

Contagious Small Good Firms: Corporate Social Responsibility and the Rise of "Social Market Enterprises"

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1. Introduction

This article aims to demonstrate that the dissemination of corporate "good practices" may be significantly enhanced by the initiative of small "contagious" good firms that act as "social market enterprises" (i.e. fair-traders, but also other emerging social market enterprises such as microfinance institutions, ethical banks, socially responsible corporations, etc.). To explain the role of social market enterprises, this article considers the paradigmatic example of fair-trade. Fair-trade demonstrates that small organisations of importers, which fix socially and environmental sustainability rules when importing food and textile products from marginalised producers in underdeveloped countries, are gaining the favour of an important share of socially responsible consumers. In a way, they reveal to bigger market players (i.e. multinational corporations) that an important share of consumers is willing to pay for social and environmental sustainability. Such corporate players start competing with fair-traders by seeing that it is to their advantage to imitate their behaviour partially. Fair-trade producers, therefore, reveal themselves to be contagious good firms and contribute to making Corporate Social Responsibility (CSR) a competitive factor in contemporary product markets.

Generalising this approach, one may say that fair-traders develop a new type of business, which we define as social market enterprises (Borzaga et al. 2001). What characterises social market enterprises is that they overcome the traditional dichotomy between the creation of economic value (with its likely negative externalities) and re-distributive or inclusive policies aimed at correcting the distortions introduced when economic value is created. A social market enterprise performs both activities, as it is not merely a supplier of social services but also competes in the market by creating economic value in a socially and environmentally responsible way,

since inclusion and social justice are the goals of its economic activity.

Finally, this article demonstrates how the joint, grass-roots action of "concerned" consumers and small contagious firms (acting as social market enterprises) represents an advancement within the tradition of Catholic Social Teaching (CST) on several levels: i) it promotes a balanced idea of solidarity, since it focuses on the responsibility of the consumer, from whom not just a donation but is requested, but a chance to be included is offered; ii) it promotes individual responsibility as it focuses on individual lifestyles; iii) it can provide effective tools to promote the basic principles of CST, such as subsidiarity and of the priority of labour over capital, in the new framework of globalisation. These specific characteristics have led, for the first time in the history of CST, to a direct recognition, at the level of principle, of the key role of this kind of action (see the *Compendium of the Social Doctrine of the Church*, n.359).

2. The international conditions that determine the rise of social market enterprises

An important question is why small contagious good firms are becoming a new and important feature today in market economies. In our opinion, the *res novae* that have triggered this transformation arise from the ICT revolution. These technical developments have accelerated the integration of domestic markets as well as the crisis of the old system of checks and balances which was capable of reconciling economic prosperity with a socially acceptable distribution of income.

The ICT revolution has been generated by an astounding wave of technological innovation in the fields of electronics and telecommunications (the pivotal one probably being the progressive increase of the power of microprocessors) that has led to a dramatic reduction in the cost and speed of

transportation for everything that is weightless (voice, music, data and images). To give an example which may help us understand the extent of the change (quoted by Jorgenson): in 1979, one needed approximately 800 dollars and seven hours to fly from Rome to New York. If flights had undergone the same kind of reduction in prices and increase in speed as that of the microprocessor, today we would be flying the same distance in less than a second and for less than a penny. The ICT revolution has had the effect of integrating both labour product and financial markets all over the world, even though the speed and costs of transportation of "heavy" production factors (such as labour and material capital goods) have not abated in the same way. Hence, even though integration of domestic markets did not start at the beginning of the ICT revolution, since a progressive increase of international trade and the reduction of tariffs was still underway, the acceleration of integration after the ICT revolution has been quite dramatic.

With rapidly growing global integration, the old system of checks and balances fell to pieces. This occurred because such a system was based on the bargaining power of domestic institutions and domestic workers' associations. Such bargaining power was drastically weakened by globalisation, e.g., the new ability of corporations to move their legal and/or productive centres very easily across country borders. We may look at some concrete examples. In a globalised scenario, the possibility of delocalising productive activities from countries in which labour costs are lower inevitably weakens domestic trade unions. In this new framework, any improvement of domestic workers' social conditions may have the paradoxical effect of fostering delocalisation, thereby reducing domestic job opportunities. In the same way, the capacity of domestic fiscal authorities to finance welfare policies is constrained by fiscal competition, with countries with lower corporate taxation being able to attract *coeteris paribus* more foreign direct investment. In other words, the new scenario has significantly increased the relative power of multinational cor-

porations with respect to domestic trade unions and institutions. This has the effect that negative (environmental and social) externalities, which may be generated by multinationals in their profit maximising activities, may no longer be entirely offset by domestic taxation and regulation.

The significant novelty in this globalised framework is that the socioeconomic system has been able to generate an endogenous defence against this imbalance, represented by the increased awareness and concern of a minority of socially responsible citizens. These citizens have promoted forms of grass-roots activity, ranging from traditional advocacy groups to innovative forms of "voting with their wallets"; what we call today socially responsible consumption and investment. The rise of small contagious firms played a fundamental role in giving visibility to this grass-roots pressure. Only the existence and the positive market shares of these types of firms, which sell products that incorporate elements of social and environmental sustainability, could reveal to the rest of the market the apparent paradox of consumers and investors that were not behaving as

the standardised textbook representations said they should. Economic models predict that individuals, solely driven by self-interest, should always look for the lowest price (for a given quality standard) and for the highest risk adjusted return of their financial portfolios. Microfinance and socially responsible investors and fair-trade product consumers, however, openly contradict the behaviour of *homo oeconomicus*. Small contagious firms have started offering products in which a social value (such as promoting the inclusion of the poor, or increasing the environmental and social sustainability of the productive process) is associated with the possibility of a higher price or a lower risk adjusted return. Surprisingly, they have conquered market share, convincing consumers and investors, and thereby revealing to bigger market players that economic choices are not only driven by self-interest but also, as Sen has suggested in his famous "rational fools" paper, by sympathy and commitment. Together with these two noble

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motivations, social responsibility was spurred also by the awareness that increased global interdependence had transformed most local problems into global problems, the lack of solution of which would harm everyone. To give some examples: deforestation in distant countries may affect climate changes with potential negative consequences also in our countries; in the same way, the misery of a large part of the population in underdeveloped countries, after the global integration of domestic labour markets, represents a significant threat to the protection of workers' rights in more industrialised countries. From this point of view, globalisation may be seen as having a providential aspect in making the old "equilibrium" unworkable, where social justice was ensured only in some countries of the world. The "fence" erected to defend social order in richer countries against the social chaos in less developed countries has fallen, and it is now necessary to be concerned about social protection in these distant countries if we want to improve workers' rights in our own. This is why social responsibility is nowadays no longer a matter of altruism but, more simply, a matter of enlightened and *long term self-interest* against the *short sighted self-interest* that ignores the consequences on our life of problems coming from distant countries.

So, what has happened after the entry of small contagious firms into the market? Profit maximising corporations have realised that incorporating social value into their products or into their activities is useful in attracting new customers. Since that realisation has become general, corporate social responsibility has become an important part of their competitive strategy.¹ Small contagious firms, which became social market enterprises with the help of concerned consumers, have succeeded in transforming solidarity, inclusion and social justice, values which were absent from the phase of the creation of economic value and were operative only in a succeeding step through redistributive welfare policies, into competitive factors.

3. Concrete examples of small contagious good firms: the case of fair-trade

On October 7th, 2000, the BBC announced, "Nestlé has launched a fair-trade instant coffee as it looks to tap into growing demand among consumers." In response to this announcement, the BBC

commented that "ethical shopping is an increasing trend in the UK, as consumers pay more to ensure poor farmers get a better deal." It quoted Fiona Kendrick, Nestlé's UK Head of Beverages, who stated, "specifically in terms of coffee, fair-trade is 3% of the instant market and has been growing at good double-digit growth and continues to grow". This bit of news tells us that the recent experience of fair-trade initiatives seems to demonstrate how small good firms may be contagious in terms of CSR and affect the behaviour of even large multinationals like Nestlé.

3.1 Why fair-trade importers are small contagious good firms and social market enterprises

Recent empirical evidence seems to confirm our assumption of an increasing awareness on the part of public opinion toward social responsibility in general and, more specifically, toward the preservation of the environment and the fight against poverty in less developed countries.²

One of the most interesting pieces of evidence in this regard is the concluding result of a question in the World Value Survey on the willingness to pay to preserve the environment. The survey shows that around 17 percent of respondents would strongly agree (and around 48 would agree) to an increase in taxes if the latter were to be used to prevent environmental damage (Table 1). Even after taking into account the inevitable interview bias typical of these kinds of analyses, Auci et al. (2006) show that such willingness to pay exists, that it is significant, and that it is mainly related to variables such as age, education, religious practice, proxies for civic values (tax morale, sense of belonging to a wider community) and the quality of national institutions. This increase of awareness has generated a series of grass-roots welfare initiatives that focus on socially responsible (or socially concerned) saving and consumption. One of them is built up by zero profit importers, distributors and retailers (called *fair-traders*)³ dealing in food and artisan products that have been partially or wholly manufactured by poor rural communities in developing countries. To be labelled as such, fair-trade products need to respect a series of social and environmental criteria as follows:

i) A “fair price”, which is fixed as a countercyclical mark-up on market price (in the example of coffee and cocoa in the last two decades, it tended to be around 100 percent higher when market prices were low and it maintained a 10 percent margin when market prices were at their peak). This criterion does not necessarily represent a violation of market principles for two reasons. First, buyers of primary products are usually highly concentrated and exploit their market power to conclude transactions at prices that are far below the value of primary producers’ marginal product.⁴ Second, fair-trade products (like “green” products) can be more properly considered as a kind of contingent good, that is, a bundle of traditional characteristics and socially responsible (SR) features, and therefore cannot be compared with standard non-SR products. From this point of view, the introduction of fair-trade (FT) products may be seen both as an efficient antitrust action and as a reduction of market incompleteness, increasing the welfare of consumers with social preferences (or inequity aversion) who did not have the opportunity of buying such products before.⁵

ii) Availability of anticipated financing for primary product producers. This allows them to break the monopoly of local moneylenders. Such types of intervention may reduce the impact of credit rationing that can severely affect small un-collateralised producers.

iii) Price stabilisation mechanisms that insulate risk adverse primary product producers from the high volatility of commodity prices.

iv) Destination of part of the price surplus to the improvement of working conditions and to the removal of factors leading to child labour, not through a ban on products incorporating child labour but through monetary integration into their low household income.⁶

v) Preferential inclusion in the fair-trade distribution chain of projects reinvesting part of the surplus arising from their fair price in the provision

of local public goods (health, education, job training).

vi) Attention to the environmental sustainability of productive processes.

vii) Transparency regarding how the price is determined in the different transactions occurring along the value chain.

viii) Creation of long-term relationships between importers and producers, as well as provision of “business angel” and export services to the latter (i.e., information about consumers’ tastes in foreign markets, non-tariff trade barriers, import regulations, etc.), which are essential for building up producer capacity and technological skills that may eventually evolve toward changes in productive activities. Fair-trade may be conceived as a temporary income-support and inclusion mechanism aimed at promoting the transition to higher-return activities (Leclair 2002).

An overall evaluation of the eight FT criteria, and of their indirect effects on socially responsible reproduction suggests that FT is superior to pure donation schemes.⁷ In 2003, the

European Fair-trade Labelling Organisation (FLO) certified 315 organisations representing almost 500 first level producer structures, and around 1,500,000 families of farmers and workers from 40 countries (Moore 2004). FT products were sold by 2,700 dedicated outlets (called *world shops*) and by 43,000 supermarkets across Europe (7,000 in the US). FT products have achieved significant market shares in specific segments such as the banana market in Switzerland (49%), the roast and ground coffee market in the UK (12%), and the tea market in Germany (7%) (Moore, 2004, EFTA, 2005).

4. *Why is the small good firm contagious?*

A final “hidden” but fundamental effect of FT is its capacity to trigger imitation in social responsibility from traditional producers. Becchetti

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and Solferino (2004) demonstrate that the entry of a FT producer triggers SR imitation in the incumbent under reasonable parametric conditions on consumers' social preferences, in static and dynamic horizontal differentiation duopolies in which competition is played on prices and social responsibility. SR imitation from the non-SR incumbent is only partial, but higher in dynamic frameworks in which the incumbent's goal is that of reducing the formation of socially responsible consumer habits (Becchetti-Solferino, 2004). Consistent with predictions on the indirect effects of FT in the literature, a wide range of imitation strategies enacted by traditional producers accompanies the diffusion of forms of socially responsible consumption, such as fair-trade. Many more companies⁸ have starting advertising not only price and quality, but also their socially responsible actions.⁹ Social labelling and corporate responsibility are gradually becoming important competitive features in real and financial markets.

5. A reading of small contagious firms in the light of CST and the principle of sustainable happiness

In this final section we aim to show how the rise of small contagious firms, which we also define as social market enterprises, represents an innovative and promising approach that tackles the challenge of successfully pursuing social justice and incarnating the principles of Catholic Social Teaching in our globalised world. More specifically, we will argue that the grass-roots pressure of social responsibility and of social market enterprises actualise the principles of the primacy of labour over capital and of subsidiarity, successfully responding to the social and environmental imbalances of our globalised era. Considerations developed in this section will lead us to conclude that the economics of social responsibility represents the new frontier of CST as an effective and new tool to pursue the goal of the common good.

We start by referring to the most significant documents of CST, which, in our opinion, lay down the premises for the current development of the economics of social responsibility. We will finish with a quotation from the recently issued *Compendium* in which this cultural path reaches a fundamental achievement when the principle of

socially responsible consumption is explicitly mentioned.

6.1 Primacy of labour over capital

One of the main problems of the current economic culture is the neglect of the primacy of labour over capital. This inversion in the scale of values is the result of the fall of the old system of checks and balances that existed before globalisation (see section 2), overlooking the simple fact that one input (labour) is made by human beings, with their intrinsic dignity and with aspirations and desires to be fulfilled. Inanimate objects or financial instruments, according to John Paul II's *Laborem Exercens* 7-15, represent a secondary input (capital). It is obviously necessary to avoid being idealistic and impractical, recognising the constraints and the requirements of the economic system that necessarily call for effort and sacrifice on the part of workers. This has to be consistent with what CST defines as the "objective dimension" of labour (sacrifice that may be offered to God, through which we realise our sacerdotal dimension and participate in Christ's sacrifice on the Cross). On the other hand, the objective dimension cannot completely override the "subjective dimension", for labour is an activity through which the human person realises him or herself, using and developing his or her creativity and initiative, and participating in God's "continuous creation".

The balance between the objective and subjective dimensions of labour in developed countries is threatened by the opportunity of firms to delocalise their production to countries with low or non-existing labour protection. While it is reasonable to assume that labour standards must be adapted to local situations and to the cost of living, and that delocalisation is increasing job opportunities and demand for labour in developing countries, the information we have received from these countries indicates that cases of abuse are frequent. What is even worse is that the financial press does not even ask itself or try to find out, when commenting on the positive performance of multinational corporations, whether higher returns on capital have been achieved in a way that is consistent with respecting human rights and labour dignity.

CST has always been aware of the intrinsic risk in the market economy of violating the principle of the primacy of labour over capital. We find explicit mention of this point in *Laborem Exercens*: *This principle directly concerns the process of production: in this process, labour is always a primary efficient cause, while capital, the whole collection of the means of production, remains a mere instrument or instrumental cause...* (LE 12). *Property is acquired first of all through work in order that it may serve work. This concerns in a special way ownership of the means of production. Isolating these means as a separate property in order to set it up in the form of "capital" in opposition to "labour"—and even to practice exploitation of labour—is contrary to the very nature of these means and their possession. They cannot be possessed against labour, they cannot even be possessed for possession's sake, because the only legitimate title to their possession — whether in the form of private ownership or in the form of public or collective ownership — is that they should serve labour* (LE 14).

As explained in previous sections, the contagious small good companies have developed an effective tool for promoting labour dignity beyond traditional pure advocacy initiatives. By selling products incorporating higher levels of respect for labour dignity on the open market, they have allowed consumers to vote with their wallets for producer rights, triggering imitative initiatives on the part of other market competitors.

Our analysis of fair-trade as an example of a social market enterprise clearly shows how socially responsible consumption may be successful in restoring to labour its primacy over capital. It does this by allowing concerned consumers to express their vote for the improvement of working conditions for marginalised producers, thus creating an indirect incentive towards the improvement of working standards in that area. The importance of the fair-trade initiative is that it is perfectly aware of the complexity of the North-South relationship: the promotion of the primacy of labour is not pursued with a protectionist initiative that defends the rights of our

workers at the expense of workers in the South. The fundamental idea is that the gap between the workers' conditions in the North and South must be bridged by voting for the rapid improvement of working conditions in the South.

6.2 Subsidiarity

One of the most original and striking principles of CST is that of subsidiarity. The principle is well described in *Quadragesimo Anno*: *The supreme authority of the State ought, therefore, to let subordinate groups handle matters and concerns of lesser importance, which would otherwise dissipate its efforts greatly. Thereby the State will more freely, powerfully, and effectively do all those things that belong to it alone because it alone can do them: directing, watching, urging, restraining, as occasion requires and necessity demands. Therefore, those in power should be sure that the more perfectly a graduated order is kept among the various associations, in observance of the principle of "subsidiary function," the stronger social authority and effectiveness will be and the happier and more prosperous the condition of the State* (QA 80).

This principle has a profound logic, since the quality of social services (that is, those strictly related to the care of our neighbours and to the production of what we may call "relational goods") is significantly and positively affected by the proximity between provider and consumers and to the intrinsic motivation of the former. It is therefore quite likely that small vocational associations within civil society will perform this task much better than large anonymous and bureaucratic government entities. The principle of subsidiarity is also an important support for ailing government budgets, since delegation of some social services to a more efficient local or volunteer organisation may significantly reduce government expenditures (even though, as it is well known, there is a strong risk that the government will abuse this possibility by allocating insufficient resources to the association in charge). A simple example of this is

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the creation of a guarantee fund for loans to non-profit organisations financed by socially responsible investors and not by the government.

It should be clear from previous sections that socially responsible consumption and the activity of social market enterprises are a significant example of subsidiarity, where inclusion and social justice are effectively promoted by replacing state intervention with an effective action on the part of non-governmental organisations. With fair-trade, support for inclusion of marginalised producers, incorporated in the price paid for the product, creates a direct relationship between consumers and producers via FT importers, one that is more direct compared to the complex chain which links tax-payers to government (or strategic) aid and, finally, to marginalised producers.

6.4 Increased interdependence of domestic labour markets

Another interesting relationship between CST and contagious small good firms (fair-traders) is the awareness that the increased interdependence of domestic labour markets in different countries is changing the scenario and requires a revision of the strategy followed so far to pursue social justice. It is remarkable to find in the documents of CST the recognition of this change. *Sollicitudo Rei Socialis* states: *Recognition that the "social question" has assumed a worldwide dimension does not at all mean that it has lost its incisiveness or its national and local importance. On the contrary, it means that the problems in industrial enterprises or in the workers' and union movements of a particular country or region are not to be considered as isolated cases with no connection. On the contrary they depend more and more on the influence of factors beyond regional boundaries and national frontiers (SRS 9), and again, in fact, if the social question has acquired a worldwide dimension, this is because the demand for justice can only be satisfied on that level (SRS 10) or, finally, at the same time, in a world divided and beset by every type of conflict, the conviction is growing of a radical interdependence and consequently of the need for a solidarity which will take up interdependence and transfer it to the moral plane. Today perhaps more than in the past, people are realising that they are linked together by a common*

destiny, which is to be constructed together, if catastrophe for all is to be avoided (SRS 26).

With socially responsible consumption, consumers in developed countries may act as "complementary trade unionists" for workers in their countries by voting for products that incorporate higher welfare for workers in the South, thereby actively promoting a virtuous upward re-equilibrium of workers' conditions.

6.5 Weakness of international trade rules in promoting the dignity of primary product producers in developing countries

The action of fair-traders aims to correct the imbalances in bargaining power between primary product producers and intermediaries along international value chains. The awareness that this imbalance exists is quite clear in CST if we make reference to *Sollicitudo Rei Socialis* (43):

The motivating concern for the poor - who are, in the very meaningful term, "the Lord's poor"- must be translated at all levels into concrete actions, until it decisively attains a series of necessary reforms. This will show what reforms are most urgent and how they can be achieved. However, those demanded by the situation of international imbalance, as already described, must not be forgotten. In this respect I wish to mention specifically: the reform of the international trade system, which is mortgaged to protectionism and increasing bilateralism; the reform of the world monetary and financial system, today recognised as inadequate; the question of technological exchanges and their proper use; the need for a review of the structure of the existing International Organisations, in the framework of an international juridical order.

The international trade system today frequently discriminates against the products of the young industries of the developing countries and discourages the producers of raw materials. There exists, too, a kind of international division of labour, whereby the low-cost products of certain countries which lack effective labour laws or which are too weak to apply them are sold in other parts of the world at considerable profit for the companies engaged in this form of production, which knows no frontiers.

6.6 The role of socially responsible consumption in promoting social justice

Only in its most recent documents has CST, and the reflection of the Church as a whole, put together all these different strands and, in the light of the *res novae* represented by the deeply transformed globalised socioeconomic scenario, officially acknowledged the importance and role of socially responsible consumption. On this point we read in the *Compendium* n. 359:

Purchasing power must be used in the context of the moral demands of justice and solidarity, and in that of precise social responsibilities. One must never forget "the duty of charity... that is, the duty to give from one's 'abundance,' and sometimes even out of one's needs, in order to provide what is essential for the life of a poor person." This responsibility gives to consumers the possibility, thanks to the wider circulation of information, of directing the behaviour of producers, through preferences - individual and collective- given to the products of certain companies than to those of others, taking into account not only the price and quality of what is being purchased but also the presence of correct working conditions in the company as well as the level of protection of the natural environment in which it operates.

Such a clear enunciation of the principles and of the potential of socially responsible consumption is the fulfilment of an intuition that was already envisaged by *Centesimus Annus* (58), which correctly and prophetically argues: *It is not merely a matter of "giving from one's surplus", but of helping entire peoples which are presently excluded or marginalised to enter into the sphere of economic and human development. For this to happen, it is not enough to draw on the surplus goods which in fact our world abundantly produces; it requires above all a change of lifestyles, of models of production and consumption, and of the established structures of power which today govern societies. Nor is it a matter of eliminating instruments of social organisation,*

which have proved useful, but rather of orienting them according to an adequate notion of the common good in relation to the whole human family.

Summarising our analysis of all these implicit and explicit links between CST and the new phenomenon of social market enterprises, we may conclude that the economics of social responsibility is a new promising frontier for CST and an important tool for transforming the earthly city, in the perspective of recapitulation, by dealing with human things in order to orientate them toward God (*Lumen Gentium* 31).

Conclusions

The end of the old system of checks and balances, which guaranteed the coexistence of economic development and social cohesion in a pre-globalised era, gave rise to a deep transformation of our socioeconomic system. The global integration of labour, product and financial markets weakened the bargaining power of national institutions and domestic trade unions creating an excess power in the hands of large multinationals. The result has been an imbalance in the ranking of values (too much emphasis on

"accidental" elements in human life, such as shareholder wealth and consumer satisfaction, with the subordination of more "substantial" elements, such as job satisfaction and the quality of relational and spiritual life) produced by the new economic culture, which is strikingly at odds with the pursuit of the common good as envisaged by CST.

The *res novae* of our times nonetheless witness a promising endogenous reaction to these new threats to social justice on the part of the socioeconomic system. A minority of concerned individuals have started creating *small contagious good firms*, which we define as *social market enterprises*. These firms are in the market and create economic value, even though their distinguishing feature is their replacement of the goal of profit maximisation with that of the direct

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promotion of social justice and inclusion within the constraint of economic sustainability. This goal is pursued not by just giving values to the market but by "giving a market to values."

In essence, what social market enterprises do is sell on the market new innovative products that incorporate values of social and environmental sustainability. With the support of concerned consumers and investors, social market enterprises have gained small but significant and growing market shares in recent years. This has triggered imitative strategies on the part of profit maximising producers that have started competing with them in order to attract the emerging share of socially responsible consumers and investors. Therefore, social market enterprises deserve in large part the merit of having transformed inclusion, solidarity, and social justice, from being peripheral principles that ruled over the phase of distribution only, without affecting the crucial moment of production,

into new competitive factors on which competing firms play to survive and prosper in the market.

In this new scenario in which social market enterprises and profit maximising imitators compete with regard to corporate social responsibility, what appears crucial is the quality of information and the capacity of these competitors to signal their truthful engagement in social responsibility to the general public. The future will tell us how the economics of social responsibility will evolve.

What seems clear is that social market enterprises are a new and interesting model of a good company: for their capacity to understand the functioning of the globalised economic system and the concrete ways in which it may be made more consistent with the goals of the common good, and for their effectiveness in incarnating principles of CST by putting social responsibility at the centre of the economic arena.

Table 1. Willingness to pay for the environment: descriptive evidence at the world level

I would agree to an increase in <u>taxes</u> if the extra money were used to prevent environmental damage (in WVSs 1990–1993 and 1995–1997), I would agree to an increase in <u>taxes</u> if the extra money were used to prevent environmental pollution (in WVS 2001)					
	<i>Strongly disagree</i>	<i>Disagree</i>	<i>Agree</i>	<i>Strongly agree</i>	<i>N. of obs</i>
World	7,130	17,399	33,504	12,295	70,328
	(10.14%)	(24.74%)	(47.64%)	(17.48%)	(100%)
High income OECD countries	3,486	6,968	12,053	3,544	26,051
	(13.38%)	(26.75%)	(46.27%)	(13.60%)	(37.04%)
Non high income OECD countries	3,644	10,431	21,451	8,751	44,277
	(8.23%)	(23.56%)	(48.45%)	(19.76%)	(62.96%)

I would give part of my <u>income</u> if I were certain that the money would be used to prevent environmental pollution (in WVS 2001)					
	<i>Strongly disagree</i>	<i>Disagree</i>	<i>Agree</i>	<i>Strongly agree</i>	<i>N. of obs</i>
World	21,303	55,831	83,377	30,699	191,210
	(11.14%)	(29.20%)	(43.60%)	(16.06%)	(100%)
High income OECD countries	9,497	21,367	31,688	9,622	72,174
	(13.16%)	(29.60%)	(43.91%)	(13.33%)	(37.74%)
Non high income OECD countries	11,806	34,464	51,689	21,077	119,036
	(38.87%)	(28.95%)	(43.42%)	(17.71%)	(62.26%)

High income OECD countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States of America.

Non-high income OECD countries: Albania, Algeria, Azerbaijan, Argentina, Armenia, Bangladesh, Bosnia Herzegovina, Brazil, Bulgaria, Belarus, Chile, China, Taiwan, Colombia, Croatia, Czech Republic, Dominican Republic, Egypt, El Salvador, Estonia, Georgia, Hungary, India, Indonesia, Iran, Israel, Jordan, Korea, Latvia, Lithuania, Macedonia, Malta, Mexico, Moldova, Montenegro, Morocco, Nigeria, North Ireland, Pakistan, Peru, Philippines, Poland, Puerto Rico, Romania, Russian Federation, Serbia, Singapore, Slovakia, Slovenia, South Africa, Tanzania, Turkey, Zimbabwe, Uganda, Ukraine, Uruguay, Venezuela, Viet Nam, Zimbabwe.

Source: Auci S., Becchetti L., Rando L., 2006, Testing crucial model assumptions: the *income/willingness to pay for the environment* nexus in the Environmental Kutznetz Curve, CEIS Working Paper forth.

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NOTES:

¹ See Becchetti-Rosati 2006 and Becchetti, Di Giacomo, Pinnacchio 2006.

² In a recent survey the "2003 Corporate Social Responsibility Monitor" finds that the amount of consumers in Europe looking at social responsibility in their choices jumped from 36 percent in 1999 to 62 percent in 2001. In addition, more than one in five consumers reported having either rewarded or punished companies based on their perceived social performance and more than a quarter of share-owning Americans took into account ethical considerations when buying and selling stocks. The Social Investment Forum reports that in the US in 1999, there were more than \$2 trillion worth of assets invested in portfolios that used screens linked to the environment and social responsibility.

³ The definition of a fair-trade considered in this paper is quite different from the traditional meaning of "fair-trade" used in the field of industrial organisation. From the 1930s onward (although there are antecedents going back to 1900), in both the US and the UK, the term "fair-trade" refers to schemes that industry trade associations used to regulate competition among members, usually by requiring that prices be posted in advance and that no transactions take place except at posted prices. During the Great Depression in the U.S., such schemes were part of the National Recovery Act. In the more recent literature "fair-trade" indicates "arguments that relate to certain conditions under which trade, and the production of traded goods, should minimally take place" (Maseland and Vaal, 2002). In this framework fair-trade generally refers to the absence of duties, controls and dumping practices in international trade (for a similar use of the term see also Mendoza and Bahadur, 2002; Bhagwati, 1996; Stiglitz, 2002; Suranovic, 2002). The fair-trade products we refer to in this paper are, on the contrary, food and artisan products that obtain the fair-trade label since their production process follow some criteria for social and environmental sustainability, established by the movement of fair-trade importers and retailers (Moore, 2004).

⁴ Support for the existence of monopsonistic labour markets for unskilled workers, not just in LDCs but also in developed countries, is provided by several authors (Manning, 2003; Card and Krueger, 2000). Manning (2003) argues that it is not necessary to think of the mining or mill town in the early days of the Industrial Revolution to conceive the existence of monopsony or of thin labour markets. Labour markets may be thin not just in presence of a single employer, but also when employers are few and collude, or in the presence of geographical distance and labour differentiation. The first two cases may well apply to producers in LDCs

countries. Evidence of employers' excess market power in LDCs countries is provided by several empirical papers (El Hamidi and Terrell, 2001; Camargo, 1984; Gonzaga et al., 1999; Carneiro, 2002; Lemos, 2004).

⁵ For the theoretical debate on the role and impact of fair-trade at micro and aggregate levels see also Becchetti and Solferino (2004), Hayes (2004) and Leclair (2002).

⁶ The child labour literature clearly evidences that the most effective strategy to reduce child labour is to raise poor household income. Several empirical studies demonstrate that when household income passes a given threshold, it triggers the decision to send children to school (luxury axiom) (Basu, 1999; Basu and Van, 1998).

⁷ Intuitively, there are at least five reasons for such superiority: i) only fair-trade purchases transform solidarity into a competitive factor and generate positive indirect effects on social responsibility of traditional producers (Becchetti and Solferino 2004); ii) fair-trade channels provide learning through export, price stabilisation services and promote inclusion of unskilled, but potentially productive workers (producers) in international labour (product) markets; iii) charity does not necessarily reward productive people; iv) fair-trade, differently from charity, provides a minimum wage measure needed to solve market failures in case of monopsonistic labour markets (or may reduce intermediation rents in the local transportation market); v) fair-trade contributes with anticipated financing to reduce uncollateralized producers' credit constraints together with their dependence from monopolistic local moneylenders; vi) the FT grass-root mechanism may be more efficient than government subsidies in targeting the

poor; vii) joining consumption and social transfer reduces transaction costs of aid to the poor with respect to the traditional tax financed government aid scheme. More specifically, points iv) and v) show how FT may improve market competitiveness (in credit and labour markets), while charity does not.

⁸ On 2003 one of the world's biggest players in the coffee market, the US consumer good company Procter & Gamble, announced it would begin offering fair-trade certified coffee through one of its specialty brands. Following Procter & Gamble's decision to start selling a fair-trade coffee, also Kraft Foods, another coffee giant, committed itself to purchasing sustainable grown coffee. Furthermore, Kraft will buy 5m pounds of Rainforest Alliance certified coffee in the first year, according to an agreement between Kraft Foods and the Rainforest Alliance (EFTA Advocacy Newsletter n° 9). In Italy, the fair-trade certification brand TransFair Italy certifies specific fair-trade products sold by consumers good distribution companies and multinationals such as Coop, Carrefour, Sma, Pam, Gs, Conad. See http://www.macfrut.com/ita/conv_2003/relazioni/162benvenuti_f2.pdf.

⁹ Corporate perception by consumers (90 percent of respondents) is by far the most selected item (against ethical values of managers, tax incentives and relationship with stakeholders) when a sample of interviewed socially responsible companies is asked about reasons for their socially responsible behaviour in the "2003 Corporate Social Responsibility Monitor" (downloadable at <http://www.bsdglobal.com/issues/sr.asp>). This finding is consistent with our hypothesis that ethical imitation is today a relevant competitive feature in product markets.