer policy. First of all, economic policy implications cannot be understood based on what has happened in history as a result of similar policies.¹¹ If we are concerned about behavioural implications of complex economic policy, we need to understand the deep behavioural motivations of the population. And in the current world, increasing calls for fairness and

¹⁰ 2022, ECOSOC special meeting on taxes

¹¹ Lucas (1976), Econometric policy evaluation: a critique

sustainability lead to believe that such policies will be viewed in a positive light.

Second, degrowth as a concept has been extensively studied. Although it does not fit neoliberal growth ideology, degrowth is considered “necessary, desirable and possible”.¹² It is uncertain whether degrowth is a necessary consequence of the implementation of CSR principles as they are formulated above, but the point here is that we should not fear degrowth regardless.

It should be understood that this means that there are three complementary but independent variables to the degrowth theory:

- 1) Degrowth is inevitable in the long term, as degrowth theory has shown that its neoliberal proposed alternative “green growth” will not be enough to solve the problems that we face in the 21st century (as explained below)
- 2) Degrowth is not the end of society, nor is it the end of functioning democratic economies, and should therefore not be feared regardless of neoliberal fearmongering. Any proposed problems result from the shortcomings of the neoliberal economic imaginaries, not from an inability to successfully transition

to this mode of economy and government in the real world.

- 3) A continued growth mindset will lead to those conflicts that neoliberals fear from degrowth, which is international conflicts over resources. These conflicts already exist and are predicted to only get worse as our land use intensifies and the production capacity of the earth reduces through climate change.

“Growth” as a policy goal is a phenomenon that only appeared in the 1950’s.¹³ Therefore we need to understand that it is not essentially connected to how we understand the origins of our societies, despite it becoming essentialized over the last decades. Societies have progressed at similar rates for hundreds of years without the essentialized economical growth mindset. Some of the most influential changes in world history took place without this growth mindset.

To show how degrowth is unavoidable, we need to discuss some numbers. Our economies are driven by carbon emissions, following a certain level of carbon intensity which can be calculated as the number of emitted kilograms of CO₂ divided by the GDP (KGCO₂/GDP). If we

¹² Kallis et al., (2018), Research on Degrowth, P.291

¹³ Kallis et al., (2018), research on degrowth, P.294



continue to assume a GDP growth of 1,5% per year as desirable, we would need to reduce our carbon intensity at a rate of 4,4% per year to stay within the 2°C of warming upper limit. If a growth level of 0% per year is assumed, that carbon intensity requirement drops to 2,9%.

The average year-on-year reduction in carbon intensity was 1,5% in the period 1970-2013, and this will most likely become harder to sustain as more nations become carbon-intensive in their growth strategies.¹⁴

So how can we sustain our societies without it? One issue is related to how we conceptualise welfare. Traditionally, wealthier countries have tried to link our conceptualization of welfare to GDP. And to a certain extent this is true, but after a certain point equality becomes a better indicator of citizen well being than GDP. Most societal well-being indicators show no significant progress since the 1950s/60s/70s despite significant GDP growth. Furthermore, poorer countries with significantly lower GDP scores but higher equality rates show wellbeing rates comparable to richer countries (Costa Rica, Vietnam).¹⁵

So how can economies manage to function well without growth? There are many

proposed working macroeconomic models for a post-growth economy. One proposed model offers macroeconomic efficiency and stability under three conditions:

- 1) a relatively equal distribution of income and wealth is guaranteed,
- 2) energy and resource throughput is capped, and
- 3) population growth is limited.¹⁶

Many more models exist, but the overarching consensus is the following: is a satisfactory level of well-being possible in a non-growth economy? Yes. Is it possible within capitalism? Most likely not. There will need to be some concessions that move us away from a strictly capitalistic interpretation of economy. These concessions include “*collective firm ownership, prevention of economies of scale and limits on the exploitation of fossil fuels*”¹⁷. These concessions would likely be strictly opposed by capitalist interests exactly because they go beyond our current understanding of capitalism, and are therefore unlikely.

This is why mandated corporate social responsibility needs to be part of the New Social Contract; it effectively sets the stage for these same measures, and will reshape

¹⁴ Kallis et al., (2018), Research on Degrowth, P. 297

¹⁵ Kallis et al., (2018), Research on Degrowth, P. 298

¹⁶ Daly HE. 1977. Steady-State Economics. San Francisco: W. H. Freeman Company

¹⁷ Kallis et al., (2018), P.300

the economy to understand a new interpretation of profit; a firm is only “profitable” if it is of benefit to everyone without harming the world in any significant way. It will also force companies to rethink their throughput of resources in a fundamental way, as throughput will have an inverse relationship with their profitability, instead of the parallel relationship that it currently has.



Holistic policy

This integration also promotes a different but equally important lesson; that a systematic improvement of these “wicked problems” requires a holistic approach, because their improvement is fundamentally linked. To protect the world from climate change, we need to reduce our throughput, which requires degrowth, the success of which can only be guaranteed by improving equality. It is therefore fundamental to understand that the problem that needs to be solved for a better future should be understood as a problem of greed. Trying to solve the

problems of climate change without restricting the concomitant problem of greed is an exercise in futility.

The goal then is to create broad support of the ideas of degrowth through this New Social Contract, wherein the working class understands that they do not need to support the capitalist growth ideal to support their current level or any sufficient level of overall well being. For most current societies, capitalism (or in the case of former communist countries state capitalism) is all the people have ever known. It therefore requires a fundamental shift in understanding our social relations and realities.

That’s also why the UN needs to play a central role in this endeavour. If a centralised rethinking of economic behaviours is necessary, it needs recognition from and oversight by a recognized mondial intergovernmental organisation like the UN. The UN needs to reshape the understanding of the economy by the citizens, so that they understand that their power over the social responsibility of companies is much greater than they currently conceive.

It is also important to include that the role of the UN is needed to deal with the adverse incentives that arise when there is no centralised approach, such as with taxation as described above.



Conclusion

In this article I have argued that the New Eco-Social Contract proposed by the UNRISD needs to incorporate measures of Degrowth and Corporate Social Responsibility to propose a truly sustainable global society of the future. A more holistic approach to the interwovenness of economy, politics and society is needed, because trying to improve some metrics while refusing to let go of the neoliberal market economy of profit is proven to be unsustainable.

- Companies owe their existence to acknowledgement and sanctioning by the public, emphasising the public's collective power over them to behave in socially responsible ways
 - Irresponsible behaviour by companies is what causes the need for a New Eco-Social Contract, and their behaviours are central to what needs to change for a sustainable future.
 - UNRISD's current understanding of CSR is too narrow. A more complete approach would require a notion of profit-sharing and limiting upward flow of capital, an international cooperation to avoid tax evasion, and a taxation scheme which taxes both profits and resource use.
 - CSR goals are instrumental to a sustainable future, as they are enforceable ways to start an economic transition to degrowth concepts
 - Degrowth, the concept of "letting go" of the ambition of long term economic growth, is inevitable in the quest for a sustainable future. Even with degrowth and its associated limit of throughput of resources, it is not sure whether climate change can be halted, but it is the minimum requirement for there to be any hope of success.
 - Degrowth should not be associated with societal decline, as neoliberalism would like us to believe. On the contrary: it should make us hopeful for the future, as beyond certain (fairly low) GDP standards the notion of economic equality (instead of GDP per capita) is a far better predictor of meaningful metrics of citizen wellbeing.
 - Focus metrics have been suggested to start a degrowth transition through this holistic approach, which include: collective firm ownership, prevention of economies of scale, and limits of exploitation of fossil fuels. These should be instrumental in how we rethink the goals and roles of companies in society.
 - The UN should be the driver of this transition, as only a highly centralised approach would be effective.
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An inclusion of these principles into UNRISD's New Eco-Social Contract would prove to be a more effective and holistic approach to shaping the future of society. Of course, it requires some bravery to actually approach economics from this angle, as it is diametrically opposed to what the last two centuries have looked like from an economic policy perspective. Guarded by the knowledge that degrowth economies don't mean a substantial decrease in quality of life for the masses, we should feel secure in implementing these strategies into our Eco-Social Contract for the future.

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