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# Good Corporation, Bad Corporation: Corporate Social Responsibility in the Global Economy



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SUNY Fashion Institute of Technology

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## Corporate Social Responsibility in the Global Economy

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# About the Textbook

This textbook provides an innovative, internationally-oriented approach to the teaching of corporate social responsibility (CSR) and business ethics. Drawing on case studies involving companies and countries around the world, the textbook explores the social, ethical and business dynamics underlying CSR in areas such as: global warming, genetically-modified organisms (GMO) in food production, free trade and fair trade, anti-sweatshop and living-wage movements, organic foods and textiles, ethical marketing practices and codes, corporate speech and lobbying, and social enterprise. The book is designed to encourage students and instructors to challenge their own assumptions and prejudices by stimulating a class debate based on each case study.

# About the Authors

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# Reviewer's Notes

Guillermo Jimenez's *Good Corporation, Bad Corporation* is a fair-minded and thoroughly readable introduction to the concept of Corporate Social Responsibility. It is intended for students in business management and economics courses, but I think it is accessible to any college student in any discipline with an interest in the subject.

Chapter by chapter, students are encouraged not merely to master the information but to engage with it, to think critically about the real-world complexities of business ethics and to grasp competing rationales on both sides of tangled moral dilemmas. Rather than deal with abstractions, Jimenez walks the reader through the ways in which questions of CSR have actually played themselves out. There is no preaching or tendentiousness here. There is only respect for each student's capacity to form intelligent opinions that are grounded in reason rather than in emotion.

Reviewer: Professor Mark Goldblatt, Chair, Department of Educational Skills,  
Fashion Institute of Technology (SUNY)

## About Open SUNY Textbooks

Open SUNY Textbooks is an open access textbook publishing initiative established by State University of New York libraries and supported by SUNY Innovative Instruction Technology Grants. This pilot initiative publishes high-quality, cost-effective course resources by engaging faculty as authors and peer-reviewers, and libraries as publishing service and infrastructure.

The pilot launched in 2012, providing an editorial framework and service to authors, students and faculty, and establishing a community of practice among libraries.

Participating libraries in the 2012-2013 pilot include SUNY Geneseo, College at Brockport, College of Environmental Science and Forestry, SUNY Fredonia, Upstate Medical University, and University at Buffalo, with support from other SUNY libraries and SUNY Press. The 2013-2014 pilot will add more titles in 2015-2016.

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# Chapter 1

## Corporations and their Social Responsibility

### Understanding Corporations and CSR

The subject of this book is *corporate social responsibility* (CSR), a broad term that refers generally to the ethical role of the corporation in society. Before we define CSR more precisely and before we explore in depth a number of case studies that illustrate aspects of the ethical role of corporations, we first need to understand exactly what corporations are, why they exist, and why they have become so powerful.

Today, the global role of corporations rivals that of national or local governments. In 2000, it was reported that, of the 100 largest economic organizations in the world, 51 were corporations and 49 were countries.<sup>1</sup> General Motors, Walmart, Exxon, and Daimler Chrysler all ranked higher than the nations of Poland, Norway, Finland and Thailand (in terms of economic size, comparing corporate revenues with national gross domestic product, or GDP). This trend has continued, and for the past decade, 40 to 50 of the world's 100 largest economic organizations have been corporations, with the rest being national economies. In 2012, Walmart was the twenty-fifth largest economic organization in the world, putting it ahead of 157 countries.<sup>2</sup>

For corporate employees, as for citizens living in communities dominated by large corporations, the corporation is arguably the most important form of social organization. For people such as corporate executives and shareholders, whose lives depend directly on corporations, it is not surprising that company politics often are considered more relevant than national or local politics. Corporations are also a major part of the daily lives of the world's citizens and consumers. For devoted fans of iconic brands like Nike, Apple, Mercedes, or Louis Vuitton, the corporation can occupy a psychological niche very much like that of a member of the family. Indeed, if many teenagers today were forced to choose between an iPhone and a memorable night out celebrating their parents' anniversary, the parents would likely celebrate alone. Similarly, those parents might also be loath to part with their cherished products. Dad would not easily say goodbye to his Chevrolet Corvette or Bose stereo, and Mom might not be easily persuaded to part with her Yamaha piano or Rossignol skis.

At the opposite extreme, for citizens who have been harmed physically or financially by corporations—like the Louisiana or Alaska residents whose beaches were fouled by

massive oil spills, or the thousands of small investors who found their life savings wiped out by the Ponzi schemes of Bernie Madoff's investment company—the corporation can seem as dangerous as an invading army, or as destructive as an earthquake.

Despite their vast social role, corporations remain poorly understood by the world's citizens. While school children everywhere are expected to study the structure and history of their nation's government, they are not similarly taught to appreciate the functions, motivations, and inner workings of corporations. Let us begin with a brief review of the nature of corporations.



*BP oil rig explosion, photo by United States Coast Guard (2010, public domain).*

*Figure 1.1 The 2010 explosion of a British Petroleum (BP) oil rig off the coast of Louisiana, the cause of the worst environmental disaster in U.S. history.*

## Why Do Corporations Exist?

There were no corporations in ancient Egypt, Greece, or Rome; or in imperial China or Japan; or among the precolonial kingdoms of the Zulu or Ashanti. The Aztecs and Incas had no corporations, nor did the Sioux, Cherokee, or Navajo. It is true that in some classical and traditional societies there were certain forms of communal and religious organizations that anticipated the organizational capacities of corporations, but strictly speaking, they were not corporations.

Corporations are a relatively modern social innovation, with the first great corporations dating from about 1600. Since then, the growth of corporations has been phenomenal. What explains it? Why has the corporate structure been so successful, profitable, and powerful? Here are a few of the distinguishing characteristics of corporations.

## Corporations are Creatures of Law

The first point to make about corporations is that they are not informal organizations or assemblies. In order to exist at all, corporations must be authorized by state or national laws. In their daily operations, corporations are regulated by a specific set of laws. Every country has laws that stipulate how corporations can be created; how they must be managed; how they are taxed; how their ownership can be bought, sold, or transferred; and how they must treat their employees. Consequently, most large corporations have large

legal and government affairs departments. Since the laws and rules that may constrain corporations are written and enforced by the government, most corporations consider it of vital importance to seek influence over governmental regulators and lawmakers. In most countries, the very largest corporations have privileged access to top decision makers. The extent and reach of corporate influence over governments is one of the most controversial aspects of corporate existence.

## Corporations Raise Capital for Major Undertakings

The first great benefit of corporations is that they provide an organized vehicle for pooling cash and capital from a large number of investors so that they can undertake major enterprises. Thus, one great stimulus to the growth of corporations was the rapid growth of international trade between 1400 and 1700 CE. In that era, sending a large vessel across the oceans was a major financial and logistical undertaking, which was also extremely risky; ships were often lost in storms. These early commercial ventures required such large capital investments that, at first, funding them was only within the reach of royalty. American schoolchildren are taught that the legendary explorer Christopher Columbus needed the royal patronage of Queen Isabella of Spain to support the voyages that led to the “discovery” of the New World. However, as new ocean trading routes were established and the vast potential for profits from trading spices became known, the first modern corporations were formed: the English East India Company, chartered in 1600, and its archrival, the Dutch East India Company, chartered in 1602. These companies are considered the world’s first multinational corporations, and they possessed most of the hallmarks of corporate structure that we see today.

## Corporations and Other Business Structures

Not all businesses or companies are public corporations. For example, in the US, it is legal to operate a business in your own name (this is called a *sole proprietorship*) or with partners (a *partnership*). Corporations also come in a bewildering array of forms. Thus, in the US, we have *C corporations*, *S corporations*, *benefit corporations* (also *B corporations*), and *limited liability companies* (LLCs). In the UK, the term *company* is preferred to corporation, and we will notice that the names of most large UK companies followed by the designation *plc* or *PLC* (public limited company), as in Rolls-Royce plc, while smaller companies often have the designation *Ltd* (private limited company). In France, large companies are usually designated *SA* (*société anonyme*), while smaller ones may be known as *SARL* (*société à responsabilité limitée*). In Germany, large companies are designated *AG* (*Aktiengesellschaft*), while smaller ones are known as *GmbH* (*Gesellschaft mit beschränkter Haftung*). In Japan, the corresponding terms are *KK* (*kabushiki kaisha*) and *YK* (*yūgen kaisha*).

All of these terms define two basic aspects of corporations: 1) their limited liability (which applies to all corporations), and 2) their status as a *public* or *private* company. Public companies are allowed to sell their shares on public stock markets and tend to be the larger type of company.

## The Importance of Limited Liability

Why aren’t all businesses sole proprietorships or partnerships, instead of corporations? The answer is found in the concept of *liability*, which refers to the risk of loss for debts incurred by the business, or for damages caused by the business.

If you start a business as a sole proprietor or via a partnership, you (and/or your partners) are *personally liable* for any debts or damage that can be attributed to the particular business. Let us say that you have \$1 million in assets and your good friend has \$2 million in assets. Together, you agree to invest \$250,000 each in a pizza delivery business (the business will start with \$500,000 worth of capital). Unfortunately, in the first month of operation, one of your drivers negligently causes a car accident and severely injures a family driving in another car. The family sues you for their injuries and they obtain a court judgment ordering you to pay \$3 million in compensation. Even though you had intended to invest only \$250,000 in the business, now your entire fortune and that of your friend are likely to be wiped out in satisfying that court judgment. The same sort of result could arise if your business ran up \$3 million in debt that it was unable to pay back. Thus, the founder of a sole proprietorship exposes his/her entire personal assets to the risk that the assets will be seized to satisfy liabilities incurred by the business.

The result can be quite different for a corporation. One of the principal advantages of a corporation, from an investor's point of view, is that the corporation provides a legal "shield" from liability. A shareholder of a corporation only risks the stock that the shareholder owns. The shareholder's personal assets are not in jeopardy. When a corporation suffers an adverse legal judgment and does not have sufficient funds to satisfy the judgment, the corporation simply goes bankrupt. The party or parties who have been injured cannot sue the owners—the shareholders—of the corporation because the corporation acts as a shield from liability.

Why does society allow the shareholders of a corporation to retreat behind the corporate shield, while we do not allow the same for owners of a so-called mom-and-pop business in the form of a sole proprietorship? The main purpose of the liability-shield is to encourage investment in corporations. People are more willing to invest in a corporation (by acquiring stock) because they need not fear that their personal assets can be seized to satisfy the business's debts or liabilities. The underlying implication is that corporations and corporate investment provide important benefits for society, which explains why governments have been willing to adopt laws that protect and encourage corporate ownership. As many U.S. states learned in the nineteenth century, it can make sound economic sense to attract large corporations because they often become major employers and taxpayers. Corporations may enhance the ability of the local economy to compete with foreign economies that are supported by the productivity of their own corporations.

In many instances the ability of corporations to retreat behind the corporate shield has been controversial. For example, several major airlines (notably American Airlines) have been accused of choosing to declare bankruptcy over finding a way to pay high wages to their pilots and cabin personnel.<sup>3</sup> The airlines were attacked by labor unions as having used the bankruptcy as a tactic to avoid meeting the union's demands for fair wages. Such corporations are able to benefit from an option provided by US bankruptcy law, known as *Chapter 11 reorganization*, which allows them to enter bankruptcy temporarily. The courts appoint a trustee to run the corporation, and the trustee is empowered to take any actions necessary to reduce the corporation's debts, including revoking labor agreements with employees. Such corporations can later "emerge" from bankruptcy with fewer employees or with employees earning lower salaries.

## Corporations Permit Wealth Creation and Speculation in Stocks

While all corporations possess limited liability, not all of them are permitted to raise money in the stock market or have their shares traded in stock markets. Here, we find the important distinction between *public corporations*, which may have their shares traded on stock markets, and *private corporations*, which may not have their shares traded on stock markets.

As a rule, large corporations and multinational corporations choose to do business as public corporations because big companies have such enormous capital needs that they may best raise funds by placing stock for sale in public stock markets. However, this is not always the case; there are some very large corporations that choose to remain private, which means that they raise money directly from investors rather than from making stock available on stock markets.

On the whole, ownership of a corporate interest in the form of stocks is more freely and easily transferable than ownership of an interest in a sole proprietorship or partnership. If you want to sell a mom-and-pop store, you generally have to sell the whole business; you cannot sell a small portion when you need to raise money.

If you are one of the members of a partnership and you want to sell your share, you will generally have to get prior approval from the other partners; needing to do so may discourage possible investors because they may not want to go to the trouble of seeking approval from your partners. However, if you inherit a thousand shares of stock in Apple from your wealthy aunt (which, in 2013, would have had an approximate value of \$420,000), and you find that you need extra money, you can sell one hundred shares (or about \$42,000 worth). Such a transaction is easy because there are lots of investors eager to own Apple shares and you do not need anyone's approval. This ease of transferability also encourages people to invest in stock instead of in other businesses, because it is so easy to sell corporate stock as needed.

When a corporation grows and/or becomes more profitable, the shareholders benefit financially in two ways. First, the corporation will often distribute a portion of its profits to the shareholders in the form of *dividends*, a certain annual payment per share of stock. Second, if a corporation is growing rapidly and is expected to be very profitable in the future, more investors will want to own its stock and the price of that stock will increase. Thus, ownership of stock is an investment vehicle that provides many advantages over other types of investments. For one thing, you can own stock without having to personally take part in the management of the company. In addition, you can sell all or part of your ownership when you need the funds. Finally, if the corporation is very successful, it will not only pay a steady revenue stream—through dividends—but your shares will become more valuable over time.

The advantages of stock ownership as an investment vehicle explains the growth of the world's great stock exchanges, such as the New York Stock Exchange or the Hong Kong Stock Exchange. Stock exchanges are like enormous flea markets for stock, because you can either buy or sell stock there. Unlike the goods available in ordinary markets, though, the price of stocks fluctuates constantly, literally minute by minute. A stock that was worth \$10 last year may now be worth as much as \$1000 or as little as \$0.10. Thus, stock markets are also somewhat like casinos or lotteries, because they allow investors to speculate on the future.

Speculation has its pros and cons. The potential for wealth creation through stock ownership has spawned an important industry that employs hundreds of thousands of people and generates vast profits: financial services. Stock brokerages, investment banks, and trading houses have arisen to provide expert guidance and services to investors.

American colleges and universities have developed a highly collaborative and perhaps even symbiotic relationship with the financial services industry. For one thing, since there are many jobs and professional occupations in financial services, virtually all universities offer courses and majors in finance or financial economics, and many also have graduate business schools that prepare students for careers in the financial services industry.

Perhaps equally importantly, most colleges and universities depend on private and charitable donations to help defray the cost of running the institution and, consequently, to keep tuition rates and fees lower (although many students will find it hard to imagine how tuition could be any higher). When wealthy individuals and corporations make donations or charitable contributions to colleges and universities, they often do so by giving corporate stock. Even when they make a cash donation, the university may find that it is most financially convenient to use that cash to acquire corporate stock. As a result, the largest universities have amassed vast holdings of corporate stock, among other investments. The financial resources of a university are often held in the form of a special trust known as an *endowment*. Universities prefer not to sell off parts of the endowment but rather seek to cover costs by using the interest and dividends generated by the endowment.

At times, the corporate holdings of universities have become quite controversial. For example, in the 1970s and 1980s, a growing student movement called on universities to *divest* (to sell all their stock) in any corporations that did business with the racist apartheid regime that controlled South Africa at that time. Many commentators believe that it was this pressure on corporations that led to the fall of the apartheid regime and the election of South Africa's first black president, Nelson Mandela.

## Corporations Can Have Perpetual Existence

It is possible but rare for family-owned businesses to remain sole proprietorships for several generations; more commonly, they eventually become corporations, or they are sold or transferred to a new business operator. Very often, a small business is sold when the founder dies, because the founder's children or heirs either do not want to work in the family business or are not as gifted in that business as was the founder. Even in successful, family-owned businesses where a child or relative of the founder inherits the business, it still happens that after a generation or two, no further family members are qualified (or wish) to join the business, and the business must be sold.

However, corporations are structured from the outset to have a potentially perpetual existence, because corporations do business through their officers and executives rather than through their owners. Although it is possible for owners to have dual roles as shareholders and as executives, it is not necessary. One common scenario is for the founder of the corporation to act as its chief executive officer (CEO) until such time as the corporation becomes so large and successful that the shareholders prefer to transfer management responsibility to an executive with specific professional experience in running a large corporation.

# Disadvantages of the Corporate Form

## Separation of Ownership and Management Functions

One potential disadvantage of the corporate form (from the point of view of its founders) is that, as the corporation grows, the original founders may lose control and even be pushed out of the corporation by newcomers. This happened to Steve Jobs, the legendary cofounder of Apple, who was pushed out of his leadership role in 1985 by Apple's board of directors, only to return in the mid-1990s and retake his role as CEO. More recently, in 2013, George Zimmer, the founder of the apparel retailer Men's Wearhouse, was terminated as chairman of the board by his own board of directors. This situation can arise because, as a company grows, the founders may be tempted to part with some portion of their equity by selling stock to new investors. Corporations are ultimately controlled by the board of directors, who are voted into office by the shareholders. If a founder allows his or her share of corporate stock to drop beneath 50%, then the founder will no longer be able to elect a majority of the board of directors, and may become subject to termination as an officer by the board. The board of directors is thus a sort of committee that controls the fate of the corporation, and it does this principally by choosing a CEO and supervising the CEO's performance.

## Dual Taxation

Although the tremendous growth in the number and size of corporations, and their ever-increasing social role, is due in part to their advantages as an investment vehicle, there are some financial disadvantages worth mentioning. One of the most important is so-called dual taxation, which refers to the practice in most countries of taxing corporate profits twice: once when the corporation declares a certain amount of profit, and again when the corporation distributes dividends to shareholders. The complexity of corporate tax regulations is such that even small corporations must frequently employ specialized accountants and attorneys to handle their tax returns.

## Quarterly Financial Reporting for Publicly Traded Corporations

Another disadvantage applies only to publicly traded corporations. Although all corporations are subject to a number of government regulations, the highest degree of regulation applies to public corporations, which raise capital by selling stock in stock markets. Large corporations are often willing to submit to these burdensome regulations because there are strong benefits to being traded on a stock exchange, the most important of which is the ability to raise a great deal of initial funding when the stock is first made available for trade. This first public sale of stock is known in the US as an *initial public offering* or *IPO*. In two famous recent examples, Google raised \$1.67 billion with its IPO in 2004, and Facebook raised \$18 billion with its IPO in 2012.

Despite the allure of additional financing, a company that is traded on a stock market must make a great deal of financial information publicly available, usually on a quarterly

basis, four times per year. This obligation can be quite onerous because it requires the corporation to employ a number of internal accountants as well as outside auditors. In addition, the information that is publicly revealed can be of strategic value to the corporation's competitors. Moreover, the need to make frequent quarterly reports on the company's ongoing profitability can have a negative impact on corporate strategy, because executives may become fixated on short-term goals while neglecting long-term goals. In light of these disadvantages, it is not surprising that some public corporations decide to take their shares off the stock markets in a process that is known as *going private*, which is the opposite of an IPO. Other corporations simply avoid going public in the first place. Thus, there are also some very large corporations, such as the multi-billion-dollar engineering firm Bechtel, which prefer to remain private even though they could raise investment capital with an IPO. Such companies prefer to raise capital by other means to avoid the requirements of quarterly earnings reports and therefore not revealing financial information to competitors.



Source: Toms Shoes, photo by Vivianna Love (CC BY 2.0, 2009)

Figure 1.2 A well-worn pair of Toms Shoes; Toms gives away free shoes to a poor child for every pair it sells.

## Corporate Social Responsibility

In this book, we will make continual reference to the concept of corporate social responsibility, but it is important to realize that CSR is an evolving concept that can be analyzed from multiple perspectives. The term *CSR* may be used quite differently depending on whether a given speaker is looking at it from the point of view of a corporation, a government, a charity sponsored by the corporation, a citizen employed by the corporation, a citizen who has been harmed by the corporation, or an activist group protesting abuses of corporate power. Let us review key concepts and terms related to CSR, starting with CSR itself.

### CSR: Definition

We define CSR simply and broadly as the ethical role of the corporation in society. Corporations themselves often use this term in a narrower, and less neutral, form. When corporations have a director of CSR or a committee in charge of CSR, or when they men-

tion CSR prominently in their mission statements, they are invariably using the term to mean “corporate actions and policies that have a positive impact on society.” Corporations refer most frequently to CSR when they speak of civic organizations they support, or to corporate environmental or social policies.

One related term here is corporate “compliance.” Not only are large corporations subjected to a host of governmental regulations, many of which have social objectives (such as avoidance of discrimination, corruption, or environmental damage), but many corporations also have set up internal guidelines. In order to make sure that a corporation respects or complies with all these laws, regulations, and norms, both internal and external, corporations increasingly employ “compliance” officers or executives. For example, large fashion and apparel companies frequently place a specific executive in charge of “human rights compliance,” to ensure that its clothing was manufactured in safe factories that respect labor laws and do not employ children.

## Corporate Philanthropy

Corporate philanthropy refers to a corporation’s gifts to charitable organizations. There is an implication that the corporation’s donations have no strings attached, which is probably quite rare. At a minimum, most corporations expect that their donations will be publicly attributed to the corporation, thus generating positive public relations. When corporations make large cash gifts to universities or museums, they are usually rewarded with a plaque, or with a building or library named after the donor. Such attributions burnish the corporation’s public image, and in such cases we are not dealing with true corporate philanthropy, strictly speaking, but something more in the nature of marketing or public relations.

## Stakeholder Capitalism

Stakeholder capitalism refers to a conception of the corporation as a body that owes a duty not only to its *shareholders* (the predominant American view) but also to all of its *stakeholders*, defined as all those parties who have a stake in the performance and output of the corporation. Stakeholders include the company’s employees, unions, suppliers, customers, local and national governments, and communities that may be affected by corporate activities such as construction, manufacturing, and pollution. Stakeholder capitalism is a concept that was largely developed in Europe and reflects the widespread European attitude toward corporate governance, which accepts a great degree of government and social oversight of the corporation. The American approach is often described, in contrast, as *laissez-faire* (meaning “leave alone”), in that corporations are granted more freedom of operation than in Europe. One example of a stakeholder approach is in the German practice known as *codetermination*, in which corporations are required to provide a seat on the corporation’s board of directors for a union representative. This is intended to oblige the corporation to be more cognizant of worker needs and demands, and to ensure that corporate strategies are not concealed from workers.

## Cause-Related Marketing

Cause-related marketing (CRM) refers to a corporation’s associating the sales of its products to a program of donations or support for a charitable or civic organization. An example is provided by the famous Red campaign, in which corporations such as Gap pledged to contribute profits from the sale of certain red-colored products to a program

for African development and alleviation of AIDS-related social problems. The basic idea of cause-related marketing is that the corporation markets its brand at the same time that it promotes awareness of the given social problem or civic organization that addresses the social problem. Another well-known example is the pink ribbon symbol that promotes breast-cancer awareness and is used prominently in the marketing of special lines of products by many corporations, such as Estée Lauder, Avon, New Balance and Self Magazine. In addition to marketing products with the pink-ribbon symbol, Estee Lauder has made support for breast cancer awareness one of the defining features of its corporate philanthropy. Thus, Estee Lauder also frequently refers to such charitable contributions, currently on the order of \$150 million, in its corporate communications and public relations documents.<sup>4</sup>

## Sponsorship

Sponsorship refers to a corporation's financial support for sports, art, entertainment, and educational endeavors in a way that prominently attributes the support to the particular corporation. Sponsorship can be considered a form of marketing communications because it seeks to raise awareness and appreciation of the corporation in a given target audience. Arguably, of course, sponsorship benefits society, because society appreciates sports, art, and entertainment. However, in the case of sponsorship, as opposed to philanthropy, the sponsors expect a clear return. Indeed, many corporations carefully analyze the benefits of their sponsorship activities in the same way they measure the impact of their marketing and advertising.

Many prominent global sponsors are companies that find it difficult to advertise through other channels. For example, Philip Morris, the world's largest tobacco company and owner of the Marlboro brand, which finds its global advertising restricted due to a number of bans and limits on tobacco advertising, has invested heavily in sponsorship. Philip Morris has long been the number one sponsor of Formula 1 race car competitions, and it is impossible for a spectator to watch one of these races without observing, consciously or otherwise, huge billboards and banners featuring the famous red-and-white Marlboro logo. Similarly, since alcohol advertising is also increasingly scrutinized, it is not surprising that Budweiser has followed a similar tactic and become the principal sponsor of NASCAR racing. Pharmaceuticals have also become an area subjected to tight advertising and marketing controls; therefore, Pfizer, the world's largest pharmaceutical company, engages in scores of sponsorship activities, notably in its support for the Paralympics, an Olympic-style competition for physically-handicapped athletes.

## Sustainability

Sustainability has become such an important concept that it is frequently confused with CSR. Indeed, for some companies it seems that CSR is sustainability. This is perhaps not surprising, given the growing media attention on issues related to sustainability.

Sustainability is a concept derived from environmentalism; it originally referred to the ability of a society or company to continue to operate without compromising the planet's environmental condition in the future. In other words, a sustainable corporation is one that can sustain its current activities without adding to the world's environmental problems. Sustainability is therefore a very challenging goal, and many environmentalists maintain that no corporation today operates sustainably, since all use energy (leading to the gradual depletion of fossil fuels while emitting greenhouse gases) and all produce waste products

like garbage and industrial chemicals. Whether or not true sustainability will be attainable anytime in the near future, the development and promotion of sustainability strategies has become virtually an obsession of most large corporations today, as their websites will attest in their inevitable reference to the corporation's sincere commitment to sustainability and responsible environmental practices. No corporation or corporate executive today will be heard to say that they do not really care about the environment. However, if we observe their actions rather than their words, we may have cause for doubt.

We will explore specific cases related to sustainability in later chapters. For now, let us just note that CSR, strictly speaking, is broader than environmental sustainability because it also refers to a corporation's ethical relationship to its employees, shareholders, suppliers, competitors, customers, and local and foreign governments.

More recently, many people have been using the term *sustainability* also to refer to social and political sustainability, which brings the concept closer to that of CSR.

## Greenwashing

*Greenwashing* refers to corporations that exaggerate or misstate the impact of their environmental actions. By the early 1990s a great number of consumer products were being promoted as “environmentally friendly,” “eco-friendly,” or “green,” when in fact there was little or nothing to justify the claims. In 1991, an American Marketing Association study revealed that 58% of environmental ads contained at least one deceptive claim. As a result, many advertising regulatory bodies around the world adopted specific advertising codes to regulate the honesty and accuracy of environmental claims in advertising. For example, in the UK, a producer of a recycling bin advertised that it helped buyers “save the rainforests” by encouraging recycling of plastic and paper products. The advertisement was found to be misleading because most paper products sold in the UK were not made from wood in tropical rainforests, but from wood harvested on northern European tree farms.

In Norway, car manufacturers and dealers are prohibited from claiming that their cars are green, eco-friendly, etc., because in the view of the Norwegian Consumer Ombudsman, it is impossible for cars to be beneficial for the environment; the best they can do is reduce the environmental damage they cause.<sup>5</sup>

Greenwashing is not only a corporate practice but a political one as well, as politicians everywhere promise to undertake actions to improve the environment. Thus, the administration of former US President George W. Bush was widely criticized for promoting legislation under the name of the “Clear Skies Initiative,” when in fact the purpose of the legislation was to weaken antipollution measures.<sup>6</sup>

## Social Entrepreneurship and Social Enterprise

Social entrepreneurship and social enterprise refer to the use of business organizations and techniques to attain laudable social goals. As we will discuss further in Chapter 6, Blake Mycoskie decided to create TOMS Shoes largely as a reaction to his travels in Argentina, which had exposed him to terrible poverty that left many school-age children without shoes. An important part of the corporate mission of TOMS Shoes lies in its pledge to give away a free pair of shoes for every pair purchased by a customer. TOMS Shoes' model has been imitated by many others, including the popular online eyewear brand, Warby Parker.

The difference between social entrepreneurship and CSR is that, with social entrepreneurship, the positive social impact is built into the mission of the company from its

founding. Other examples of social entrepreneurship include The Body Shop, Ben & Jerry's ice cream, and Newman's Own. The Body Shop was founded by noted activist Anita Roddick who insisted that all products be derived from ingredients which were natural, organic, and responsibly sourced. Her employment policies famously allowed every employee to take off one day a month from work to engage in social or community projects. Similarly, Ben & Jerry's was founded to promote the use of organic, locally-produced food. The company's founders insisted on a policy that executives earn no more than seven times the salary of factory line-workers (although this policy was eventually relaxed when it became difficult to recruit a competent CEO at those wages). Ben & Jerry's engaged in a number of high-profile political activities in which they encouraged their employees to participate, such as protesting the building of the Seabrook nuclear power plant in Vermont. Newman's Own was founded by film actor Paul Newman and his friend A. E. Hotchner with the goal of selling wholesome products and giving away 100% of the profits to charitable ventures. To date, Newman's Own has given away over \$200 million.

## Social Marketing

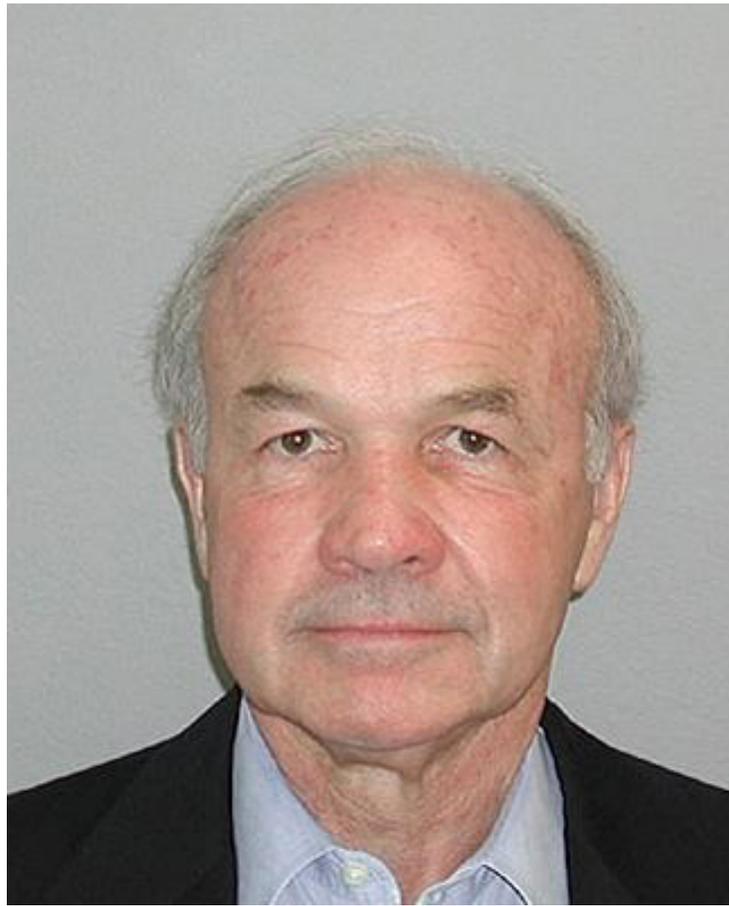
Social marketing refers to the use of business marketing techniques in the pursuit of social goals. Often, governments and nonprofit organizations make use of social marketing to make their points more forcefully and effectively to a wide audience. Classic examples are the extremely powerful TV commercials warning of the dangers of unsafe driving or of failing to use seatbelts. Cinematic techniques are employed to portray dramatic, arresting images of crumpled cars and bodies, children and mothers crying. The source of social marketing advertisements is usually a local government or nonprofit organization.

Social marketing is usually used to try to convince citizens to drive more safely, eat better, report child and domestic abuse, and avoid various forms of criminality and drug use. As with ordinary advertising, social marketing can seem overdone or maudlin, and some social marketing ads have been mocked or considered silly. For example, former First Lady Nancy Reagan participated in a social marketing campaign that urged young people to "Just Say No" to drugs, an approach which was ridiculed as simplistic by many. Noted radical activist Abbie Hoffman said that telling drug users to "just say no" to drugs was like telling manic-depressives to "just cheer up." Despite that, drug use in America declined over the time period that the campaign was in progress, though there is no evidence that any part of this decline was due to the campaign.

## Business Ethics

Business ethics is an academic discipline closely related to CSR, but one that tends to use the tools of philosophy to formally analyze the ethical role of individuals and corporations. Although the terms are quite similar, there are differences of nuance. For example, although academics who study business ethics tend to focus on corporations, the term itself could also apply to the ethical dilemmas of sole proprietors or of individuals involved in commercial situations, such as a private party trying to sell a used car that he knows has a hidden mechanical flaw. While the term *CSR* tends to be used by corporations and social entrepreneurs in a way that assumes a positive connotation, *business ethics* is used in a more neutral and even critical fashion, as one might expect, given the perspective of writers who are not beholden to corporations. Indeed, when the media uses the term *business ethics*, it is

often in a negative sense, to draw attention to instances of deception or fraud on the part of corporations or executives.<sup>7</sup>



*Source: United States Marshals Service, 2004, public domain*

*Figure 1.3 The mug shot of former Enron top executive Ken Lay. Lay was eventually convicted on 10 counts of fraud; while awaiting sentencing of up to 100 years in prison he died of a heart attack in 2006.*

## White-Collar Crime

White-collar crime refers to fraudulent or financially-oriented criminal activities by high-status professionals or businesspeople. The term *white-collar crime* was coined by sociologist Edwin Sutherland, who defined it as a “crime committed by a person of respectability and high social status in the course of his occupation” in a 1939 speech entitled “The White Collar Criminal.” Although the term applies to financial fraud committed by individuals who are not associated with corporations, there is a strong linkage to corporations in actual practice because corporate executives are often well-placed to commit crimes of fraud and corruption. However, a distinction should be drawn between white-collar crime and corporate crime, which refers to crimes for which the corporation itself is responsible. In many cases, such as in violations of US laws against bribing foreign government officials, it may be unclear whether the matter is better classified as white-collar crime or corporate crime. In the law, it may depend on whether the corporation’s senior executives were aware of and supported the acts of criminality.

While there is a popular perception that punishments for wealthy white-collar criminals are less severe than for poor and middle-class criminals, the situation appears to have changed in light of the severe penalties for white-collar crime mandated by the 2002 Sarbanes–Oxley Act, which was adopted by the US Congress in the wake of the notorious Enron scandal. As a result, former Enron CEO Jeffrey Skilling, the architect of Enron’s frauds, was sentenced to 24 years in prison. Bernie Ebbers, former CEO of WorldCom, was convicted of fraudulent misstating of billions of dollars of WorldCom earnings, resulting in a sentence of 25 years. More recently, Bernie Madoff, whose vast Ponzi scheme defrauded investors of up to \$65 billion, was sentenced in 2009 to 150 years in prison for his crimes, effectively a life sentence without possibility of parole.

## Topic for Debate: Regulation of Corporations

It is one of the basic premises of this book that we do not want you merely to read and assimilate the material. We want you to engage it personally in an effort to develop and refine your own opinions. Therefore, each chapter will feature a topic for debate (more detailed rules and suggestions for debate will be set forth in the next chapter). Most chapters will feature an in-depth case study based on a real-life business situation, or a fictionalized account of a real business situation or social controversy. In this chapter we will use what we will call a “mini-case study”—a sort of thought experiment, based on a simple set of facts as follows:

### Mini-Case Study: The Case of the Undecided Voter

Your close friend, Jane Goodie, is a college student who has registered to vote in her first election. Jane’s father has been a lifelong Republican voter and Jane’s mother a lifelong Democrat. As Jane grew up, she often listened to her parents debating politics at the dinner table. More than once, Jane found herself disconcerted and discouraged by the appearance of biased thinking on the part of one or both of her parents; they rarely seemed to agree or listen to each other in their political debates. Sometimes, Jane even wondered to herself, “Why do they vote at all, since their votes obviously just cancel each other out?” However, since her parents have strongly urged her to vote as soon as she is old enough, and since they have also urged to make up her own mind about which candidate to choose, she is looking forward to expressing her own views at the ballot box. But first she must make up her mind.

Since this is not a presidential election year, the most important office up for election is that of Senator. Both senatorial candidates are very impressive and illustrious people: One is a graduate of Harvard Law School, the other of Yale Law School. The Democratic, or “liberal,” candidate pursued an impressive career as an environmental lawyer before being elected to a position as mayor of one of the leading cities in your state. The Republican, or “conservative,” candidate enjoyed an impressive career as an advisor to a number of successful start-up companies before also being elected to a position as a mayor of one of the leading cities in your state.

Both candidates appear to be exceptionally bright, eloquent, and dedicated to public service. In this particular campaign, they both espouse very similar views on foreign policy and social policy. In fact, the main difference between the candidates comes down to one

thing: their attitude toward government regulation of business, and of large corporations in particular. The Democratic candidate, citing recent examples of fraud, pollution, and layoffs at major corporations, is calling for tighter regulation of corporations. The Republican candidate, citing the importance of the business sector as a major taxpayer and creator of jobs, calls for a loosening and reduction of government regulation of business.

Your friend does not know who to vote for, but believes that she should decide on the basis of the single issue on which the candidates differ: the regulation of business. Your friend asks for your advice.

You are therefore asked to develop the strongest reasons for supporting one of the following two possible responses:

**Affirmative Position:** Jane should vote for the Democratic candidate.

**Possible Arguments:**

- It is better to maintain tight regulation of businesses and corporations, given their propensity to cause or contribute to social harms.
- Corporations are able to lobby governments to shield themselves from regulation.
- Corporations are able to attain more power and influence than citizens.

**Negative Position:** Jane should vote for the Republican candidate.

**Possible Arguments:**

- It is better to liberate businesses and corporations from onerous and expensive government regulation.
- Corporations are major employers and job-creators.
- Corporations can undertake enormous projects beyond the scope of small business or individuals.
- Corporations stimulate research and innovation.

## Readings

The readings below are meant only to stimulate your thinking about possible perspectives to take on corporations. Please supplement them with your own research.

### 1.1 The Corporation as a “Psychopathic” Creature

*Bakan, Joel. “Business as Usual,” in The Corporation: The Pathological Pursuit of Profit and Power, 28–59. New York: Simon and Schuster, 2004.*

*Bakan, Joel. “The Externalizing Machine,” in The Corporation: The Pathological Pursuit of Profit and Power, 60–84. New York: Simon and Schuster, 2004.*

Business leaders today say their companies care about more than profit or loss, that they feel responsible to society as a whole, not just to their shareholders. Corporate social responsibility is their new creed, a self-conscious corrective to earlier greed-inspired visions of the corporation. Despite this shift, the corporation itself has not changed. It remains, as it was at the time of its origins as a modern business institution in the middle of the nineteenth century, a legally designated “person” designed to valorize self-interest and invalidate moral concern. Most people would find its “personality” abhorrent, even psychopathic, in a human being, yet curiously we accept it in society’s most powerful institution. The troubles on Wall Street today, beginning with Enron’s spectacular crash, can be blamed in part on the corporation’s flawed institutional character, but the company was not unique for having

that character. Indeed, all publicly traded corporations have it, even the most respected and socially acceptable....

As a psychopathic creature, the corporation can neither recognize nor act upon moral reasons to refrain from harming others. Nothing in its legal makeup limits what it can do to others in pursuit of its selfish ends, and it is compelled to cause harm when the benefits of doing so outweigh the costs. Only pragmatic concern for its own interests and the laws of the land constrain the corporation's predatory instincts, and often that is not enough to stop it from destroying lives, damaging communities, and endangering the planet as a whole.... Far less exceptional in the world of the corporation are the routine and regular harms caused to others—workers, consumers, communities, the environment—by corporation's psychopathic tendencies. These tend to be viewed as inevitable and acceptable consequences of corporate activity—"externalities" in the coolly technical jargon of economics.

"An externality," says economist Milton Friedman, "is the effect of a transaction...on a third party who has not consented to or played any role in the carrying out of that transaction." All the bad things that happen to people and the environment as a result of corporations' relentless and legally compelled pursuit of self-interest are thus neatly categorized by economists as externalities—literally, other people's problems.

## 1.2 "EPA Costs US Economy \$353 Billion per Year"

Young, Ryan. "EPA costs US economy \$353 billion per year." *The Daily Caller*.

Last modified December 27, 2012. <http://dailycaller.com/2012/12/27/epa-costs-us-economy-353-billion-per-year/>.

Transparency is the lifeblood of democracy. Washington needs more of it, especially in the all-too-opaque world of regulation. The Environmental Protection Agency (EPA), for example, is the most expensive federal regulatory agency. Its annual budget is fairly modest in Beltway terms, at a little less than \$11 billion, but that's not where the vast majority of its costs come from. Complying with EPA regulations costs the US economy \$353 billion per year—more than 30 times its budget—according to the best available estimate. By way of comparison, that is more than the entire 2011 national GDPs of Denmark (\$332 billion) and Thailand (\$345 billion)...

In the last edition of the Unified Agenda, the fall 2011 edition, the EPA had 318 rules at various stages of the regulatory process. Nobody outside the agency knows how many rules it currently has in the pipeline. All in all, 4,995 EPA rules appeared in the Winter Unified Agenda from 1999–2011. Over the same period, 7,161 EPA final rules were published in the *Federal Register*. That means more than 2,000 final rules, which have the force of law, came into effect without first appearing in the Unified Agenda. This could indicate an important transparency problem.

That's just the EPA's *annual* flow of regulations. The agency has existed for more than 40 years. How many total rules does it currently have in effect? Again, the answer doesn't come from the agency. Earlier this year, the Mercatus Center's Omar Al-Ubaydli and Patrick A. McLaughlin ran text searches through the entire *Code of Federal Regulations* (CFR) for terms such as "shall," "must," "prohibited," and the like. The CFR Title covering environmental protection alone contains at least 88,852 specific regulatory restrictions. The number could be as high as 154,350....

Justice Louis Brandeis correctly believed that sunshine is the best disinfectant. With high regulatory costs contributing to a stagnant economic recovery, it is well past time to

shine more light on regulatory agencies. Annual agency report cards would make a good start.

### 1.3 Press Release from the US Consumer Product Safety Commission

Consumer Product Safety Commission. “Port Surveillance News: CPSC Investigators Find, Stop Nearly 650,000 Unsafe Products at the Start of Fiscal Year 2012.” News Release. April 5, 2012. <https://www.cpsc.gov/en/Newsroom/News-Releases/2012/Port-Surveillance-News-CPSC-Investigators-Find-Stop-Nearly-650000-Unsafe-Products-at-the-Start-of-Fiscal-Year-2012/>.

#### **Investigators Stop Nearly 650,000 Unsafe Products**

Investigators with the US Consumer Product Safety Commission (CPSC) prevented more than half a million violative and hazardous imported products from reaching the hands of consumers in the first quarter of fiscal year 2012.

Working with US Customs and Border Protection (CBP) agents, CPSC port investigators successfully identified consumer products that were in violation of US safety rules or found to be unsafe. CPSC and CBP teamed up to screen more than 2,900 imported shipments at ports of entry into the United States. As applicable, these screenings involved use and abuse testing or the use of an X-ray fluorescence (XRF) analyzer. Their efforts prevented more than 647,000 units of about 240 different non-complying products from reaching consumers, between October 1, 2011 and December 31, 2011.

Topping the list of products stopped were children’s products containing levels of lead exceeding the federal limits, toys and other articles with small parts that present a choking hazard for children younger than 3 years old, and toys and child-care articles with banned phthalates.

In addition to violative toys and other children’s products, items stopped at import included defective and dangerous hair dryers, lamps, and holiday lights.

“We mean business when it comes to enforcing some of the toughest requirements for children’s products in the world. If an imported product fails to comply with our safety rules, then we work to stop it from coming into the United States,” said Chairman Inez Tenenbaum. “Safer products at the ports means safer products in your home.”

During fiscal year 2011, CPSC inspected more than 9,900 product shipments at the ports nationwide and stopped almost 4.5 million units of violative or hazardous consumer products from entering the stores and homes of US consumers.

CPSC has been screening products at ports since it began operating in 1973. In 2008, the agency intensified its efforts with the creation of an import surveillance division.

### 1.4 “Costs of Air Pollution in the U.S.”

Taylor, Timothy. “Costs of Air Pollution in the U.S.,” *Conversable Economist* (blog), November 7, 2011, <http://conversableeconomist.blogspot.com/2011/11/costs-of-air-pollution-in-us.html>.

What costs does air pollution impose on the U.S. economy? Nicholas Z. Muller, Robert Mendelsohn, and William Nordhaus tackle that question in the August 2011 issue of the *American Economic Review*. Total “gross external damages” the six “criterion” air pollut-

ants in 2002—sulfur dioxide, nitrogen oxides, volatile organic compounds, ammonia, fine particulate matter, and coarse particulate matter—was \$182 billion.

Since GDP was about \$10.5 trillion in 2002, the cost of air pollution was a bit under 2% of the total. The effects included in the model calculations are adverse consequences for human health, decreased timber and agriculture yields, reduced visibility, accelerated depreciation of materials, and reductions in recreation services.

The sectors with the biggest air pollution costs measured in terms of “gross external damages” (GED) (counting the same six pollutants but again not counting carbon emissions) are utilities, agriculture/forestry, transportation, and manufacturing.

If one looks at the ratio of gross economic damages to value-added in the sector, agriculture/forestry and utilities lead the way by far with ratios above one-third. Manufacturing has fairly high gross external damages, but the GED/VA ratio for the sector as a whole is only 0.01.

To me, a lesson that emerges from these calculations is that the costs of air pollution and of burning fossil fuels are very high, both in absolute terms and compared to the value-added of certain industries, even without taking carbon emissions into account. Environmentalists who are discouraged by their inability to persuade more people of the risks of climate change might have more luck in reducing carbon emissions if they deemphasized that topic—and instead focused on the costs of these old-fashioned pollutants.

## 1.5 “Over-Regulated America”

*“Over-regulated America: The home of laissez-faire is being suffocated by excessive and badly written regulation.” The Economist. Last modified February 8, 2012. <http://www.economist.com/node/21547789>.*

## Synthesis Questions

The most productive discussions and debates are those that open our eyes to different perspectives and different ways of thinking. While we may not change our initial opinions, we may emerge with an enhanced understanding of the perspectives of others, or of the complexity of a particular issue.

So we suggest that at the end of each chapter you answer a few questions in a way that allows you to “synthesize” your discussions and readings—by bringing together the strongest parts of each side of the argument—so as to arrive at a deeper, more nuanced understanding of the issues involved.

Clearly, the ethical role of corporations is a vast, complex topic and allows for a great diversity of opinions. Here are three initial synthesis questions for further reflection:

1. Are corporations on the whole good for society?
2. Do you personally like or distrust corporations? Why?
3. How should society regulate corporations?

## Endnotes

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2. Vincett Trivett, "25 US Mega Corporations: Where They Rank If They Were Countries," *Business Insider*, June 27, 2011, accessed December 6, 2014, <http://www.businessinsider.com/25-corporations-bigger-than-countries-2011-6?op=1>.
3. Steven Pearlstein, "Two Can Play the Airline Bankruptcy Game," *Washington Post*, 28 April 2012, accessed November 28, 2014, [http://www.washingtonpost.com/business/steven-pearlstein-two-can-play-the-airline-bankruptcy-game/2012/04/27/g1QAJ239nT\\_story.html](http://www.washingtonpost.com/business/steven-pearlstein-two-can-play-the-airline-bankruptcy-game/2012/04/27/g1QAJ239nT_story.html).
4. "The Estee Lauder Companies Breast Cancer Awareness Campaign," accessed November 28, 2014, <http://bcacampaign.com/>.
5. "Norway Outlaws 'Green' Cars," *TerraPass*, September 11, 2007, accessed December 6, 2014, <http://terrapass.com/politics/norway-outlaws/>.
6. US Senator Patrick Leahy, "The Greenwashing of the Bush Anti-Environmental Record on the President's Earth Day Visits to Maine and Florida," (statement on the Senate floor, Washington, DC, April 26, 2004).
7. See Sebastian Bailey, "Business Leaders Beware: Ethical Drift Makes Standards Slip," *Forbes*, May 15, 2013, accessed December 6, 2014, <http://www.forbes.com/sites/sebastianbailey/2013/05/15/business-leaders-beware-ethical-drift-makes-standards-slip/>.

## Chapter 2

# Debating CSR: Methods and Strategies



*Source: U.S. Navy (CC-BY 2012)*

*Figure 2.1 Deployed U.S. sailors watching the U.S. Presidential debate between candidates Barack Obama and Mitt Romney in 2012.*

## Why Debate CSR?

In this chapter, we help you prepare for productive debates on CSR. Our first question is: why debate CSR? Why not just study texts on CSR, and then write essays or take tests on the topic? Why do we need to debate?

The position of this textbook is that CSR is not only an important social phenomenon, but a complex and controversial one. As we will see in this book, there are often two sides to CSR issues. As future voters and future employees of corporations, schools, governments, and civil society organizations, you will get a chance to have a real impact on the future

of CSR. But what should the future of CSR be? It is not the role of teachers or textbooks to tell you what to think when it comes to such a new and politically divisive topic. Like your fellow citizens, you are entitled to develop your own opinion, but we hope that it will be an informed and logical opinion, rather than one that emerges reflexively from political partisanship or cultural tradition.

In short, we want you to practice thinking for yourself about CSR, and we think the best way to practice is that is to debate crucial issues relating to CSR. At times you will be asked to come up with the strongest arguments in favor of a position that you do not initially support. As the saying goes, to understand another person you have to walk a mile in their shoes. If you want to understand why many of your fellow citizens take social and political positions that are different from yours, the best thing to do is to consider the strongest arguments on their side—and the best way to do that is to become their advocate, even if only for the length of a class session.

## Questioning the Value of CSR Itself

As an example of the importance and complexity of CSR-related public debates, consider the following controversies related to CSR:

CSR: Sincere ethics or hypocritical public relations?

- **Facts:** CSR is a rapidly growing field of study in universities and business schools, and most large corporations have adopted CSR programs.
- **The controversial aspect:** Is CSR a good thing or is it just corporate window-dressing?
- **In favor of CSR:** CSR motivates corporations to address social problems, it energizes and rewards workers, it strengthens ties to the community, and it improves the image of the corporation.
- **Against CSR:** Surveys show that citizens are more concerned about corporations treating their workers well and obeying laws than about engaging in philanthropic activities, and CSR may allow corporations to distract consumers and legislators from the need to tightly regulate corporations.

### Climate change and CSR

- **Facts:** There is a scientific consensus that global warming and climate change represent an enormous threat facing mankind.
- **The controversial aspect:** Can corporate CSR really have a significant impact on climate change, or is it just a public relations vehicle for companies and a distraction from the need for stronger government action, such as through a carbon tax?
- **In favor of global warming-related CSR:** Corporations can have a major impact in the battle against global warming by reducing their large carbon footprints, by encouraging other corporations to follow suit, and by helping discover and develop alternative sources of energy.
- **Against global warming-related CSR:** Companies spend a lot of advertising money to boast about small measures against global warming, but many of these companies are in industries—such as fossil fuels or automobiles—that produce the most greenhouse gases to begin with; self-serving claims of climate-change concern are often simply corporate public relations campaigns intended to distract us from the need for society to take more effective measures through taxation and regulation.

## Corporate Lobbying and Government Influence

- **Facts:** Most large corporations spend money on lobbying and on seeking to influence legislators and regulators. In the *Citizens United* decision, the Supreme Court ruled that, as “corporate persons,” corporations enjoy the same freedom of speech protections as ordinary citizens and are entitled to relief from strict government control of their rights to political speech.
- **The controversial aspect:** Many citizens are outraged to find that the justice system accords multinational corporations the same rights as ordinary people on the grounds that corporations are “persons.” However, others point out that *The New York Times* and CNN are also corporations, and that it could have a chilling effect on freedom of speech if all corporations were legally-constrained from speaking out freely.
- **In favor of corporate lobbying:** As major employers and technological innovators, corporations benefit society. They should be free to oppose inefficient and cumbersome government regulations and taxation that can limit the benefits they provide. In this way, freedom of political speech is so important that we should be cautious about limiting it in any way.
- **Against corporate lobbying:** Corporations are not “persons” in the same sense that humans are, and therefore, they should not enjoy the same freedom of speech protection. Since corporations can become vastly wealthier than ordinary citizens, allowing them to participate in politics will enable them to bend laws and regulations to their will.

In each of the debates outlined above, there are intelligent and well-informed people on both sides of the issue. However, if our society is going to progress in its handling of these issues, we will need to reach consensus on the best approach, or at least on the best compromise. It is therefore vital that citizens learn to discuss these issues in an informed, respectful and productive manner.

# How to Debate CSR: Rules of Civility and Logic

## Civility

This chapter introduces you to the techniques of logical debate. We hope to improve your ability to craft a forceful, persuasive argument and to detect faulty logic and weak evidence put forward by your adversaries. It is equally important, however, to practice engaging in social and political debates in a way that is respectful and tolerant of differing viewpoints.

Although we will base our approach to some extent on the rules and methods of formal debate, the reality of life is that most of our disagreements, and much public debate, are not carried out according to formal rules or any previously agreed structure. Indeed, the average political debate with our schoolmates, work colleagues, and family is often quite freewheeling and sometimes extremely illogical. It is an accepted truism of American life that political campaigns are filled with name-calling, mud-slinging, finger-pointing, and

scurrilous attack ads. That is one reason that so many people say that you should never discuss politics or religion among friends or family—because doing so can compromise friendships and spoil family gatherings with angry and unproductive arguments.

In this course and in this textbook, we want to lean toward the other extreme. We believe that there are sincere, intelligent people on both sides of most social debates. As educated people, we should not engage in political discussion in order to flaunt our superior intelligence or backgrounds, or to browbeat or insult our interlocutors. Unfortunately, since people sometimes resort to bullying and offensive tactics when discussing sensitive topics, and since many of us are unable to control our wounded, emotional responses to such aggression, it can become difficult to discuss important social issues in a productive way.

We suggest certain ground rules to promote fair and respectful debate.

### 1. Do not try to “win” the debate.

In formal debate contests, each side is trying to defeat the other. Similarly, in political debates each candidate is trying to come out on top so as to win the election. However, in the classroom or in informal discussions around the dinner table or at the workplace, such tactics can be unproductive and can backfire.

Therefore, we recommend that (at least part of the time) instructors randomly assign students to each side of an argument. In this fashion, you will sometimes find that you are arguing on behalf of a position that you would not ordinarily support. This may seem paradoxical to you, so why do we insist on its value?

By obliging you to consider and advocate on behalf of the strongest points of each side of the argument, we want you to appreciate that there are valuable, sincere motivations on both sides of most social debates. We are not asking you to be insincere and pretend to believe in something that you do not support. Rather, we are simply asking you to look for the strongest arguments the other side could make.

So, in this course the goal is not to try to win the debate by making the other side look bad. The objective here is to obtain greater knowledge and greater depth of understanding. Everyone in the class should consider it a win anytime fellow students make a new or interesting point, express themselves eloquently, or show a willingness to listen and learn from the other side. The ultimate win in this course is to learn more about an important social topic, and to learn to engage in debates in a respectful way.

### 2. Admit discomfort or emotionality.

Discussions of important social or political topics often touch upon values that each of us holds dear. They may be values we have imbibed from the teachings of our parents, trusted elders, respected teachers, and admired thinkers. As a result, when someone strongly challenges those values, especially in a way that we find disrespectful, it is understandable that we feel negative emotions or anger. The challenge is to control those emotions without being tempted to retaliate.

So if you ever feel uncomfortable or embarrassed in a class debate, whether online or in person, do not hesitate to let your interlocutor, the class, and the instructor know of your feelings. You can simply say, for example, “I think that last remark was bit personal,” or “I find that the tone you are using is somewhat aggressive.” However, try to avoid responding in an equally offensive fashion because that usually leads to a breakdown in the conversation.

It is not only up to the instructor; it is up to each class member to monitor class discussions for inappropriate levels of aggression or condescension.

### 3. Listen respectfully and show that you have heard the other side.

It is very easy for debates to degenerate into emotional contests if neither side makes a sincere attempt to listen to the other side's arguments. Therefore, it is always a good strategy to show that you have heard the other side and have understood their point. For example, you can say, "So it seems that you feel the strongest argument in favor of freedom of corporate lobbying is that if we restrict such lobbying, then we will create a precedent that could eventually lead to restrictions on the freedom of speech of individuals. However, we would like to argue that..."

On political talk shows and at the dinner table, it is quite common for debaters to cut each other off, interrupt rudely, or talk over each other. In the classroom, however, we want to hold ourselves to a higher standard. Let people finish talking before you make your point. If you feel someone is going on too long, you can alert the instructor and request that you be given an equivalent amount of time for your rebuttal.

## Logic: The Techniques of Persuasive Argumentation

### The Structure of a Debate

Although this is not a course in logical debate, you will get more out of it if you proceed in a systematic manner. Although there are many systems and theories for debate, we present a simplified version here so that your class can have a common framework to follow. The elements of a logical debate are the topic, the argument, and the rebuttal or counter-argument.

#### The Topic

Sometimes also called the "proposition," "claim," or "thesis," this is the concise statement of what the argument will address. In formal debating, the topic is usually called a proposition and may be presented in the form of a motion that is going to be submitted to a body for a vote, for example:

Resolved, that American corporations should refrain from outsourcing to factories in countries where child labor under the age of 15 is permitted.

Thereafter, one side (sometimes an individual but often a team consisting of up to three people) takes the *affirmative* position (meaning that it supports the proposition), while the other takes the *negative* position (meaning that it opposes the proposition). The party taking the affirmative side then opens with a clear formulation of its position and begins the debate by presenting the "main line," or strongest point on its side. The negative side is allowed to question the manner in which the affirmative side has defined the proposition, and may choose to present an alternative formulation before presenting the main line of its argument. In team debating, the second and third members will then present the second and third lines of their team's argument. Opportunities for rebuttal may be provided after each speaker or at the end of each team's main presentation. When the debate is concluded,

a vote may be taken (for example, by the audience or by a group of judges) to determine which team has been more persuasive.

In this course, we encourage a more informal approach in order to suit the preferences and prior experience of the instructor and students. You may prefer to present different topics for debate, or provide for a range of alternatives for action. Regardless of the approach you choose, each class and each student should have some freedom to frame the debate in the perspective that he or she finds the most relevant while ensuring that both sides are still engaging the same question. Consequently, it is always a good practice to begin a debate or discussion (or a written assignment) with a clear statement of your topic or proposition, even if it seems implied by the assignment.

### The Argument

Once you have clearly stated the debate topic and your opening proposition, you must go on to provide logical support or evidence in support of your argument. In order to persuade an audience, you must support your main thesis with compelling reasoning and/or factual evidence. You may choose to focus on either logic or evidence, or you may use both. For example, if you wanted to base your argument on moral reasoning, you might say,

In the United States, we do not permit full-time factory work for children under the age of 15, so we should not participate in the exploitation of children abroad in a manner we would not accept at home.

Note that this argument, like many other arguments based on logic or reasoning, is itself based on further unstated assumptions, which we may call the logical basis or moral basis of the argument. Thus, the person making the above argument is assuming that

- A. it is self-evident that we should not participate in behavior abroad that we do not accept at home (which may or may not be true depending on circumstances); and/or
- B. behavior that is not legally accepted in the United States is necessarily exploitative when practiced abroad (which, again, may or may not be the case).

If you wanted to base your argument on factual evidence or statistics, you might say, for example:

Statistics show that countries that permit full-time employment for children have lower levels of literacy.

Or :

Studies show that underage female factory workers are subjected to high levels of sexual harassment and are at greater risk to become victims of rape or violence.

As with arguments based on reasoning, arguments based on evidence also depend on implicit assumptions about the evidence. For example the evidence must be

- A. accurate and recent (thus, the statistics should not be derived from unreliably small samples, and they should not be obtained from studies conducted so long ago that they are no longer valid),
- B. relevant and logically connected to the argument (thus, the statistics on literacy might show that children raised in the countryside have even lower rates of literacy than urban children who work in factories), and
- C. available to be examined (it is very easy to say, “Studies show that . . .” but if you cannot produce any published report of the study, or the study itself, then your

argument cannot be considered valid; you might even be misstating the results of the survey).

### Rebuttal and Counter-argument

A good debate allows opportunities for each side to respond to the other side's arguments, and this may be called a rebuttal or a counter-argument.

To develop an effective rebuttal, you should listen carefully to the other side's argument and try to detect flaws or gaps in their claims, reasoning, or evidence. In classical rhetoric, debaters were trained to detect a number of logical fallacies, common types of arguments which on further examination are unconvincing. Here are some of the key fallacies, or flaws, you may encounter:

#### *Arguing Off-topic*

Failure to stick to the main argument is perhaps the most common of all logical fallacies encountered in everyday discussions. In informal discussions, this is sometimes acceptable, but in a serious intellectual discussion, it wastes time and energy because you cannot seriously argue about two different topics at the same time. For example, in the debate described above, one of the parties might say something like,

"Everyone knows that American corporations don't really care about people; all they care about is profits."

Not only is that point arguable in itself (though it might make for an interesting argument), it is not directly relevant to a discussion of child labor in overseas factories. In such a case, it is appropriate simply to say, "The point you are making is not relevant to the topic of this discussion."

#### *Drawing Excessive or Illogical Conclusions from Evidence*

In debates over the value of evidence, it is frequently said that "correlation does not prove causation." In other words, if statistics show a correlation between two sets of facts, they do not necessarily prove a causal connection between them. For example, in one nineteenth century study of tuberculosis in Paris, the researcher noted that tuberculosis most frequently struck people living on the fifth floor of apartment buildings (the highest floor in apartment buildings of the day). He concluded that there was a causal relation between tuberculosis and altitude, and theorized that it was unhealthy to live too high above the ground. In fact, the highest floor was reserved for the small, drafty attic chambers of the poor servants who served the bourgeois families on the lower floors, so the true correlation was between poverty and tuberculosis. Statistics must always be closely scrutinized for relevance. We must always ask whether the statistics apply to the same fact pattern that we are discussing. Also, be wary of statistics that are out of date or are drawn from samples that differ in some fundamental way from the population being discussed.

#### *Ad Hominem Argument*

This refers to a statement that attacks you personally (or personally attacks an authority upon whom you are relying), rather than addressing the argument that you are making. In everyday discussions, this is perhaps the most dangerous of rhetorical fallacies. Not only is it irrelevant, but it frequently arouses such negative emotions that the opponent retaliates in kind. Everyone, including the instructor and other classmates, should be attentive to ad hominem arguments, and the person making them should be gently but firmly admonished against this tactic.

## The Problem of Cognitive Bias

One of the difficulties encountered in everyday discussions of social and political affairs is that people enter the discussion with their minds already made up. No matter how compelling the reasoning or convincing the evidence, they will refuse to consider the other side. If asked to research the facts, they will only look for facts that support the views they already had. Such people could be said to be wearing “intellectual blinders.” In a classroom or college context, this attitude is unfortunate: It closes us off from learning and from growing intellectually. In order to detect it in others and avoid it ourselves, it pays to learn about this tendency toward stubborn consistency, which is sometimes referred to by psychologists as *cognitive bias*.

One of the great discoveries of modern psychology is that humans are, in fact, extremely susceptible to biased thinking. Much of our understanding of the powerful influence of cognitive bias is due to the work of two psychologists, Daniel Kahneman and Amos Tversky. (Kahneman won the Nobel Prize for his efforts in 2002.) Kahneman postulates that humans use two different kinds of thinking systems, fast and slow.<sup>1</sup> Fast thinking is instinctive, emotional, and reactive, and can be useful in contexts when you have to make a decision quickly (e.g., you see a bear coming toward you in the forest, so it is time to think quickly about climbing a tree). Slow thinking is logical, laborious, and difficult: the kind of thinking that we use when we solve a math problem or a logic puzzle.

Cognitive bias represents the tendency toward instinctive, reflexive modes of thought, or fast thinking, when we might be better off using our slower, more laborious mode of thinking. One might suppose that when it comes to politics and social issues, such as those involved in analyzing corporate social responsibility, people would always rely on slow, logical thinking. However, Kahneman’s research (as well as that of many other cognitive psychologists) indicates the opposite.

Let us consider the power of some important cognitive biases that draw us astray.

### Confirmation Bias

*Confirmation bias* is the human tendency to discredit or ignore information that contradicts our beliefs, while we uncritically adopt information that supports our beliefs. Studies have demonstrated that most people are only open to hearing new information if it confirms their previously-held beliefs.

Confirmation bias explains why information exchange tends to reinforce our beliefs. The more we learn about ethical, social, or political issues, the more biased we become. Confirmation bias is thus the motor of prejudice. Once we get a tiny bit biased one way or another, the confirmation bias pushes us farther and farther in that direction. Increased education and research, strangely, can end up making us all more deeply biased.

In one classic study, a group of pro-death penalty students and a group of anti-death penalty students evaluated two “opposing” studies on capital punishment. In fact, the studies were identical, except that they carried different titles and came to different conclusions. The students were asked to decide which of these studies was better and more convincing (despite their being *virtually identical*). Almost invariably, the students concluded that the study with the title that supported their pre-existing views was superior to the other study. Not only that, but when the students were asked why they preferred the study they felt was superior, they were able to present a number of highly-specific examples to support their

evaluations. Since both studies were based on exactly the same information, the students' preference for one study over the other was derived purely from bias.

When we are exposed to mixed information, part of it supporting our views and part of it contradicting our views, we are more attentive to the part that supports our views, which we are likely to accept as accurate and true, while we ignore the part that contradicts our views. Indeed, sometimes these contrary arguments barely register in our consciousness.

## Partisan Bias

*Partisan bias* is a form of prejudice and overconfidence that takes hold of people whenever they feel loyalty or affiliation with a group or a team. We witness partisan bias in the political sphere when presidential campaigns are under way, as Democrats are always quick to point out that their preferred candidate is vastly superior to the Republican candidate, while Republicans are equally certain of the contrary.

Partisan bias does not only rule the world of politics, but can occur in any sphere where people feel drawn to one group over another. We can relate this concept to CSR: If you begin to perceive that you are part of a group that is a big supporter of a certain kind of CSR activity, then you will probably be susceptible to the assumption that your group is always right in all aspects. As soon as we feel we belong to a group, we begin to view that group as superior to other groups. It is so easy to elicit group bias that psychologists have proposed the existence of *implicit partisanship*—a hard-wired human predisposition to take sides and then prefer that side.

One experiment relating to implicit partisanship showed that, if people are shown a list of names and asked to study it for as briefly as a few minutes, they develop a preference for the names on the list and consider them superior to other names.<sup>2</sup> In another experiment, a group of college students was assigned to one of two teams to watch a taped football game. The students displayed a clear preference for their assigned team and later argued that the referee had unfairly called fouls against their team.<sup>3</sup>

If a group of people are told that they will be assigned to either group A or group B according to a coin toss, they begin to prefer their group even *before* they are sure they are assigned to it. Those to whom it has been merely hinted that they *may* have been assigned to group B begin nonetheless to express a clear preference for the members of group B and a belief that group B is generally superior to group A.<sup>4</sup>

While the existence of the partisan bias has been confirmed by recent research, it has long been apparent to perceptive observers of political argument. In fact, Socrates noted the following in Plato's *Phaedo*:

The partisan, when he is engaged in a dispute, cares nothing about the rights of the question, but is anxious only to convince his hearers of his own assertions.<sup>5</sup>

## Availability Bias

*Availability bias* refers to the fact that, in an uncertain situation, people tend to use the most obvious fact or statistic in order to come to a conclusion—even if a moment's thought or the slightest bit of research would have demonstrated that the particular fact or statistic was unreliable. You can test your own susceptibility to the availability bias by trying to correctly answer the following question as quickly as possible:

Facts: A bat and a ball cost \$1.10 in total. The bat costs \$1 more than the ball.

Question: How much does the ball cost?

Most people answer 10 cents. However, this is clearly wrong, as you will probably realize if you think about it carefully for a few more seconds. The correct answer is that the ball costs 5 cents.

If you answered incorrectly, don't feel bad—more than half of a group of Princeton students got the answer wrong as well. How is it possible that even smart people can be so dumb when it comes to such a simple question? In Kahneman's words, "The respondents offered their responses without checking. People are not accustomed to thinking hard and are often content to trust a plausible judgment that comes quickly to mind."<sup>6</sup> Since \$1.10 divides neatly into \$1.00 and ten cents, respondents leaped to this seemingly obvious answer, though it was incorrect. Kahneman named this the *availability heuristic*, the tendency to rely on a mental shortcut to choose answers from the most obvious (available) options.

Kahneman amusingly illustrated a variant of the availability bias, which he called the *anchoring bias*. When asked to estimate anything numerically, we have a tendency to over-rely (or "anchor") on any number that has recently been suggested to us, regardless of its relevance. Kahneman asks an audience to think of the last four digits of their social security number, and then asks them to estimate the number of physicians living in New York City. To a remarkable and entirely illogical extent, people's subsequent estimates of the number of New York physicians correlated with the last four digits of their own social security number. (Amazingly, this held true even when the audience was composed of math teachers.) Numbers hold a mystical sway over the human brain and it appears we are frighteningly suggestible when it comes to arguments based on data, even when the data is irrelevant. Thus we acquire newfound respect for the prescience of Mark Twain's famous quip, "There are three kinds of lies: lies, damned lies, and statistics."

One example of availability bias that comes up in the context of CSR relates to the impact of global warming on polar bears. Global warming contrarian Bjorn Lomborg often uses this example to show that most people think they understand global warming better than they actually do. Thus, he opens his book *Cool It* with a long chapter that provides abundant statistics to show that, over the past 25 years, the global population of polar bears has been increasing.<sup>7</sup> This comes as such a profound shock to most citizens who are concerned about global warming that they can scarcely believe it. Is Bjorn Lomborg telling the truth, or is he pulling our leg? Some students even become angry when presented with the evidence.

Actually, Lomborg does not deny that in the long term global warming may have a highly negative impact on polar bear populations. The point he is trying to make is that people leap to assumptions without checking the facts. People are concerned about polar bears because so many groups that try to raise awareness about the dangers of global warming have used the endangered polar bear as their favored mascot. Consequently, many people have simply assumed polar bear populations were already being decimated by global warming. While, polar bear populations may become under severe strain from global warming in the 21st century, for the past several decades, as well as the current decade, the main danger to polar bears comes from legally licensed hunters.

This point is raised here not to advance any argument about global warming. We will devote an entire chapter to global warming issues, and you will have an opportunity to learn more there about the very real dangers associated with global warming. The point here is that people have a tendency to leap to the easiest assumption, and that is one tendency that we should try to resist when we engage in formal research and debate.

## Debating CSR: What are the Key Issues?

As noted at the beginning of this chapter, some people are surprised to hear that there is anything to debate about CSR. After all, such people may ask, isn't CSR a matter of corporations doing good things? And what could possibly be wrong with corporations doing good things?

Actually, even corporations that fully support CSR do engage in debates about CSR, but these are usually about *how* to do CSR, not about whether CSR is in general a positive thing or not. Corporations, like individuals, sometimes have to make difficult choices about how to spend their money. It can be quite challenging for a corporation to choose among different options for CSR, and equally difficult to decide how much to spend on a particular CSR project in terms of cash and organizational resources. Several of the case studies in this book deal these types of strategic CSR questions.

However, it is worth noting at the outset that many CSR skeptics also believe that CSR merits greater ethical scrutiny, and thus there are some prominent voices who have expressed doubts about the perceived social benefits of CSR.

So that you can begin to develop your own informed opinion on this topic, let us begin with a review of the potential benefits and drawbacks to CSR.

## CSR: Potential Benefits

### Neglected Social Problems Are Addressed

It is undeniable that even governments in the wealthiest countries cannot effectively address all social problems. Every society is to some extent plagued by issues such as unemployment, criminality, homelessness, disease, discrimination, pollution, and natural disaster. Why not mobilize the vast economic and organizational resources of corporations to help alleviate the damage caused by such problems?

### Corporate Employees Are Energized and Motivated

A large percentage of the workforce in most countries is employed in the corporate sector (38% of Americans are employed by large companies).<sup>8</sup> CSR allows corporate employees to feel an added level of meaning in their lives by enriching their jobs with an ethical dimension. Such employees may be more productive on the job and may be more willing to volunteer for community service and contribute to charitable organizations.

### Links between Business, Nonprofits and the Government Are Enhanced

Today, a great deal of CSR involves partnerships between corporations, nonprofit organizations, and governmental bodies. For example, the Timberland footwear and apparel company developed a partnership with the Boston-based nonprofit organization City Year in 1989, beginning with a small contribution of 50 boots.<sup>9</sup> City Year engages young people from 17 to 24 in a 10-month program of community service. By 1994, Timberland had provided \$5 million to help City Year expand into 6 cities, and by 1998, Timberland

employees had contributed 20,000 hours to City Year efforts. President Bill Clinton was so impressed by the City Year story in 1992 that, in 1993, he enlisted its founders to help him establish the AmeriCorps program, a federally-funded means of supporting community service by young people. Since its founding, 575,000 AmeriCorps volunteers have contributed over 700 million hours of community service.

## Corporate Image Is Improved

In a competitive global marketplace, corporations want to maintain a strong, positive image in the minds of consumers and legislators, and CSR helps them achieve this. For example, Estée Lauder has become closely associated with the pink ribbon symbol of its Estée Lauder Breast Cancer Awareness Campaign, a program that has raised over \$35 million for breast cancer research and has spread to over 70 countries.

## CSR: Potential Drawbacks

### Bad Corporations Are Able to Buy a Positive Image

Some of the biggest contributors to CSR are companies in the oil, tobacco, and alcohol sectors, arguably those who have the most to gain from repairing negative associations with the harm caused by their products. Although the World Health Organization has declared that tobacco is the single greatest cause of preventable deaths worldwide, that fact has not stopped global tobacco companies, such as Philip Morris International (owner of the Marlboro brand) from spending huge sums to improve their image. Philip Morris not only contributes over \$30 million per year to a variety of charitable causes in over 50 countries, it is also a leading sponsor of sporting events (notably Formula 1 racing).<sup>10</sup>

### The Public Is Misled on the True Impact of Corporate Activities, e.g., “Greenwashing”

*Greenwashing* refers to the corporate practice of making misleading environmental claims. By the early 1990s, nearly a quarter of all consumer products were marketed with some sort of environmental claim, using terms such as “green” or “environmentally friendly.”<sup>11</sup> So many of these claims were later found to be exaggerated or deceptive that a number of advertising regulatory bodies and consumer protection agencies around the world enacted strict controls on environmental claims in advertising.

Among the leaders in making environmental claims have been oil, chemical, and automobile companies, all of which are arguably linked to increasing levels of pollution. Thus, in Norway, for example, strict regulations prohibit car manufacturers from making virtually any environmental claims, because in the view of the Norwegian Consumers Ombudsman, “cars can’t be environmentally beneficial.”

As early as the mid-1990s, the Chevron oil company had become a leader in touting its commitment to environmentalism, but that did not prevent it from getting embroiled in a controversial lawsuit involving claims of massive amounts of pollution in the Ecuadorian Amazon, with Chevron suffering an adverse \$19 billion legal judgment for the environmental damage it caused. Similarly, BP (British Petroleum), went so far as to revamp the

corporate logo in its attempt to become recognized for environmentalism despite evidence that BP management was aware of the risks that led to the offshore oil platform explosion off the coast of Louisiana in 2010, considered the worst marine oil spill in the world and the greatest environmental disaster in the history of the United States. Evidence uncovered in a U.S. Congressional hearing suggested that BP management had overruled its own staff and consultants to undertake riskier procedures because these were perceived to save time and money.<sup>12</sup>

## Nonprofits and Charities May Rely Too Heavily on Corporate Handouts

Many charities and nonprofits come to rely heavily on corporate contributions and often on contributions from a single corporation, which leaves them at the mercy of corporate goodwill, and at the risk of economic or management reversals which could lead to a cutoff of their funds. Thus, in the Timberland–City Year example discussed earlier, by 1997, City Year found that it was almost wholly dependent on Timberland for financial support, and it was only at that point that Timberland and City Year reached out for help from other corporations. Indeed, the City Year sponsorship had even caused a problem within Timberland when the company suffered a sharp decline in revenue in 1995 that led to layoffs. Employees were angry that management continued to spend millions on charitable contributions at the same time it was terminating jobs.

From a similar perspective, consider the cases of Enron and Lehman Brothers, enormous companies that disappeared virtually overnight due to fraud and mismanagement, respectively. Both companies maintained large CSR programs that had to be suddenly abandoned.<sup>13</sup> Indeed, Enron had become known as a leading “poster child” for CSR, with widely reported commitments to green energy, so that at the 1997 Kyoto Conference it received an award from the Climate Institute.

## Topic for Debate: To CSR or Not to CSR?

You have a close friend, John Goodie, who is considering obtaining a graduate degree in business and is trying to decide between two programs. One program is part of the MBA (master of business administration degree) curriculum at University A, and it focuses on CSR. The other program is part of the MBA curriculum at University B, and it focuses on the management of nonprofits and charities. John has always considered himself a very ethical and responsible citizen and has spent most of his summers since his teenage years volunteering in a number of community service positions. Both schools have excellent reputations, but University B is slightly more prestigious.

John tells you that his ultimate goal is simply “to make the world a better place.” He asks for your advice. What do you tell him? Provide the strongest arguments in favor of either University A or University B, as follows:

**Affirmative Position:** John should attend **University A**, which has a strong program in CSR.

Possible Arguments:

- CSR is likely to be the most powerful and effective way of making the world a better place.

- CSR is a rapidly growing field with lots of jobs.
- John is already implicitly interested in CSR since he wants to make the world a better place.

**Negative Position:** John should attend **University B**, which is slightly more prestigious but does not have a well-developed CSR program.

Possible Arguments:

- There are problems with CSR, such as greenwashing.
- If John wants to make the world a better place, he will be better off developing his skills in the more prestigious institution.
- With a more prestigious degree, he will be able to get a job in a nonprofit or charitable organization if he wants.

## Readings

### 2.1 CSR Isn't Working

Morrell, Marcus. "Anita Roddick: Corporate Social Responsibility?" Transcript of video, 5:02. Filmed September 15, 2006. <http://www.globalissues.org/video/733/anita-roddick-corporate-social-responsibility>.

Corporate social responsibility, I don't think it's working. I think it's been taken over by the big management houses, marketing houses, been taken over by the big groups like KPMG, like Arthur Anderson. It's a huge money-building operation now. I think maybe it's the word "corporate."

When I was part of the architects of this responsibility business movement, that was so different; that was an alternative to the International Chamber of Commerce, it was a traders' alliance, it had progressive thinkers, progressive academics, it had, you know, people who were philanthropists.

Things happened. We didn't see the whole growth of corporate globalization; we didn't see the immense power of businesses playing, especially in the political arena. We didn't look at the language, the economic language which was about control, which was about everything had to be for the market economy. We were just flowering around on our own thinking and so we took our eyes off the ball and when we put it on the ball again we thought, "you know, it's been hijacked, this social responsibility in business"; and it became *corporate* social responsibility.

And it was a huge money-earner, for these big management companies, like KPMG, like Arthur Anderson, like PriceWaterHouseCoopers, all of those. They were making shed-loads of money by actually doing a system of analysis about how you measure your behavior. But it was no good; it was like this obsession for measurement. It wasn't showing you how you can put these ideas into practice and they never told you it meant a truth—truth that nobody wants to discuss, that if it gets in the way of profit, businesses aren't going to do anything about it. So we still have rapacious businesses, you still have businesses in bed with government, you still have governments' inability to measure their greatness by how they look after the weak and the frail. You still have government's only true measurement of success as economic measurement. And you still have businesses that can legitimately kill, can legitimately have boardroom murder, can legitimately have a slave-labor economy, so that

all of us in the West—primarily in the West, or all of us who are wealthy—are guaranteed a standard of living to which we are used to.

But for me, corporate social responsibility in my life, I don't think it has worked. And that's a shame. Because it's controlled the language and it's hijacked the language.

Morrell, Marcus. "Anita Roddick: Corporate Social Responsibility?" Transcript of video, 5:02. Filmed September 15, 2006. <http://www.globalissues.org/video/733/anita-roddick-corporate-social-responsibility>.

## 2.2 Paul Newman reflects on founding Newman's Own

Newman, Paul and A.E. Hotchner. *In Pursuit of the Common Good*, 197-199. New York: Broadway Books, 2003. [Find this book in a library](#).

I really cannot lay claim to some terribly philanthropic instinct in my base nature. It was just a combination of circumstances. If the business had stayed small and had just been in three local stores, it would never have gone charitable. It was just an abhorrence of combining tackiness, exploitation, and putting money in my pocket, which was excessive in every direction.

Now that I'm heavily into peddling food, I begin to understand the romance of the business—the allure of being the biggest fish in the pond and the juice you get from beating out your competitors. I would like to see the company reach \$300 million in sales, and be able to support new philanthropic initiatives. We were a joke in 1982, but the joke has given away \$250 million so far—so we are a very practical joke.

One thing that really bothers me is what I call "noisy philanthropy." Philanthropy ought to be anonymous, but in order for this to be successful you have to be noisy. Because when a shopper walks up to the shelf and says, "Should I take this one or that one?" you've got to let her know that the money goes to a good purpose. But overcoming that dichotomy has provided us with the means of bringing thousands of unlucky children to the Hole in the Wall Gang Camps.

Since the Connecticut camp opened in 1988, a time when only 30 percent of the children who attended survived, medical progress has been phenomenal, especially in the field of bone marrow transplants; the result is that the percentages have been completely reversed—70 percent of those children who come to camp will now survive; but during the critical time of treatment and recovery we furnish them with much needed respite....

It is also thrilling to note that thirty-five of last summer's counselors were former campers who had overcome cancer and were now taking care of kids afflicted as they were. At the end of last summer's session, a counselor who had been a media major in college, on the basis of her experience at the camp changed her course of studies to pursue a medical career in pediatric oncology....

Another experience last summer, a marvelous African-American girl who told me, "Coming up here is what I live for, what I stay alive for during those miserable eleven months and two weeks is to come up here for the summer."

## 2.3 “Corporate Conscience Survey Says Workers Should Come First”

Strom, Stephanie. “Corporate Conscience Survey Says Workers Should Come First.” The *New York Times* online. May 31, 2006. [http://www.nytimes.com/2006/05/31/business/31charity.html?\\_r=0](http://www.nytimes.com/2006/05/31/business/31charity.html?_r=0).

## 2.4 Corporate Watch Critiques CSR

“What’s Wrong with Corporate Social Responsibility? The Arguments against CSR,” Corporate Watch, accessed November 30, 2014, <http://www.corporatewatch.org/content/whats-wrong-corporate-social-responsibility-arguments-against-csr>.

Like the iceberg, most CSR activity is invisible...It is often an active attempt to increase corporate domination rather than simply a defensive “image management” operation.

CSR is supposed to be win-win. The companies make profits and society benefits. But who really wins? If there is a benefit to society, which in many cases is doubtful, is this outweighed by losses to society in other areas of the company’s operation and by gains the corporation is able to make as a result? CSR has ulterior motives. One study showed that over 80% of corporate CSR decision-makers were very confident in the ability of good CSR practice to deliver branding and employee benefits. To take the example of simple corporate philanthropy, when corporations make donations to charity they are giving away their shareholders’ money, which they can only do if they see potential profit in it. This may be because they want to improve their image by associating themselves with a cause, to exploit a cheap vehicle for advertising, or to counter the claims of pressure groups, but there is always an underlying financial motive, so the company benefits more than the charity.

...CSR diverts attention from real issues, helping corporations to avoid regulation, gain legitimacy and access to markets and decision makers, and shift the ground towards privatization of public functions. CSR enables business to pose ineffective market-based solutions to social and environmental crises, deflecting blame or problems caused by corporate operations onto the consumer and protecting their interests while hampering efforts to find just and sustainable solutions.

### **CSR as Public Relations**

CSR sells. By appealing to customers’ consciences and desires CSR helps companies to build brand loyalty and develop a personal connection with their customers. Many corporate charity tie-ins gain companies access to target markets and the involvement of the charity gives the company’s message much greater power. In our media-saturated culture, companies are looking for ever more innovative ways to get across their message, and CSR offers up many potential avenues, such as word of mouth or guerilla marketing, for subtly reaching consumers.

CSR also helps to greenwash the company’s image, to cover up negative impacts by saturating the media with positive images of the company’s CSR credentials....

A prominent case against Nike in the US Supreme Court illustrates this point. When, in 2002, the Californian Supreme Court ruled that Nike did not have the right to lie in defending itself against criticism, chaos ensued in the CSR movement. Activist Marc Kasky attempted to sue the company over a misleading public relations campaign. Nike defended itself using the First Amendment right to free speech. The court ruled that Nike was not protected by the First Amendment, on the grounds that the publications in question were

commercial speech. The case proceeded to the US Supreme Court. Legal briefs were submitted to the Supreme Court by public relations and advertising trade associations, major media groups, and leading multinationals, arguing that if a company's claims on human rights, environmental and social issues are legally required to be true, then companies won't continue to make statements on these matters.

The submission from ExxonMobil, Monsanto, Microsoft, Bank of America, and Pfizer contended that "if a corporation's every press release, letter to an editor, customer mailing, and website posting may be the basis for civil and criminal actions, corporate speakers will find it difficult to address issues of public concern implicating their products, services, or business operations."

This case simply reinforces the criticism that CSR is nothing more than a PR exercise. Corporations would not be so concerned about potential legal actions if they valued truth, transparency, and accountability as much as they claim.

### **CSR is a strategy for avoiding regulation**

CSR is a corporate reaction to public mistrust and calls for regulation. In an Echo research poll, most financial executives interviewed strongly resisted binding regulation of companies. Companies argue that setting minimum standards stops innovation; that you can't regulate for ethics, you either have them or you don't; and that unless they are able to gain competitive advantage from CSR, companies cannot justify the cost.

Companies are essentially holding the government to ransom on the issue of regulation, saying that regulation will threaten the positive work they are doing. CSR consultancy Business in the Community supports corporate lobbying against regulation, arguing that "regulation can only defend against bad practice—it can never promote best practice." These arguments, however, simply serve to expose the sham of CSR. Why would a "socially responsible company" take issue with government regulation to tackle bad corporate practice?

...The argument that regulation would hinder voluntary efforts on the part of the company to improve their behavior has been readily accepted by a government keen to avoid its regulatory duties when it comes to curbing corporate power. The UK Department for International Development (the department charged with tackling global poverty...) dismissed the idea of an international legally binding framework for multinational companies saying that it would "divert attention and energy away from encouraging corporate social responsibility and towards legal processes." As this quotation shows, without any evidence for its effectiveness, the government is choosing CSR over making corporate exploitation and abuse illegal.

## 2.5 "Leading Organizations Build Case for Green Infrastructure"

"Leading Organizations Build Case for Green Infrastructure," *The Nature Conservancy*, accessed June 11, 2013, <http://www.nature.org/newsfeatures/pressreleases/leading-organizations-build-case-for-green-infrastructure.xml>.

Research by experts from industry and an environmental organization finds that incorporating nature into man-made infrastructure can improve business resilience—and bring additional economic, environmental, and socio-political benefits.

Experts from The Dow Chemical Company, Shell, Swiss Re, and Unilever, working with The Nature Conservancy and a resiliency expert, evaluated a number of business Case

Studies, and recommend in their newly published White Paper that green infrastructure solutions should become part of the standard toolkit for modern engineers.

Green infrastructure employs elements of natural systems, while traditional gray infrastructure is man-made. Examples of green infrastructure include creating oyster reefs for coastal protection, and reed beds that treat industrial wastewater.

“Instead of thinking about independent solutions, we must look at integrated systems,” said Andrew Liveris, Chairman and Chief Executive Officer of Dow. “Natural systems not only serve multiple functions, but have multiple benefits—often requiring less capital and less maintenance while promoting biodiversity that we all enjoy.”

“Green infrastructure can bring benefits for companies, for communities and for the environment,” said Peter Voser, Chief Executive Officer of Royal Dutch Shell plc. “It can be cheaper, provide new opportunities for engagement with stakeholders, and create wildlife habitats. Green infrastructure should be part of mainstream business thinking.”

“Protecting nature and the services it provides to people and business is one of the smartest investments we can make,” said Mark R. Tercek, president and CEO of The Nature Conservancy.

“This is the case whether we are talking about the production of clean, abundant freshwater, protection from storms, or healthy and productive soils. Green infrastructure solutions also provide many co-benefits, such as wildlife habitat, and typically appreciate over time, rather than depreciate as happens with gray infrastructure.”

**Union Carbide Corporation (subsidiary of The Dow Chemical Company) uses constructed wetlands to treat wastewater near Seadrift in Texas.**

This 110-acre (approximately 44.5-hectare) engineered wetland was designed to consistently meet regulatory requirements for water discharge from the manufacturing plant, and has operated successfully for over a decade.

**Petroleum Development Oman LLC (PDO) uses constructed wetlands to treat produced water from oilfields in Oman.**

The Nimr oilfields, in which The Shell Petroleum Company Ltd is a joint venture partner, not only produce oil, but also more than 330,000 m<sup>3</sup> of water per day. PDO built the world’s largest commercial wetland, and it treats more than 30% (or 95,000 m<sup>3</sup> per day) of the total produced water. This volume would normally require extensive infrastructure to treat and inject the water into a subsurface disposal well. As gravity pulls the water downhill, reeds act as filters, removing oil from the water. The oil is eaten by microbes that naturally feed on hydrocarbons underground. Oil content in the produced water is consistently reduced from 400 mg/l to less than 0.5 mg/l when leaving the wetlands.

Power consumption and CO<sub>2</sub> emissions are 98% lower than they would have been with the alternative man-made solution. Also, the wetlands are providing habitat for fish and hundreds of species of migratory birds.

*The Nature Conservancy* is a leading conservation organization working around the world to protect ecologically important lands and waters for nature and people. The Conservancy and its more than 1 million members have protected nearly 120 million acres worldwide.

## Synthesis Questions

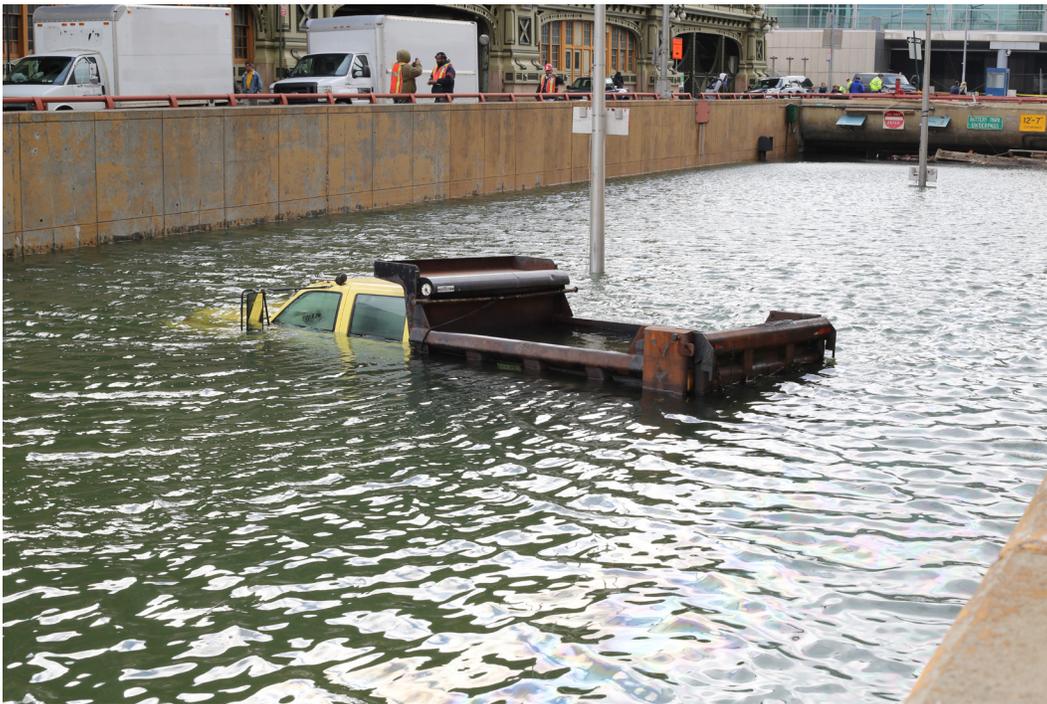
1. Are there companies you can name whose social responsibility actions you admire and trust? What do they do that inspires you?
2. Are there companies you can name whose social responsibility actions you would not trust, or even doubt? Which companies are they, and why do they fail to convince you?
3. Would you like to work in the field of CSR? Why or why not?

## Endnotes

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## Chapter 3

# Climate Change



*Source: Timothy Krause, (CC-BY 2.0, 2012)*

*Figure 3.1 In 2012, Hurricane Sandy devastated New York City and surrounding areas, leaving hundreds of thousands of area residents without electricity or public services for weeks, and leading to the death of 90 citizens. Could continued climate change lead to an increase in catastrophic weather events of this nature?*

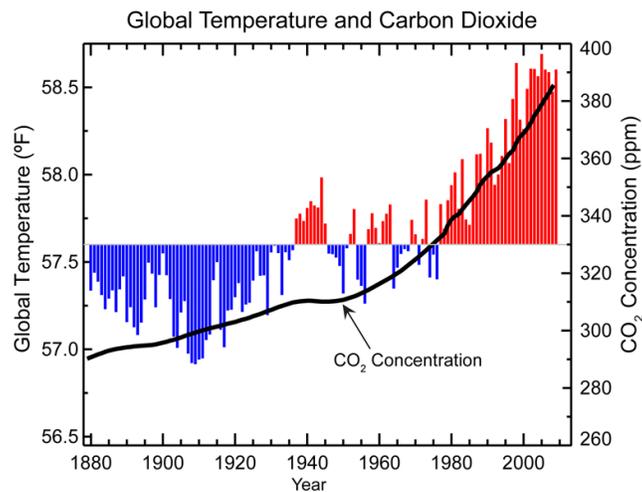
## The Threat of Climate Change

Climate change is perhaps the most important problem facing the world's citizens today. In the consensus view of scientific experts, climate change—in particular as manifested through global warming—is likely to produce disastrous social and environmental catastrophes in this century. For example, certain low-lying Pacific islands are in danger of being inundated by rising sea levels. Another fear is that deserts in Africa and the Middle East will not only grow rapidly in size, but eventually will become inhospitable to human and animal life as temperatures rise. Yet another major concern is that the hurricanes and

typhoons that regularly pound the world's coastlines will reach ever-greater levels of destructive power.

Despite these risks, neither the United Nations nor the world's governments have yet implemented a clear and convincing strategy to fight climate change. Virtually all climate experts agree that the key to stopping or even slowing global warming lies in the urgent reversal of the long-term trend toward increasing atmospheric concentrations of carbon dioxide (CO<sub>2</sub>). Although there have been many proposals to curb the growth of CO<sub>2</sub> emissions, it is not yet clear how a global reduction in CO<sub>2</sub> can be achieved. One major roadblock in this effort is that a few of the world's largest emerging economies, notably those of India and China, are responsible for a large proportion of current global CO<sub>2</sub> emissions, but these countries are not yet willing to agree to mandatory limits. Faced with their reluctance, the United States, the world's second-leading producer of global warming gases, has also refused to commit to mandatory reductions in CO<sub>2</sub>. In the United States' view, mandatory commitments must be accepted by all major economies in order to have a real impact. However, in November 2014 the first signs of China-U.S. cooperation on climate change were witnessed when the countries formally announced a mutual commitment to reduce carbon emissions by 2028.<sup>1</sup>

In this chapter, you will be asked what kind of action a major corporation should take in fighting global warming. Should the corporation spend a lot of money and try to be an industry leader in fighting global warming, or does it make more sense to take smaller, more symbolic actions?



Source: NOAA (National Oceanographic and Atmospheric Administration), 2009, public domain

Figure 3.2 Global records of average temperature and carbon dioxide (CO<sub>2</sub>) concentration show that as CO<sub>2</sub> levels have increased over the past century, so have global temperatures.

## Basic Terminology

What is generally called *climate change* or *global warming* in the popular media is referred to by scientists as *anthropogenic climate forcing*. *Anthropogenic* means *man-made* and specifies that they are talking about global warming that is caused by human activity and not by natural variations in temperature. The global temperature of the earth has varied continuously since the birth of the planet, and even today, some portion of that variation

can still be attributed to unpredictable increases and decreases in the amount of solar radiation the Earth is receiving from the sun.<sup>2</sup>

*Climate forcing* refers to the effect of human activities in pushing the natural variation of the earth's temperature in one direction or another. From this perspective, *global warming* is an imprecise term because some of the observed warming of the earth's temperature may also be due to natural causes or natural variation. Most press commentators prefer to use the term *climate change* because many of the negative impacts of global warming will be the product of changes in weather patterns. There is thus more to climate change than increased temperatures, and it is even possible that some areas of the planet could experience cooling of temperatures (for example, it has been postulated that continued global warming could disrupt the Gulf Stream, which brings warm Caribbean waters to Europe—thereby leading to much colder European winters).<sup>3</sup>

Despite these caveats, we will fall back on use of the more common terms, *climate change* and *global warming* because they are so widely used by ordinary citizens and policymakers.

## Causes: Greenhouse Gases

It is generally agreed that the primary cause of man-made global warming is the accumulation of greenhouse gases (GHGs) in the atmosphere. These gases act as a sort of invisible blanket around the earth, holding in heat and preventing it from radiating out into space. The most important greenhouse gases are carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (NO<sub>2</sub>) and ozone.<sup>4</sup>

Carbon dioxide has been a particular focus of anti-global warming efforts. Concentrations are measured in parts per million or PPM (indicating how many molecules of the gas are present in one million molecules of air). The current concentration of CO<sub>2</sub> in the atmosphere is approximately 395 to 400 PPM, and CO<sub>2</sub> emissions are increasing at a rate of about 3% every year. As a result, human activities currently produce emissions of roughly 35 billion tons of CO<sub>2</sub> per year, a 54% increase over 1990 levels.<sup>5</sup>

Prior the start of the industrial revolution, around 1780, it is estimated that global CO<sub>2</sub> concentrations were approximately 280 PPM. In 1958 when CO<sub>2</sub> emissions began to be precisely measured for the first time, the atmospheric concentration was approximately 315 PPM. By 1990, CO<sub>2</sub> emissions were growing rapidly, and in 2013, occasional measurements of over 400 PPM began to be recorded for the first time, suggesting that a potentially dangerous threshold had been reached.<sup>6</sup> It is widely feared that concentrations of 450 PPM or higher would be associated with a global average temperature increase in excess of 2 degrees Celsius, which is considered by many experts to be the threshold beyond which the Earth's human population is likely to suffer potentially catastrophic effects. As a result, much of the worldwide effort to fight global warming has been focused on reducing the increase in CO<sub>2</sub> emissions so that global levels can be kept beneath 450 PPM. However, if nothing is done, some projections suggest that, by the year 2100, CO<sub>2</sub> could range as high as 540 PPM to 970 PPM.<sup>7</sup> At such high concentrations, scientists fear that climate change could reach a "tipping point," beyond which temperatures and chaotic weather patterns could accelerate wildly out of control.

It should be noted that, even though most public debate concerns CO<sub>2</sub>, it is not the only significant GHG. Methane, in particular, also has a potentially important impact on future global warming. In fact, methane is 23 times more powerful than CO<sub>2</sub> in terms of its

warming effect (that is, methane traps more heat than CO<sub>2</sub>).<sup>8</sup> Some experts argue that the world should focus more on curbing methane than on CO<sub>2</sub>, largely because it seems easier to control methane emissions without undertaking the major costs and expenses that are demanded by reduction of CO<sub>2</sub>.

Despite the ongoing controversy over whether methane deserves more attention, the primary concern of policy-makers continues to be CO<sub>2</sub>. One reason for this focus is that CO<sub>2</sub> lasts much longer in the atmosphere than methane does (methane decomposes in 15 to 20 years, whereas CO<sub>2</sub> can remain for 50 to 75 years), but another reason is that CO<sub>2</sub> emissions are linked to civilization's relentlessly increasing use of energy, which seems much more challenging to control. Methane is generated primarily by decomposing garbage, by extraction of natural gas, and most colorfully, by the belching and flatulence<sup>9</sup> of agricultural animals. Some people find it hard to believe that the burping of cows can lead to a risk of global warming, but agricultural generation of methane is actually quite significant. In addition to the belching of ruminants, the enormous amounts of animal manure generated by agriculture also create significant methane emissions.<sup>10</sup> However, current technologies allow for a more optimistic view on reducing methane emissions. For example, landfills for garbage and refuse are now commonly fitted with methane-capturing devices that not only prevent the methane from escaping into the atmosphere, but they even allow the methane to be used to generate clean energy.

Given the importance of controlling CO<sub>2</sub> in the battle against climate change, it has become commonplace for policymakers to speak in terms of controlling "carbon" (note that carbon is part of not only the CO<sub>2</sub> molecule, but also the CH<sub>4</sub> molecule, as well as being present in atmospheric soot, which is also considered a major contributor to warming). Thus, when climate economists are trying to measure the average CO<sub>2</sub> emissions produced by an individual, company, or country they often refer to the relevant *carbon footprint*.<sup>11</sup> When policymakers discuss the possibility of discouraging CO<sub>2</sub> emissions by taxing them, they commonly refer to this as a *carbon tax*.<sup>12</sup>

The primary sources of CO<sub>2</sub> emissions are the burning of coal, oil, and natural gas. Every time you drive in a car or fly in an airplane, the car's or the airplane's engine burns gasoline to create energy, thereby producing greenhouse gases. When you use electricity to operate devices or appliances like electric lights, televisions, or computers, the electricity they use was most likely generated in a power plant through the burning of coal, oil, or natural gas (though it is true, of course, that a small but increasing percentage of electricity generation is coming from solar and wind power).

## Solutions and Responses: Mitigation, Adaptation and Geo-Engineering

### Mitigation

The long term solution to global warming is for mankind to further develop renewable or "clean" forms of energy, such as hydropower, solar power, and wind power, which do not generate GHG emissions. However, with the exception of hydropower, renewable methods produce energy at prices that are currently so much more expensive than energy derived

from coal, oil, and gas that it seems very unlikely that many countries will switch over rapidly to clean energies.

One well-established form of energy production, nuclear, appears to meet the need for reasonably cheap and plentiful energy produced without generating GHG emissions, but nuclear energy has other strong disadvantages. Nuclear power plants use the controlled fission of radioactive uranium to heat water into steam, which then turns turbines to generate electricity. In their daily operations, nuclear power plants do not produce CO<sub>2</sub>. However, when the uranium fuel is depleted, it remains dangerously radioactive and must be disposed of carefully.

Even more disturbing, from the public's point of view, is the danger associated with accidents at nuclear power plants, such as the 1986 Chernobyl disaster in Ukraine, or the 2011 Fukushima Daiichi disaster in Japan. Though such accidents are rare, they can result in the release of highly toxic radioactivity into the atmosphere, which poses both short- and long-term health risks for the surrounding population, and even for distant populations. Following the Fukushima disaster, Germany decided to phase out all use of nuclear energy (in 2010, 17% of Germany's energy came from nuclear plants).

Meanwhile, however, over 400 nuclear plants continue to operate in 31 countries. A few countries, such as France, Belgium, and Slovakia, derive most of their energy from nuclear plants. Given that such plants can yield a great deal of energy but they do not produce GHGs, they pose a great dilemma for people who are concerned about global warming. On one hand, additional nuclear plants could satisfy the world's demands for more energy without producing GHGs. On the other hand, a major expansion of nuclear energy production would increase the risk of accidents, which could release dangerous levels of radioactivity. Although some prominent climate change activists, most notably the respected former NASA scientist James Hansen, have called for increased use of nuclear energy as the only realistic way of limiting climate change, such arguments have yet to convince most environmentalists.

Therefore, most experts do not believe that there is any easy fix that will be readily available in the near future to solve the problem of global warming. Consequently, most experts believe that humans should focus on strategies of *mitigation*, or reducing the negative impacts of global warming until technological progress makes alternative forms of energy cheaper.<sup>13</sup> When solar or wind power becomes cheap and powerful enough to permit a worldwide move to clean energies, we will have solved the CO<sub>2</sub> problem. However, that point now seems several decades away, possibly even longer.

In the meantime, how do we mitigate the danger of global warming? The key strategy is to gradually reduce our dependence on energy that emits GHG. As we will see, governments all over the world have committed themselves to reducing the amount of GHG each nation emits. They do this by reducing energy consumption and by gradually moving toward increased usage of clean energy. For example, when consumers purchase electronic appliances that use less electricity, or when they switch from cars with gasoline engines to hybrid engines that generate fewer GHGs, the countries in which those consumers live gradually reduce the growth of GHG emissions.

Governments everywhere, from national to city and local administrations, are seeking ways to conserve energy and to encourage consumers to use less energy. Since some companies and countries have had more success in reducing GHG emissions, one policy that has been promoted is to create a market-based mechanism for encouraging reductions in

GHG. These mechanisms have alternatively been referred to as *cap and trade* or *carbon offset* systems.<sup>14</sup>

Under a cap and trade system, a government sets a maximum limit on the amount of emissions a company is allowed—the so-called cap. Cap and trade was used in the United States to control acid rain by limiting emissions of sulfur dioxide, but it has never been adopted for controlling climate change by limiting emissions of carbon dioxide.<sup>15</sup> The “trade” part of the equation comes in when a company wants, for business reasons, to go beyond the allowed limit. It can do so by trading, or purchasing unused permits from a company that had stayed below its limit. In this way, companies are encouraged to reduce their emissions—because they can sell their unused allowances—while companies that find themselves unable to do so can obtain a measure of flexibility by buying permits.

In 2005, the European Climate Exchange was created in Europe to permit trading of carbon emissions permits. This system worked in Europe because many European countries had committed themselves to mandatory carbon emissions caps under the Kyoto Protocol.<sup>16</sup>

Similar to the cap and trade system is the use of carbon offsets, which is a voluntary system. With carbon offsets, companies that continue to generate carbon emissions pay other companies or organizations to reduce their emissions. In this fashion, the overall amount of carbon emissions between the two companies should decrease or remain stable. Common carbon offsets include a number of GHG-reduction projects, such as tree plantings, renewable energy expansion, and energy efficiency projects. Even individuals can participate in the carbon offset system. For example, it is well known that one of the easiest ways for an individual to make a negative impact is to take a long airplane flight, because airplane engines produce a great deal of carbon emissions. This can be quite a dilemma, because many people today are very concerned about global warming, yet they still love to travel. One solution is to purchase a personal carbon offset when you take a plane trip. In this way, you can keep from increasing your personal carbon footprint. Al Gore is one prominent individual who travels in this fashion.

## Adaptation

Adaptation involves preparing people and countries to better resist the negative impacts of climate change.<sup>17</sup> One of the most widely-discussed risks associated with increased global warming is the increased intensity of hurricanes. The harmful impact of such hurricanes can be augmented by a gradual increase in sea level, also associated with global warming.<sup>18</sup> For example, it was a combination of a severe hurricane with an unusually high tide that resulted in the devastation and flooding of New York City by Hurricane Sandy in 2012. Adaptation by New York City might involve preventing future encroachment upon the city of hurricane sea surges by building barriers similar to the massive ocean barriers that have been built in the Netherlands.

## Geo-Engineering

Often relegated to the realm of science fiction or fantasy by experts, geo-engineering responses continue to be discussed as a possible fallback option if, as seems increasingly likely, humans are unable to reverse the long-term growth of carbon emissions in the twenty-first century. Geo-engineering involves using a number of novel or advanced technologies to reduce carbon emissions or lower the planet’s temperature.<sup>19</sup> One example is the massive planting of trees, because trees drain CO<sub>2</sub> out of the atmosphere, thereby creating

a large “carbon sink” and reducing the level of atmospheric CO<sub>2</sub>. Another solution, more far-fetched, would be to spray inert sun-blocking gases high into the stratosphere, creating a sort of “global sun-block.” Some concerned scientists are even more frightened by the thought of ill-advised geo-engineering of this nature than they are of global warming itself.

## The United Nations and the IPCC

In light of the scientific community’s consensus on the possible danger of continued global warming, in 1988, the United Nations created a special agency to coordinate the world’s efforts to control climate change: the Intergovernmental Panel on Climate Change (IPCC), which brought together the world’s top scientific and public policy experts.<sup>20</sup> The IPCC is a large coordinating committee of scientists and government representatives. More than 2500 climate experts are affiliated with the IPCC and about 350 representatives from 120 countries regularly attend the IPCC’s periodic meetings. Although the IPCC does not directly conduct research itself, it summarizes current global warming research into a special document that can be used by governments around the world, the *IPCC Summary for Policymakers*.<sup>21</sup>

The IPCC has also produced a few larger, comprehensive surveys called “Assessment Reports,” which seek to consolidate the results of all global warming research to date. The first assessment report was published in 1990 and concluded that man-made emission of greenhouse gases was accelerating global warming. It was estimated that the projected growth in CO<sub>2</sub> emissions would lead to a future warming throughout the twenty-first century on the order of 0.3°C per decade.<sup>22</sup>

## The United Nations Framework Convention and the Kyoto Protocol

In 1992, at the so-called Earth Summit in Rio de Janeiro, Brazil, the United Nations undertook concerted action for the first time to fight the danger of climate change, with the United Nations Framework Convention on Climate Change (also known as the Framework Convention, FCCC or the UNFCCC). The UNFCCC eventually was signed by some 190 countries, with 37 countries agreeing to legally-binding limits.<sup>23</sup>

The UNFCCC is an international treaty that is continually updated. That is why it is called a “framework convention”: The basic framework remains the same, but the specifics of what the signing countries intend to achieve is periodically refined in successive revisions, and these subsequent agreements are named after the city where the main negotiating conference takes place. Recent updates to the UNFCCC have occurred, notably, at Doha, Cancun, and Copenhagen, but the most historic of the UNFCCC updates still remains the famous Kyoto Protocol, the first time that the world’s nations agreed to commit themselves to controlling and reducing carbon emissions.

## Dissenting Voices and Public Opinion

Despite the increasing alarm with which the scientific consensus pressures policy-makers for convincing solutions, a vocal minority of politicians and scientists has continued to attack the consensus viewpoint. These global warming skeptics have often been derided as irrational and unscientific “deniers” by the media. Many of these so-called deniers, it has been claimed, are actually paid or otherwise indebted to large oil companies and other corporate producers of CO<sub>2</sub>. However, many of these skeptics have impressive academic credentials, and they have managed to convince a growing number of policymakers and citizens that the consensus viewpoint is either erroneous, alarmist, or overstated.

Some of the critics continue to argue that they are not convinced that increased levels of CO<sub>2</sub> will inevitably lead to higher global temperatures, but this is certainly a marginal viewpoint, and very few respected scientists go so far. Notably, Danish economist Bjørn Lomborg, perhaps the most famous representative of the skeptics, admits that global warming is a real and serious threat, but argues that the scientific community is pressing for excessively costly solutions that will not help in the long run. Lomborg believes that sharp reductions in carbon emissions, the principal prescription issued by the IPCC, could be counterproductive, because this would not do much to reduce global warming but could have severe negative impacts on the global economy. Lomborg favors a modest reduction in carbon emissions coupled with heavy investments in scientific research for alternative means of energy.<sup>24</sup> Other critics, such as Richard Lindzen, professor of climatology at MIT, question the scientific basis of the consensus view that disastrous warming is an inevitable consequence of increased CO<sub>2</sub> levels.<sup>25</sup>

## Case Study: UBS Seeks an Appropriate Global Warming Policy

In 2005, the Union Bank of Switzerland (UBS), one of the world’s largest financial services institutions, was trying to decide what action to take on global warming. Many of UBS’s large competitors, notably Hong Kong Shanghai Bank Corporation (HSBC), had made significant public commitments to help mitigate global warming. UBS wanted to do the right thing, and it also wanted to keep up with its competitors, without spending too much money. UBS was determined to take some concrete action to fight global warming, but it was not easy to decide how much of a commitment it should make—a major commitment, an average commitment, or merely a symbolic commitment.

Some of the steps that UBS could take would actually produce long-term cost savings for UBS, and therefore these actions were clearly in UBS’s interest. For example, UBS could reduce the number of airplane flights taken by its top executives, replacing in-person meetings with international video-conferencing. Such a step would not only reduce UBS’s carbon emissions, it would reduce the cost of sending executives to foreign locations, which was quite expensive. Despite such potential cost savings, it soon became clear that it would cost money for UBS to be able to say it was taking action against global warming.

## UBS and CSR

At the time of this case, UBS was one of the world's largest financial services institutions, with offices in over 50 countries and more than 70,000 employees. The company was organized into several major divisions, including a leading investment bank and a wealth management operation providing special banking services to very wealthy people. Like many other Swiss banks, UBS catered to a sophisticated, global clientele.<sup>26</sup>

UBS's commitment to CSR and sustainability went far beyond global warming issues alone. In general, UBS believed that CSR was more than just a business issue; it was also a moral issue and a matter of company values. Consequently, UBS created a special Corporate Responsibility Committee, which was composed of many of the bank's senior executives. Interestingly, however, UBS did not measure the impact of its CSR activities. In contrast, it carefully measured the impact of its sponsorship activities on the UBS brand. Thus, UBS seemed to draw a distinction between community involvement, from which it expected returns in marketing awareness and public relations, and CSR, which was to be pursued for its own good.<sup>27</sup>

On the industry level, UBS had begun to develop expertise in analyzing investment funds for their social and environmental responsibility. On the local level, UBS believed in supporting communities through cash donations to educational and environmental projects of \$38 million per year. As for UBS's own overall environmental impact, UBS audited its own impact by having an independent inspector subject UBS's activities to an ISO 14001 environmental audit, the world's leading standard for measuring environmental performance.<sup>28</sup>

## UBS Competitors' Actions on Global Warming

In researching possible options for its anti-global warming strategy, UBS reviewed the actions taken by its chief competitors. Here is what the research revealed:

### HSBC

HSBC, the world's largest bank, was also the banking industry's leader in the battle against global warming. As early as 2004, HSBC announced that it would offset 100% of its greenhouse gas emissions through a variety of market-based mechanisms. Among the beneficiaries of HSBC's offset purchases were a New Zealand wind farm, an Australian waste composter, a German methane reducer and an Indian biomass generator. HSBC's leadership was widely recognized in industry circles, and included a Sustainable Banking Award from the *Financial Times*.

### Citigroup

Citigroup, which operates Citibank, was also one of the world's largest financial services companies, managing over \$1 trillion in assets. Citigroup was tackling global warming by compiling records on energy use at all of its company buildings and then using that information to refurbish many of its facilities so as to reduce energy consumption. Citigroup also committed itself to a 10% reduction in its greenhouse gas emissions to be achieved by 2011.

## Credit Suisse

UBS's main competitor in Switzerland, Credit Suisse had announced that all of its buildings in Switzerland would be greenhouse-gas neutral by 2006. In order to fulfill its commitment to achieving a completely neutral carbon footprint by 2008, Credit Suisse ordered nearly 250,000 tons of carbon credits at a cost of CHF 2.2 million.

## UBS Four Options for Action

After conducting its research and evaluation, UBS settled on four possible scenarios for action on global warming.<sup>29</sup> In the end, it became a question of how much UBS was willing to pay for different levels of reduction of carbon emissions:

Option	Commitment	2012 cost (in \$ millions)	Reduction in CO <sub>2</sub> emissions
1	CO <sub>2</sub> emissions stabilized at 2005 levels	\$2.8–5.0	0%
2	Keep up with competitors	\$3.7–5.9	10%
3	Good public relations	\$6.4–8.6	40%
4	Match industry-leader HSBC	\$9.1–11.3	100%

## Topic for Debate: Appropriate CSR Action on Global Warming

The question you are to debate is as follows: If you could advise UBS on what course of action to take, what option would you recommend?

Take a position specifically on what UBS should do about global warming. You must base your arguments to some extent on the statements and publications of scientific and public policy experts.

The debate positions may be formulated as follows:

### Affirmative

UBS should adopt the more aggressive, powerful, and costly alternative to fighting global warming, by choosing option 1 or 2 from the list.

### Possible Arguments

- Global warming is very serious and all companies should take action.
- UBS is a respected company that will inspire other companies to follow suit.
- All corporations should be part of the solution.
- It will send a message to other financial institutions.
- It will motivate employees by improving perception of their employer.
- It will provide good public relations.

## Negative

UBS should settle for a less-costly and -aggressive alternative, by choosing option 3 or 4 from the list.

### Possible Arguments

- UBS reduction of carbon emissions will have a minuscule effect on global warming.
- Switzerland is not a major source of carbon emissions.
- UBS clients do not choose UBS because of its global warming actions.
- UBS should focus on banking services and not get distracted by CSR or global warming.
- Banks cannot solve the global warming problem alone.
- Symbolic action is acceptable but strong action is unnecessary. Let HSBC win this battle.

## Readings

### 3.1 “We Can’t Wish Away Climate Change”

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### 3.2 “The Climate Science Isn’t Settled: Confident Predictions of Catastrophe Are Unwarranted”

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### 3.3 “Climate Change Worse Than Expected, Argues Lord Stern”

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### 3.4 “Heretical Thoughts about Science and Society”

Dyson, Freeman. “Heretical Thoughts about Science and Society,” in *Many Colored Glass: Reflections on the Place of Life in the Universe*, 43-60. Charlottesville, VA: University of Virginia Press, 2007.

#### **The Need for Heretics**

The public prefers to listen to scientists who give confident answers to questions and make confident predictions of what will happen as a result of human activities. So it hap-

pens that the experts who talk publicly about politically contentious questions tend to speak more clearly than they think. They make confident predictions about the future, and end up believing their own predictions. Their predictions become dogmas which they do not question.

#### **Climate and Land Management**

...My first heresy says that all the fuss about global warming is grossly exaggerated. Here I am opposing the holy brotherhood of climate model experts and the crowd of deluded citizens who believe the numbers predicted by the computer models...

When I listen to the public debates about climate change, I am impressed by the enormous gaps in our knowledge, the sparseness of our observations, and the superficiality of our theories. Many of the basic processes of planetary ecology are poorly understood. They must be better understood before we can reach an accurate diagnosis of the present condition of our planet. When we are trying to take care of a planet, just as when we are taking care of a human patient, diseases must be diagnosed before they can be cured. We need to observe and measure what is going on in the biosphere, rather than relying on computer models...

#### **Oceans and Ice Ages**

We have accurate measurements of sea level going back two hundred years. We observe a steady rise from 1800 to the present, with an acceleration during the last fifty years. But the rise from 1800 to 1900 was probably not due to human activities. The scale of industrial activities in the nineteenth century was not large enough to have had measurable global effects. So a large part of the observed rise in sea level must have other causes...

Another environmental danger that is even more poorly understood is the possible coming of a new ice age... If human activities were not disturbing the climate, a new ice age might already have begun. We do not know how to answer the most important question: Do our human activities in general, and our burning of fossil fuels in particular, make the onset of the next ice age more likely or less likely?

#### **The Wet Sahara**

At many places in the Sahara desert that are now dry and unpopulated, we find rock-paintings showing people with herds of animals...

I would like to ask two questions. First, if the increase of carbon dioxide in the atmosphere is allowed to continue, shall we arrive at a climate similar to the climate of six thousand years ago when the Sahara was wet? Second, if we could choose between the climate of today with a dry Sahara and the climate of six thousand years ago with a wet Sahara, should we prefer the climate of today?

The biosphere is the most complicated of all the things we humans have to deal with. The science of planetary ecology is still young and undeveloped. It is not surprising that honest and well-informed experts can disagree about facts...

## 3.5 UBS Ordered to Pay 1.5 Billion Fine for Fraud

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## Synthesis Questions

1. Are consumers more likely to buy products from companies that are more active in the fight against global warming?
2. Should companies strive to be industry leaders in the fight against global warming?
3. What is the best overall solution or response to the problem posed by global warming?

## Endnotes

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## Chapter 4

# Genetically Modified Organisms (GMOs)



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Figure 4.1 Worldwide concern over GMO and GMO-labeling has made leading GMO-seed producer Monsanto one of the world's most controversial corporations. Here, a pro-labeling activist group is protesting against Monsanto in Columbus, Ohio in 2013.

## What Are Genetically Modified Organisms?

No corporate activity today is more controversial than the production and sale of genetically modified organisms (GMOs; another common abbreviation is GM for genetically modified foods). One company in particular, Monsanto, has become so closely associated with GMOs that it has become the target of worldwide criticism and a number of public protests.

Though news articles and editorials appear daily about public interest campaigns against GMOs, many consumers still are not sure exactly what GMOs are or why they are so controversial. As you walk down the aisle of your local supermarket, you may have noticed package labels that state, “This product does not contain GMOs.” Should you buy such products? Should you prefer them to other products that do not make the same claim?

A GMO is any organism whose genes have been modified unnaturally.<sup>1</sup> “Unnatural” gene modification involves isolating a gene from one species and splicing it into another. For example, this could involve isolating a mildew-resistant gene from one plant and splicing it into a different species of plant in order to create a product that stays fresh longer.<sup>2</sup> In one sense, genetic manipulation is quite ancient. Ever since the origins of agriculture thousands of years ago, farmers have known how to improve crop quality by selectively breeding strains of vegetables, fruit, or grain. However, such hybrids are not GMOs because the process of creating them does not involve the transfer of genes from one species to another.

The term *GMO* refers not only to food products, but also to animals, insects, and medications that have been produced through genetic modification. The first medicine produced through genetic engineering was insulin. Previously, insulin for diabetes patients had been harvested from animals.<sup>3</sup> Introduction of GMO-derived insulin reduced dependence on animals for the creation of this drug, and also reduced the number of negative allergic reactions among diabetes patients who were sensitive to animal-derived insulin. Genetic engineering has been used to develop medicines and treatments for a number of diseases, including cancer. This ability to engineer the genetic make-up of an organism has been referred to as *conscious evolution*.<sup>4</sup>

Genetically modified crops can be designed to provide benefits for producers or consumers. To date, the primary focus has been on improved farming productivity. Most GMO crops available today were created to be resistant to specific pests, pesticides, diseases, or difficult environmental conditions such as flood or drought.<sup>5</sup> For example, one of the most commercially successful genetic modifications for crops is one that makes them resistant to glyphosate, an especially effective herbicide developed by Monsanto and sold under the trademark Roundup, but which is now produced by many other companies.<sup>6</sup> Monsanto has developed seeds for GM crops that are resistant to glyphosate and are therefore marketed as “Roundup Ready.” By using GM crops that are resistant to glyphosate, farmers can control weeds more easily. This allows farmers to increase harvests while using less labor, because there is less need to plow fields once they have been cleared of weeds with glyphosate. Clearing weeds also reduces the presence of insect predators that could diminish crop yields.

One commonly cited example of the potential benefits of GMOs comes from the extensive reliance on GM crops in China, which has allowed China to greatly improve farm productivity.<sup>7</sup> Cotton plants genetically modified to be resistant to local pests are already widely-used in China. By switching to this cotton, use of pesticides has decreased by 80%.

Genetically modified organisms play a larger role in our world than most Americans realize. In the United States today, over 90% of soybean, cotton, corn, and other crops are genetically modified.<sup>8</sup> If you were not aware of the extent of GMO usage, you are not alone. A 2005 survey asked Canadians, Americans, and Britons if they were paying close attention to genetic engineering in their medication and food: Only 9% of Americans reported that they paid close attention to the issue and 31% were somewhat interested, but 25% answered that they had not paid any attention to the issue, and an additional 35% had paid little attention.<sup>9</sup>

Arguably, one of the reasons the public does not know more about genetically modified organisms is that research in the field is primarily conducted by the main companies who develop GMOs, and these companies do not wish to alarm the public.<sup>10</sup> Large corporations have dominated the world of genetic engineering since the Supreme Court ruled that genes could be patented.<sup>11</sup> Patent protection and enforcement by large corporations make it difficult for smaller companies or research firms to enter the genetic modification market. As a result, it is difficult for independent researchers to study patented genes without approval from the companies that own them.<sup>12</sup>

In the view of GMO skeptics, available research on GM food is usually biased in favor of GMOs.<sup>13</sup> It has been alleged that independent researchers who threaten the interests of the large corporations risk losing research funding.<sup>14</sup> The relative lack of independent research makes it more difficult for the general public to arrive at an informed, objective opinion. Many of the articles, websites, and other publications on this topic are biased: They either are produced by corporations that have developed GM foods, or they are published by lobby groups who are strongly opposed to GM foods.

## GMOs and Biodiversity

The impact of GMOs on biodiversity is widely debated. Pro-GMO researchers maintain that if crops are genetically modified for pest resistance, farmers can reduce their reliance on insecticides, so that local fauna, such as birds, rodents, and insects, can flourish in the area. Secondary pests that would have been eliminated through widespread insecticide application are not suppressed by the scaled-back insecticide use permitted by GMOs. Because these secondary pests remain, other small predators—the birds and rodents that feed on the secondary pests—remain viable.<sup>15</sup> In addition, the development of drought-resistant or flood-resistant crops allows arid or flood-prone land to be used for growing crops. This means that less high-biodiversity terrain needs to be converted for farming.<sup>16</sup>

On the other side of the debate, GMO skeptics have argued that up to 75% of plant genetic diversity has been lost since farmers switched to uniform GM crop varieties. In this view, less popular, non-GM seed varieties are being neglected.<sup>17</sup> Moreover, widely used GM crop varieties can spread to neighboring fields and eventually mix in with non-GM crops. A farmer who wishes to continue using a non-GM seed variety, or who desires to maintain the organic status of his crops, must adopt potentially expensive measures to protect his crops from contamination or cross-pollination with his neighbor's GM crops. It has also been argued that the over-popularity of certain GM crops may lead to greater susceptibility to pests and disease.<sup>18</sup> Pests may evolve to target the monoculture of popular and overused crop varieties. Moreover, it has been argued that the evolution of glyphosate-resistant weeds has required farmers to make ever-greater use of glyphosate, the toxicity of which poses dangers for human health.

It has been hypothesized that GM crops can harm insect species that are not pests. Insects that feed on GM crops will carry GM pollen, which may prove toxic in the long term and result in depletion or even extinction of insect populations.<sup>19</sup> The genetic integrity of any plant or insect that lives in close proximity to GM crops can be compromised because gene transfer from one organism to another can occur, and such genes may pose unanticipated risks. GM traits have been found transferred to insects, water life, and soil.

## GMOs and Food Supply

It is frequently argued that GM crops are helping farmers solve the world's hunger problems. Conceivably, GM crops help improve food sustainability, enhance environmental farming methods, and produce more nutritious food. Thus, it is generally accepted that GM crops can yield greater amounts of food (though not in all cases). Since GM crops can be designed to grow at a uniform speed and size, harvesting is simplified and yield is increased.<sup>20</sup> GM crops are commonly engineered to require fewer pesticides and to be planted with no-till methods, thereby decreasing erosion, fuel consumption, and herbicide use. Moreover, GM crops can yield more nutrients. For example, the widely cited example of the GM crop known as Golden Rice illustrates the use of GM techniques to develop food staples with higher-than-usual nutrient levels. Proponents contend that, in the long term, Golden Rice and similarly nutrient-enhanced GM crops can help reduce malnutrition in developing countries. Supporters of GM crops argue that over-regulation of the GMO industry limits the realization of potential benefits from GM food. As a result, consumers in developing countries are deprived of potential public health benefits.

On the other side of the discussion, advocates for organic farming methods argue that sophisticated organic farming can actually produce higher crop yields than GM crops. Proponents of this view argue that world food problems are more often caused by poor distribution rather than a lack of available food. Improving the availability of food through the increased yields of GM crops cannot solve distribution problems. Anti-GMO groups also maintain that GM crops make farmers reliant on corporations that supply seeds and chemicals, thereby perpetuating poverty by yoking farmers into a cycle of dependence.<sup>21</sup>

## The Case for GMOs and against Labeling

Given the above-described debates over the impact of GMOs on food supply and biodiversity, it is clear that there is strong support for GMOs as well as a determined lobby against them. While it currently seems unlikely that any major food-producing nations will outlaw GMOs, a vigorous debate is taking place on the mandatory labeling of foods containing GMOs. Opponents of mandatory labeling contend that GM foods are safe and do not require labels, while proponents maintain that consumers have a right to know what is in their food.

The American Association for the Advancement of Science (AAAS), an organization that promotes scientific integrity and publishes the journal *Science*, has stated that attacks against GMOs and the fight to have them labeled can cause unnecessary alarm among consumers. The AAAS considers fears about GMO safety unfounded.<sup>22</sup> The AAAS has pointed out that other types of natural breeding are universally encouraged and that genetic modification is fundamentally no different and no more harmful than these natural methods.<sup>23</sup> The AAAS argues that since GM foods and non-GM foods are nutritionally equivalent, labeling of GM foods could lead consumers to erroneously believe that GM foods are harmful.

Other opponents of mandatory labeling argue that genetic modification of food is not different from the widely accepted practice of adding fluoride to our water, which does not require labeling under American law.<sup>24</sup> Since labeling would discourage the use of GM ingredients in food products, we would essentially be preventing better food products from

reaching consumers. For example, genetic modifications can eliminate fungal infections in foods that might otherwise cause sickness or lead to expensive food recalls.<sup>25</sup> Greater regulation of GM foods could generate unfounded suspicion of good food products, and this suspicion could hinder further GM development and research.<sup>26</sup>

Unnecessary regulation of GM crops could also cause hardship to farmers. It has been claimed that some farmers have lost income because they cultivated GM crops that had been approved but were subsequently rejected for use as a result of lawsuits or revocation of USDA approval.<sup>27</sup> Likewise, developers of GM crops have faced difficulty in trying to research and develop new seed varieties because regulations limit their ability to plant test crops outdoors.

## The Case against GMOs and for Labeling

The anti-GMO lobby has called for labeling of all GMO food products so that consumers can make informed choices about whether to avoid the potential harm from GMOs. One widely publicized and highly controversial study published in 2012 examined laboratory rats that had consumed Roundup Ready corn—including both corn that was Roundup Ready but had *not* been sprayed with Roundup, and corn that was Roundup Ready and *had* been sprayed with Roundup. The researchers observed death rates two to three times higher among the Roundup Ready-fed rats than in the control group, in addition to major kidney impairments.<sup>28</sup> This research was notable because most research conducted by corporations that develop GM foods is based on a ninety-day observation period. However, the study by Séralini et al. tracked the research animals for a period of two years, allowing for observation of long-term effects. The authors of this study pointed out that no regulatory body requires GM foods to be tested for consumption on animals before being sold to humans. Many GMO detractors seized upon this study as evidence that GM food is potentially dangerous. Since its publication, however, the study has been challenged by other scientists and was formally retracted by the publishers of the scientific journal in which it appeared.<sup>29</sup>

Another study examined pregnant mothers who ate GM corn, which had been modified with a pesticide-resistant gene that has been shown to cause tissue and autoimmune damage in mice.<sup>30</sup> The study revealed that 93% of pregnant mothers tested positive for a toxin from the pesticide-resistant gene in their blood. The toxin also showed up in 80% of the umbilical blood of their babies. In addition, the authors of this study mention that farm laborers who work with this type of GM crop report serious allergies, and that animals grazing on these GM crops have higher death rates.

As mentioned above, independent research on GM food is difficult to conduct and is therefore scarce. However, there are a small number of studies that do suggest that GM food can cause impaired liver and kidney function as well as impaired embryo development. In addition, it has been conjectured that GM foods cause antibiotic resistance, and that they provide less nutrition because they may have lower levels of naturally occurring nutrients or hormones.<sup>31</sup> Additionally, GM foods are alleged to pose higher risks for allergy sufferers. Clear labeling would allow individuals who may be especially susceptible to the harms of GMOs to avoid GMO foods.

Many anti-GMO groups argue that not enough research has been done to know if GM crops are safe for human consumption.<sup>32</sup> Groups like Greenpeace and Friends of the

Earth have warned consumers that there is no solid evidence that GM food is safe for consumption.

At present, the only way a consumer can be confident that he or she is not purchasing GM food is by buying food with an “organic” label: The USDA only permits this label to be used on food products that are GM free.<sup>33</sup> As an alternative, some companies voluntarily label their food as GM free to indicate that it has no traces of GM ingredients. This label is not regulated, however, and no inspection is conducted to ensure that all foods with this label are in fact free of GM ingredients.

According to a 2011 study of over one million Americans by the Mellman Group, 93% of poll respondents said they would like food with genetically engineered ingredients to be labeled as such.<sup>34</sup> Approximately 75% of poll respondents were worried about the health effects of GM food, and 37% of respondents feared increased risks for cancer or allergies from these foods. Among those concerned about GM food, 26% thought these foods were not safe to eat and 13% worried about environmental problems caused by GM crops and foods. Forty percent of respondents thought that the fruits and vegetables they purchased were likely genetically modified; half of respondents said they would not eat modified veggies, fruits, and grains. Two-thirds of people surveyed claimed that they would not eat genetically modified meat.<sup>35</sup>

Labeling is admittedly difficult to introduce, due to both the cost and the complexity of food production. Many food companies today may be unaware of the extent to which their products contain GM ingredients. Consequently, in order to be effective, labeling must start at the very root of the food chain, when a GM seed is planted and grown into a GM crop.

## GMO Labeling Around the Globe

While GM foods are freely grown in the United States, other regions, most notably the European Union, enforce strict regulations on GM crops.<sup>36</sup> The European Food Safety Authority examines three aspects of GM food: genetic composition of the food, risk, and environmental impact. The European Union requires labeling because it believes that consumers should be able to make informed choices.<sup>37</sup> Labeling of all GM food is mandatory in the European Union and in over 60 countries around the world, including China, Japan, and Australia.<sup>38</sup> In other countries, such as Canada, labeling remains voluntary.<sup>39</sup>

Australia has imposed a strict regulatory framework for dealing with GMOs. Notice must be given of all applications for licensing of new GMOs. Following this, invitations to comment on these applications are widely published and feedback is invited from individuals, nonprofit organizations, researchers, and experts in the field. A separate regulatory body, staffed with experts in the field of GMO research, has helped ensure the success of this program by maintaining high standards for reporting and debate. Unfortunately, Australia’s regulatory system has not worked as smoothly as expected. Lobbying by strong interest groups continues to delay the release of some approved GMO products. However, proof of the regulatory system’s effectiveness has been shown through changed public opinion toward GMOs in Australia. As public education has increased and transparency about GM products has improved through this regulatory process, attitudes toward GMOs have become more positive.<sup>40</sup>

The Philippines contemplated introduction of mandatory labeling over the last decade and decided against it. A study of Filipino food production and the retail system concluded that labeling for GMO foods would result in cost increases of up to 12% for manufacturers. If any of this increase were passed along to consumers, in a country where 54% of the average household budget is already allocated for food, consumers would be less likely to buy the labeled GMO products.<sup>41</sup>

## Approaches to Labeling in the United States

A number of reasons have been advanced for strengthening regulation of GMOs in the United States, most notably that American farmers have suffered from the misuse of GM food products. In 2008, the United States was responsible for about 50% of GM crops planted globally, including 80% of GM corn, 92% of GM soybeans, and 93% of GM canola. It has been reported that over 70% of processed food sold in the United States contains GMOs.<sup>42</sup> In the past, accidental release of unapproved GE crops into the market has led to trade embargos by other countries that enforce more stringent control of GM products, resulting in losses for American farmers.<sup>43</sup>

Several states have begun independently looking at mandatory labeling for GM foods within the state. Connecticut, Hawaii, and Maine passed bills in 2013 to require various levels of labeling for GM foods. Hawaii's legislation is the most detailed, requiring labels on GM foods imported from outside the state of Hawaii, as well as labels related to the sale of GM fish products. In 2013, New Hampshire's House of Representatives proposed a GM labeling system, which was approved for further study by the State Senate in January 2014.<sup>44</sup>

As of October 2013, bills for various degrees of mandatory labeling had been proposed and were awaiting a vote in Alaska, Arizona, Illinois, Indiana, Iowa, Massachusetts, Minnesota, Missouri, Nevada, New Hampshire, New Jersey, New York, Oregon, Pennsylvania, Rhode Island, Tennessee, Washington, and West Virginia. Bills for mandatory labeling had been proposed and voted down in Colorado and New Mexico. A bill for mandatory labeling was introduced in Florida but died in committee, and a bill for labeling was introduced in Maryland but was subsequently withdrawn as a result of an unsupportive report from the state's Health and Government Operations committee.<sup>45</sup>

One of the most publicized campaigns for labeling was California's Proposition 37. Proposition 37 required labeling of all GM food, and it forbade food producers from using the word "natural" on any food containing GM ingredients. Ultimately, it was defeated 53% to 47% in the 2012 elections. Had it passed, California would have been the first state to adopt anti-GMO legislation. The California Right to Know campaign raised major support, but a strong "No on Prop 37" campaign was also mounted with massive funding from corporations such as Monsanto and Hershey's.<sup>46</sup> While this bill was ultimately unsuccessful, noted author and food activist Michael Pollan has pointed out that Proposition 37 started a national conversation about food and food safety, gave the public an opportunity to vote about their confidence in the food industry, and made the public increasingly aware of lack of transparency within the food industry.<sup>47</sup>

## Topic for Debate: To Label or Not to Label?

For this debate, you are assigned to the role of owner of Just Food, a large (fictional) supermarket chain in the southwestern United States. A bill has just been tabled in your state's House of Representatives to require mandatory labeling of all food products containing GMOs. Your major competitor, organic-loving Soul Foods, has come out publicly in support of this bill. Various lobby groups for both sides of the debate have approached you for support, and you must now decide whether you and your supermarket chain will take a public stand on the issue of GMO labeling.

The CEO of Just Food, Emily Progresso, is very mindful of the potential public relations benefits of coming out in favor of mandatory GMO labeling. On the other hand, Ms. Progresso has a degree in agricultural science and she is a very sincere person who does not want to take a position just for the sake of expediency; she would prefer to think she is doing the right thing. She asks two of her executives to prepare briefs for an internal debate about the topic.

### Affirmative

Just Food should publicly support mandatory labeling of all products that contain GMOs.

#### Possible Arguments

- GMOs are not adequately researched and may be harmful for human consumption.
- Consumers have a right to know what they are purchasing for consumption.
- GMOs reduce plant biodiversity.
- Taking a stance against labeling will risk a consumer boycott or shift of consumer preferences to our competitor, Soul Foods.

### Negative

Just Food should not publicly support mandatory labeling of all products that contain GMOs.

#### Possible Arguments

- GM foods are as nutritious as, or even more nutritious than, conventional foods.
- GMO use reduces a number of environmental problems.
- Genetic modification occurs naturally.
- Unnecessary labeling creates consumer fear and suspicion.

## Readings

### 4.1 Food Safety Fact Sheet: Genetically Engineered Food: The Labeling Debate

Center for Food Safety. “Genetically Engineered Food: The Labeling Debate.” *Food Safety Fact Sheet*. April 2013. <http://www.centerforfoodsafety.org/fact-sheets/1370/genetically-engineered-food-the-labeling-debate#>.

If you want to know if your food was irradiated or contains gluten, aspartame, high fructose corn syrup, trans fats or MSG, you simply read the label. But if you want to know if your food was genetic engineered, you’re not going to find any information on the package.

Why? Because despite the fact that 64 countries around the world (including all European Union member states, Japan, Australia, Brazil, Russia, and China<sup>1</sup>) grant their citizens the right to know what is in their food, the United States continues to ignore consumer demands to label GE foods. Numerous polls<sup>2</sup> have indicated that more than 90 percent of US consumers believe GE foods should be labeled, yet the US has refused to grant its citizens this basic right.

#### **Unlabeled, Untested, and You’re Eating It**

Consumers across the country are being allowed to purchase and consume unlabeled GE foods, without our knowledge or consent. Already, this novel technology has invaded our grocery stores and our kitchens by fundamentally altering some of our most important staple food crops. Currently, more than 88 percent of US corn is genetically engineered, as are 93 percent of soybeans and 94 percent of cotton<sup>3</sup> (cottonseed oil is often used in food products). According to industry estimates, up to 95 percent of sugar beets may now be GE varieties. It has been estimated that upwards of 75 percent of processed foods on supermarket shelves—from soda to soup, crackers to condiments—contain genetically engineered ingredients.

The United Nations, the World Health Organization, and the American Medical Association have all called for mandatory safety testing of GE foods. Nonetheless, FDA does no independent testing of their safety, even though documents uncovered in CFS litigation show that scientists within FDA indicated that GE foods could pose serious risks...

#### **The State of GE Food Labeling**

...Just over twenty years ago, FDA decided that GE foods need not be labeled because they were not “materially” different from other foods.

The biotech industry has also fiercely opposed GE labeling, and has convinced many in Congress and FDA that such a label would “mislead” consumers into thinking the food is dangerous. But we don’t label dangerous foods; we take them off the market. The government mandates food labeling not based on safety, but upon “material” change that consumers should be informed about. In fact, the agency already requires labels for over

<sup>1</sup> Center for Food Safety, Genetically Engineered Food Labeling Laws Map, <http://www.centerforfoodsafety.org/ge-map>

<sup>2</sup> Center for Food Safety, U.S. Polls on GE Food Labeling, <http://www.centerforfoodsafety.org/issues/976/ge-food-labeling/us-polls-on-ge-food-labeling>

<sup>3</sup> Jorge Fernandez-Cornejo, Genetically engineered varieties of corn, upland cotton, and soybeans, by State and for the United States, 2000-12, Washington, D.C.: USDA National Agricultural Statistics Service, 2012. <http://www.ers.usda.gov/data-products/adoption-of-genetically-engineered-crops-in-the-us.aspx#.UUUn-Fhc4tiM>

3,000 ingredients, additives, and processes in food production, for all kinds of reasons, none of which are because the food has been deemed dangerous...

### State and Federal Labeling Initiatives

As concerned citizens across the country grow tired of waiting for the federal government to take action, they are turning to state and local governments. In 2013 alone, over half the states in the country introduced bills that would require labeling for GE foods.<sup>4</sup> Many of these bills use language that CFS crafted, or are based on CFS's model GE labeling bill. On the heels of the narrow defeat of California's landmark Proposition 37, states from Washington to Vermont are debating state legislation and citizen driven ballot initiatives to do what the federal government won't: label GE food...

Interested parties seeking counsel on getting an initiative started in your city or state should contact CFS at [office@centerforfoodsafety.org](mailto:office@centerforfoodsafety.org).

Center for Food Safety. "Genetically Engineered Food: The Labeling Debate." *Food Safety Fact Sheet*. April 2013. <http://www.centerforfoodsafety.org/fact-sheets/1370/genetically-engineered-food-the-labeling-debate#>

## 4.2 "Why Genetically Modified Foods Should Be Labeled"

Bartolotto, Carole. "Why Genetically Modified Foods Should be Labeled," *HuffPost: Food for Thought*. December 4, 2013. [http://www.huffingtonpost.com/carole-bartolotto/why-genetically-modified-food\\_b\\_4039114.html](http://www.huffingtonpost.com/carole-bartolotto/why-genetically-modified-food_b_4039114.html).

Did you know that you have been enrolled in the largest research study ever conducted in the United States but you never signed a consent form or agreed to participate? That's because since 1996 you—and basically everyone you know—have been eating genetically modified foods...

Most soybeans, corn, canola, cotton, sugar beets, and Hawaiian papaya, and some zucchini, yellow squash, and alfalfa are genetically modified. Products such as oil, high fructose corn syrup, and sugar are created from these crops and added to processed foods. This explains why nearly 80 percent of processed and most fast foods contain GMOs.

The question is are GMOs safe for us and the environment? Actually, the answers are not clear. There are no long-term studies demonstrating that GMOs are safe for humans and the Food and Drug Administration (FDA) does not do its own safety testing of GMOs...

The environment is another issue. What are the implications when a genetically modified plant crossbreeds with other plants? The monarch butterflies are declining due to the destruction of milkweed. What other consequences are possible? Super bugs and super weeds are already showing up...

The bottom line is that we have a product in our food supply with unknown health and environmental implications. At the very least, we should have these foods labeled. However, try as we might, we cannot make that happen in the U.S. Even though 9 out of 10 people want them labeled, the biotech companies and food manufacturers do not... Over 60 countries, including China, label GMOs and some countries ban them. Why can't we have transparency in our food supply?

Washington's Initiative 522 to label genetically engineered foods, on the November [2013] ballot, will help us get the transparency we desire. But companies such as Monsanto,

<sup>4</sup> Center for Food Safety, State Labeling Initiatives, <http://www.centerforfoodsafety.org/issues/976/ge-food-labeling/state-labeling-initiatives>

Dupont Pioneer, Bayer CropScience, Dow Agrosciences, and the Grocery Manufacturers Association (a trade group) will pay millions to create misleading and factually incorrect ads telling Washingtonites that labeling will cost money, hurt farmers, and isn't necessary because GMOs are safe. However, we know if a food has high fructose corn syrup or trans fat, or is irradiated. Why can't we know if it's genetically engineered? The biggest fear of these companies is that once GMOs are labeled, we won't want to eat them anymore. And that may happen, just like it did when we found out there was pink slime in our hamburgers!

### 4.3 Monsanto's Position

Monsanto. "Labeling Food and Ingredients Developed from GM Seed." Monsanto.com. <http://www.monsanto.com/newsviews/pages/food-labeling.aspx> (accessed November 30, 2014).

#### **At-a-Glance: Our View on Food Labeling**

The safety of our products is our first priority, and multiple health societies, hundreds of independent scientific experts, and dozens of governments around the world have determined that foods and ingredients developed through biotechnology [or genetic modification (GM)] are safe.

Each country establishes its own food labeling laws. Within the United States, the government has established clear guidance with respect to labeling food products containing GM ingredients; we support this approach. We also support food companies' choices to voluntarily label food products noting certain attributes (e.g., organic) based on their customers' preferences and provided the labeling is truthful and not misleading.

We oppose current initiatives to mandate labeling of ingredients developed from GM seeds in the absence of any demonstrated risks. Such mandatory labeling could imply that food products containing these ingredients are somehow inferior to their conventional or organic counterparts.

#### **Viewpoints on Labeling GM Foods and Ingredients in the United States**

...Within the United States, the Food and Drug Administration (FDA) oversees food labeling. FDA guidance requires labeling of food products containing ingredients from GM seed if there is a meaningful difference between that food and its conventional counterpart. The American Medical Association (AMA) supports FDA's approach and approved a formal statement asserting that there is no scientific justification for special labeling of foods containing GM ingredients.

...FDA allows food manufacturers the choice to voluntarily label their products noting certain attributes or production methods (e.g., organic) provided the label is truthful and not misleading. We support this approach. Food companies are in the best position to determine what type of information meets the needs and desires of their customers.

Monsanto website, accessed November 30, 2014, <http://www.monsanto.com>.

### 4.4 "Why We Shouldn't Label (or Worry about) Genetically Modified Products"

English, Cameron. "GMO Foods: Why We Shouldn't Label (or Worry about) Genetically Modified Products." *PolicyMic*. March 9, 2012. <http://mic.com/articles/5226/gmo-foods-why-we-shouldn-t-label-or-worry-about-genetically-modified-products>.

Last year, 14 states attempted to pass legislation requiring that genetically modified (GMO) foods be labeled as such. And I learned this week that California is now following in their footsteps to become number 15. The petition in my home state is being sold with the tagline “It’s our right to know” what we’re eating, and ominous suggestions about the health risks associated with eating GMO foods.

Appealing to voters’ “rights” and stirring up health concerns are guaranteed ways to bring attention to political causes, but in the case of GMO food labeling, both tactics are fallacious. There is no reason to label these generally harmless foods and doing so could create unnecessary concern among the public...

The idea of food laden with foreign genes may sound scary, but it really isn’t. Since we don’t live in a sterile environment, all the plants we eat, genetically modified or not, are loaded with bacteria, viruses, and other living organisms— and their DNA. According to agricultural scientist Steve Savage, this fact shouldn’t concern us. “Even though we are eating microbes, their genes, and their gene products on a grand scale, it is almost never a problem. In fact, some of these microbes go on to become part of our own bank of bacteria, etc., that live within our digestive system—often to our benefit.”

Savage goes on to point out that the only difference between the foreign genetic materials found naturally in plants and the genes we intentionally add to them is that we know more about the latter. “We know the exact sequence of the gene, its location in the plant’s chromosomes, what the gene does,” Savage says. The result is that we can more easily determine how safe GMO foods are for consumption, compared to their natural counterparts.

But, that’s not the only good thing about GMO foods. Genetic engineering has allowed scientists to develop crops that consume less water, grow in harsh environments, and produce less carbon dioxide, as molecular biologist Henry Miller points out. Put another way, these technological advances have made it possible to produce cheaper food in greater quantities and in a more sustainable fashion. Food security and environmental protection are political causes typically championed by progressives. So why are these same people pushing for GMO food labeling?

...Most importantly, science education doesn’t come from food packaging. There’s simply no way to properly educate consumers about the foods they’re eating at the point of sale. That requires a concerted effort on the part of scientists and educators (which is already underway), and a desire to learn on the part of consumers. There’s no reason to begin that process by feeding people misleading information during their weekly grocery runs.

Of course, that last sentence assumes that supporters of food labeling petitions are interested in educating people about nutrition, which they aren’t. The environmentalists and public health advocates behind these measures are trying to force their preferences on the public through the initiative process. If you think that’s just the ranting of an idealistic libertarian, considering that prominent scientists and science writers have been saying the same thing for many years.

If for no other reason, the opinion of experts ought to be enough to put a stop to exaggerated fears of genetic engineering and baseless food labeling campaigns.

## Synthesis Questions

1. What impact will labeling of GM food products have on producers and developers of GMO foods?

2. What impact will labeling of GM food products have on research of GMOs?
3. What impact will labeling of GM food have on consumers?
4. What would be the most effective and efficient system for labeling GM food?

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## Chapter 5

# Social Entrepreneurship



*Kate Ter Haar (CC-BY 2.0, 2011)*

*Figure 5.1 The proud owners of TOMS Shoes are often willing to help promote the brand.*

## Introduction

While there is no universally accepted definition of *social entrepreneur*, the term is typically applied to an individual who uses market-based ideas and practices to create “social value,” the enhanced well-being of individuals, communities, and the environment. Unlike ordinary business entrepreneurs who base their decisions solely on financial returns, social entrepreneurs incorporate the objective of creating social value into their founding busi-

ness models. Social entrepreneurship has become exceedingly popular in recent years and a number of prestigious business schools have created specific academic programs in the field. It is often said that social entrepreneurs are changing the world. They are lauded for their ability to effect far-reaching social change through innovative solutions that disrupt existing patterns of production, distribution, and consumption. Prominent social entrepreneurs are celebrated on magazine covers, praised at the World Economic Forum in Davos, and awarded millions of dollars in seed money from “angel” investors, and and applauded as “harbingers of new ways of doing business.”<sup>1</sup> Social entrepreneurs are thus often hailed as heroes—but are they actually affecting positive social change?

Undeniably, social entrepreneurship can arouse a striking level of enthusiasm among consumers. Blake Mycoskie, social entrepreneur and founder of TOMS Shoes, tells the story of a young woman who accosted him in an airport, pointing at her pair of TOMS while yelling, “This is the most amazing company in the world!”<sup>2</sup> Founded in 2006, TOMS Shoes immediately attracted a devoted following with its innovative use of the so-called One for One business model, in which each purchase of a pair of shoes by a consumer triggers the gift of a free pair of shoes to an impoverished child in a developing country.

The enthusiasm associated with social entrepreneurship is perhaps emblematic of increased global social awareness, which is evidenced by increased charitable giving worldwide. A 2012 study showed that 83% of Americans wish brands would support causes; 41% have bought a product because it was associated with a cause (a figure that has doubled since 1993); 94% said that given same price and quality, they were likely to switch brands to one that represented a cause; and more than 90% think companies should consider giving in the communities in which they do business.

Despite the eager reception from consumers, critics of social entrepreneurship have raised concerns about the creation of social value in a for-profit context. Thus, TOMS is sometimes mistaken for a charity because it donates shoes to children in developing countries, yet it is also in business to sell shoes. The company earns an estimated \$300 million a year and has made Mr. Mycoskie a wealthy man. While companies are starting to look more like charities, nonprofits are also increasingly relying on business principles to survive an uncertain economy in which donors expect to see tangible results from their charitable contributions.

Our understanding of social entrepreneurship is complicated by the absence of any consensus on ways to measure social outcomes. As a result, there is little concrete statistical data available on the impact of social entrepreneurship. Indeed, there is not much agreement on a precise definition of social entrepreneurship, so it becomes difficult to say to what extent any given company is an example of social entrepreneurship. TOMS’ Chief Giving Officer, Sebastian Fries, recently told the *New York Times* that the company is “not in the business of poverty alleviation.”<sup>3</sup> Does this mean that increased social value is merely a happy externality of the business of selling shoes? If so, what makes Blake Mycoskie a social entrepreneur?

Some critics go so far as to suggest that social entrepreneurs are merely using public relations tactics to engage in social or environmental greenwashing—taking advantage of consumers’ desire to do good. In some cases, it has been argued, social entrepreneurs can even do more harm than good (as we will see, this criticism has even been leveled at TOMS). Lacking a full understanding of the socioeconomic and cultural dynamic of the developing countries in which they intervene, social enterprises can undermine fragile local markets and foster dependence on foreign assistance.

In our chapter-ending debate, we will put ourselves in the position of a startup company that is inspired by the example of TOMS Shoes. The company is considering adopting a one-for-one model and you will be asked whether it should. To arrive at an informed answer to this question, we must first address two related questions: (1) Do social entrepreneurs create social value to the same degree as a traditional nonprofit or charity? (2) Does the blurring of distinctions between charity and business dupe consumers into believing that consumption equals caring? Given the mixture of enthusiasm and ambivalence aroused by social entrepreneurship, our first task is to understand it.

## The Growth of Social Entrepreneurship

In 1974, a Bangladeshi economics professor named Muhammad Yunus visited a small rural village in Bangladesh in an effort to connect the economic theories he was teaching with the reality of poverty in his native country. Amidst the tragedy of rural poverty, Yunus believed he saw an opportunity to transform perceptions of poverty relief. Yunus felt that, although rural people were skilled and hardworking, they were unable to obtain loans from banks primarily due to a lack of collateral. Yunus's innovation was to seek to alleviate poverty directly by establishing a bank for the poor. This bank would make microloans (very small loans, often less than \$100) with low interest rates to enable small entrepreneurs to slowly build up their capital to reinvest, grow their businesses, and rise from poverty.

Yunus was able to launch this idea in 1976 in the form of Grameen Bank, which began operations by making a small number of loans to members of a local village. The business grew quickly, with an extraordinarily high loan repayment rate of 99%. The explosion of cellular access served as a catalyst for the microfinance market. Through their mobile phones, rural entrepreneurs had access to a global network of investors and business tools, where traditionally they might have had to travel hundreds of miles to a city to borrow money or buy goods and services.

By 2005, the Grameen Bank had more than 1,500 branches in nearly 50,000 villages, covering about 70% of India, with approximately five million borrowers and annual revenues of about \$80 million. The success of the Grameen experiment fostered the modern microfinance industry, which connects thousands of entrepreneurs to donors all over the world, through sites like Kiva, GiveDirectly, Accion USA, and the Grameen Foundation. In 2006, Yunus won the Nobel Peace Prize, which recognized him as a pioneer in microfinance. The social entrepreneurship revolution was underway.

While Yunus focused on microfinance, other thinkers and social activists developed alternative methods for using entrepreneurial techniques to foster social change. In 1981, Bill Drayton, a former EPA administrator and management consultant, formed Ashoka, the first organization specifically devoted to promoting and supporting social entrepreneurs. Ashoka invests in promising social entrepreneurs, providing them with start-up financing, professional support services, and connections to a global network of business and social sector players. Today, Ashoka funds nearly 3,000 Fellows in 70 countries.

Since Ashoka was launched, scores of other organizations all over the world have formed to support social entrepreneurship. According to a 2012 study,<sup>4</sup> there are more than 60 national or international social entrepreneur networks worldwide, with an average of four to five new networks being set up every year.<sup>5</sup>

Governments have hopped aboard the social entrepreneurship bandwagon. In 2011, the European Union established social entrepreneurship as one of the 12 pillars of its policy for growth and social progress. France appointed a Minister for Social and Cooperative Economy, and in 2012, the European Commission launched a call for proposals to produce and collect statistics on social entrepreneurship in the EU, under the Initiative for Social Entrepreneurship.

In the United States, new legal corporate forms have emerged that allow for the inclusion of social value objectives in a company's articles of incorporation. In 15 states, companies can legally incorporate as a benefit corporation (B Corp), a new class of corporation that by definition must (1) create a materially positive impact on society and the environment; (2) expand fiduciary duty to require consideration of non-financial interests when making decisions; and (3) report on its overall social and environmental performance using recognized third-party standards. B Corps allow directors and officers to consider non-financial decisions in reporting to multiple stakeholders. Today, there are more than 520 certified B Corps across 60 different industries representing \$3 billion in revenues. Patagonia was the first company to take advantage of the new law, officially becoming a B Corp in California in 2012.

Similar to the B Corp is the flexible purpose corporation (FPC), a designation that allows a corporation to select at least one specific mission to pursue in addition to profit-making. A low-profit limited liability company (L3C) is a for-profit social enterprise that has a stated goal of performing a socially beneficial purpose rather than maximizing income. It is a hybrid structure that combines the legal and tax flexibility of a traditional limited liability corporation (LLC) with the social benefits of a nonprofit organization, and the branding and market positioning advantages of a social enterprise. The L3C is designed to make it easier for socially oriented businesses to attract investments from foundations and private investors.

Some social entrepreneurs have sought to enhance their fundraising capacity by creating a hybrid model—a commercial enterprise linked to a nonprofit subsidiary, or vice versa. The nonprofit side is tax exempt and can apply for grants and accept donations, while the for-profit side can enlist investors and leverage debt.

An example of this form is Mozilla, the company that makes the web browser Firefox. In response to the explosive growth of Firefox, the nonprofit Mozilla Foundation formed a for-profit subsidiary in 2005, the Mozilla Corporation. The for-profit makes about \$104 million a year from revenue sharing agreements with search partners such as Google and Yahoo. Meanwhile, the Mozilla Foundation, which is the corporation's sole shareholder, handles the development of open-source software and brings in just over \$222,000 in charitable donations per year.

## Social Entrepreneurship and Global Philanthropy

Is social entrepreneurship a form of philanthropy? Given that both concepts are rooted in the creation of positive social value, it makes sense to consider the strong relationship between the two fields. Indeed, policy makers have cited social entrepreneurship as a powerful ally for philanthropy, and perhaps even as its successor. Increasingly, many donors see

themselves as investors rather than as providers of charity. Such donors, who have been dubbed “philanthro-capitalists,” expect measurable social returns on their investments. They tend to view the for-profit social enterprise model as an efficient, innovative, and scalable method of creating social value in markets where nonprofits and governments have seemingly failed.

Bill Gates, former Microsoft CEO and one of the world’s wealthiest individuals, has attained leadership status in the global philanthropic community as the head of the world’s largest charitable institution, the Gates Foundation. At the World Economic Forum in 2008, Gates called for a new form of “creative capitalism,” which “matches business expertise with needs in the developing world to find markets that are already there, but are untapped.” Gates pointed out that “sometimes market forces fail to make an impact in developing countries not because there’s no demand, or even because money is lacking, but because we don’t spend enough time studying the needs and requirements of that market.”<sup>6</sup>

Gates cited economist C.K. Prahalad’s bottom of the pyramid (BoP) approach to eradicating poverty, which postulates that the billions of people in the world who live on less than \$2 a day represent the “unserved and underserved.” Prahalad argues that collectively the BoP has immense buying power. By selling products and services to this segment, companies both profit *and* serve the needs of the poor. The Gates/Prahalad approach was seconded in a 2011 speech by World Bank President Robert Zoellick, who postulated that the time had come to move “beyond aid” to a system in which “assistance would be integrated with—and connected to—global growth strategies, fundamentally driven by private investment and entrepreneurship. The goal would not be charity, but a mutual interest in building more poles of growth.”<sup>7</sup>

Zoellick called for entrepreneurship and innovation to create expanded markets, acknowledging that “new players and new donors are already transforming the aid world as we know it.” This new multilateral system would be rooted in “a notion of stakeholder responsibility, more connected to private sector and civil society networks, more committed to practical problem solving and innovation.”

The call by Gates and Zoellick to develop new forms of private entrepreneurial support for global aid reflects the reality that the private sector has become a much bigger factor than government aid in international development. In 2010, global private philanthropy totaled \$575 billion. U.S. giving from foundations, corporations, private and voluntary organizations (PVOs),<sup>8</sup> individual volunteers, religious organizations, and academic institutions totaled \$39 billion. Corporations and private and voluntary organizations (PVOs) accounted for the largest portion of U.S. philanthropy, making up more than half the total.<sup>9</sup>

While these figures offer a fair estimate of philanthropic activity worldwide, they likely under-report the total amount of money donated to developing nations each year. Financial reporting is typically done voluntarily by PVOs, corporations, foundations, and religious groups in developing countries. In the United States, organizations with less than \$5,000 in annual revenue are not required to register with the IRS. The Urban Institute estimates that, of the approximately 1.1 million public charities in the United States, only 366,000 report data to the IRS each year.<sup>10</sup>

## Social Value: Measuring the Impact of Entrepreneurship and Philanthropy

While it is clear that global philanthropic activity is generally increasing, measurement of its impact on social value and aid effectiveness has only recently become a priority. Increased demands for transparency and accountability from donors and governments have resulted in hundreds of competing methods of measuring social value. Foreign aid is predominantly measured in terms of total capital investment, not by how many people are actually helped. Historically, reports of aid effectiveness have frequently consisted of unreliable individual anecdotes and testimonials.

Without accurate financial and impact data, it is difficult to tell exactly where donor dollars are going. This information is unfortunately quite complicated and costly to acquire. Not only must the concepts of *benefit* or *value* be quantified, but external factors affecting research validity must be ruled out. While many donors demand to know how their money is spent, most of them do not like the idea of paying for the administrative costs associated with producing such statistics. Most aid organizations want to see their money going toward groundwork, not paperwork.

The Organization for Economic Cooperation and Development (OECD) is the main international body that collects and evaluates data on aid effectiveness. A coalition of 34 countries dedicated to stimulating world economic growth and international trade, the OECD, through its Development Assistance Committee (DAC), coordinates agreements between donor countries, developing nations, and private interests to help developing country governments. Based on “trade, not aid” principles, the DAC is ultimately geared toward improving local systems so that developing countries are able to manage economic growth without depending on foreign aid. Much of the DAC’s data suggests that aid works best when it is properly directed and managed. By some estimates, it costs a nonprofit an average of \$33 to raise \$100 in the United States and up to 80% of a nonprofit’s time and energy is devoted to raising funds.

Social return on investment (SROI) is one method of impact measurement that has been gaining in popularity. SROI is basically a cost–benefit analysis that measures non-financial (social and/or environmental) value created relative to resources invested. This approach is sometimes accused of being simplistic: While “hard outcomes,” such as the number of children passing a literacy test, can be easily measured, “soft outcomes,” such as increased happiness, self-confidence, or communication skills, cannot be measured and weighed against dollar amounts. While SROI is usually applied to charities and NGOs, many believe that the method works best when applied to for-profit businesses, such as those created by social entrepreneurs. Proponents of SROI point out that it forces organizations to have meaningful discussions with their stakeholders.

Much of the impetus for improved measurement is driven by a widespread frustration with the perceived ineffectiveness of foreign aid. According to the World Bank, many forms of aid are ill-conceived and do not make optimal use of resources.<sup>11</sup> Studies on the impact of development aid in the form of in-kind donations, or gifts of materials or goods rather than money, suggest that, while potentially benefiting recipients in the short term, in-kind donations have a negative impact on local markets in the long term. Thus, Oxfam International has argued that, while much foreign food aid helps to save lives in the immediate aftermath of natural disasters and conflict, in-kind food donations have often been

a way for donor countries to dump their surplus production and promote exports.<sup>12</sup> For example, in the aftermath of the 2010 Haiti earthquake, an influx of rice donations hurt local rice farmers' livelihoods and threatened the local agricultural economy.<sup>13</sup> A 2008 study from the University of Toronto compared in-kind clothing donations with food aid, stating that used clothing imports have a negative impact on apparel and textile production in Africa, resulting in a roughly 40% decline in African apparel production and a 50% decline in apparel employment.<sup>14</sup>

## The Dark Side of Social Entrepreneurship

Critics of social entrepreneurship draw attention to its potential to encourage corporate and consumer hypocrisy. Social philosopher Slavoj Žižek observes that adherents of “conscious consumerism” often state that they are trying to address problems such as poverty, inequality, and environmental degradation, which are the principal negative externalities of a capitalist economy. However, in Žižek’s view, it is an obvious self-contradiction to think that one can overcome the defects of capitalism by engaging in yet more capitalism. TOMS shoes, for example, are manufactured by poor people in overseas factories. When their famously flimsy design wears out, they are discarded into landfills.

There is evidence that conscious consumerism can generate surprisingly counterintuitive effects. A study released by the University of Toronto in 2010 found a negative connection between altruism and ethical behavior.<sup>15</sup> Student volunteers were divided into groups and instructed to look at two online stores: one that offered mostly green products and another that carried mostly conventional products. Half the students in each group were asked to purchase products, and half were asked to simply rate them. Afterward, in a money-sharing game, the students who only rated the green products shared the most money, while the students who purchased green products shared the least. Furthermore, in a computer game that tempted the students to cheat, those who had purchased green products were not only more likely to cheat than the other groups, but they took extra money when asked to pay themselves from envelopes on their desks.

The researchers concluded that mere exposure to green products (experienced as an ethical act) encourages prosocial behavior, while engaging in ethical purchasing may decrease the likelihood of future ethical behavior. It appears that people may have a limited amount of ethical motivation, which can be used up. This tendency is referred to as the *single-action bias* and has been confirmed as a potential drain on charitable giving. A University of Michigan study found that if two consumers are given a chance to purchase the same product but one of them buys the product as a “cause-related” purchase, that consumer’s charitable giving will be lower than the other’s.<sup>16</sup>

Critics of social entrepreneurship also cite the so-called *halo effect*, a cognitive bias in which we assume that because someone is good in one area, they will be good in other areas. The phrase was coined by psychologist Edward Thorndike in 1920 to describe the way commanding officers rated their soldiers as either good or bad across the board. Arguably, when consumers see a company as having a positive social impact via social entrepreneurship, we assume that it is ethical across the board, which may not be the case.

## Case Study: TOMS Shoes

In 2006, Blake Mycoskie, a young entrepreneur from Arlington, Texas, started a shoe company with a simple premise: For every pair of shoes sold, the company would donate a similar pair to a child in need. Mycoskie, self-described Chief Shoe Giver of TOMS Shoes, is considered the pioneer of the one-for-one giving model, which has since been imitated by companies making everything from hospital scrubs to chewing gum.

Mycoskie claims that with TOMS he has created not just a business but a social movement that has fundamentally changed the way we consume products. He has trademarked the tagline, “One for One,” and plans to expand the model into many more product categories, a move that supports his view of giving as an across-the-board lifestyle choice. It’s also Core Value #8, according to an inspirational sign in the TOMS office space: “Giving is what fuels us. Giving is our future.”

Mycoskie was vacationing in Argentina when he got the idea for TOMS (the name is a play on the phrase “Shoes for Tomorrow”). After meeting charity workers who were collecting used shoes to distribute to poor children in the local villages, he was struck by the fact that so many children go barefoot in the developing world, and resolved to find a more sustainable alternative to straightforward donation. In his 2011 book, *Start Something That Matters*, Mycoskie reflects on his thought process: “Why not create a *for-profit* business to help provide shoes for these children? Why not come up with a solution that guaranteed a constant flow of shoes, rather than being dependent on kind people making donations? In other words, maybe the solution was in entrepreneurship, not charity.”<sup>17</sup>

Mycoskie’s business model proved remarkably successful. TOMS experienced phenomenal growth in market penetration and consumer loyalty in a very short period of time. By 2013 the company had over 2 million social media followers and had given away more than 10 million pairs of new shoes to children in over 60 countries.

### Production

The majority of TOMS shoes are produced in China in order to keep manufacturing costs down, but a small number of the Giving Shoes are produced in Ethiopia, Kenya, and Argentina, where they can be distributed cheaply using local supply partners. The company plans to add shoe manufacturing in India and Haiti. By producing shoes in regions where they’re donated, TOMS lowers its distribution costs. In the case of Ethiopia and Kenya, the company benefits from the open borders of the African Free Trade Zone.

The company has also suggested that it is evaluating approaches to increasing employment in “Giving” regions, while offering existing workers more benefits, such as higher wages, childcare, and financial education. “Within two years, we will produce one-third of our Giving Shoes in the regions where we give them. By producing more shoes locally, we will create and support jobs in places where they are needed. We are testing production in India and are looking to expand manufacturing in Africa and other regions.”<sup>18</sup>

Although TOMS does not own any factories, it has a strict code of conduct for its supply chain. The company assures its customers that supply, production, and labor comply with corporate responsibility standards and local laws, including the prevention of slavery and human trafficking.

## Product Mix

Mycoskie started TOMS with just one product: the *alpargata* shoe, a simple design that was popular with Argentinean laborers in the late nineteenth century and became an important part of the Argentine national identity. The shoes are inexpensive and lightweight, with canvas or fabric uppers and synthetic rubber soles.

TOMS gradually began to add more designs and, by 2013, featured additional categories such as ballet flats, lace-up boots, wedges, kids' shoes, wedge booties, and vegan shoes. The company regularly partners with celebrities, brands, and charities to create limited-edition collections; past collaborators have included Charlize Theron, Ben Affleck, Jonathan Adler, Sub Pop Records, The Row, the Movember Foundation, and the Haiti Artist Collective, a group of Haitian artists who customize Chinese-made TOMS for the U.S. market.

All of TOMS's Giving Shoes are based on the original alpargata design, and usually come in black, red, or blue. A common criticism of the brand is that they do not always satisfy children's basic environmental needs. The shoes have a very short lifespan in muddy, rough terrain, and do not offer insulation in colder climates. In response to these criticisms, TOMS is beginning to produce and distribute a winter boot in Afghanistan, India, Kyrgyzstan, Nepal, Pakistan, and Tajikistan.

In 2011, TOMS began selling sunglasses using the One for One model. Made in Italy, the \$135 sunglasses come in three basic styles and a variety of colors; each consumer purchase pays for prescription glasses, eye surgery, and other sight-related procedures in developing countries. The eyewear line shows promise of becoming as successful as TOMS footwear, even though the connection between "buy one" and "give one" is less clear. TOMS has not released any sales data on its sunglasses, but claimed that, as of 2013, it had helped to deliver eye care to more than 150,000 people in 13 countries.<sup>19</sup> Upon launching the new product line, Mycoskie announced, "From this day forward, TOMS will no longer just be a shoe company, it will be a one-for-one company."<sup>20</sup>

This strategy has allowed TOMS to position itself as a lifestyle brand that will eventually turn every purchase into a philanthropic opportunity. A search of the U.S. Trademark Electronic Search System (TESS) reveals that the company has also registered trademarks for numerous other product categories, including baby clothing, hats, pet accessories, water, coffee, tea, jewelry, and books (as of the publication date of this text, TOMS had already begun operations in the coffee sector).

## Target Market

TOMS attracts a demographic of young men and women. These consumers tend to be creative, individualistic trendsetters who use multiple media and technology platforms; have progressive political, environmental, and social views; and prefer to shop at small, independent boutiques. In addition to perceived design and style, they are attracted to the emotional value of the buy-one-give-one model. They buy organic clothing, ask for charitable donations in lieu of gifts, and shop at farmers' markets. Their choice to buy TOMS is both an aesthetic preference and a public statement about their socially responsible lifestyles.<sup>21</sup>

## Locations and Distribution

TOMS shoes are sold at more than 500 stores nationwide and internationally, including Neiman Marcus, Bergdorf Goodman, Nordstrom, Urban Outfitters, Whole Foods Market, and many independent boutiques. The company is also experimenting with standalone locations. It opened its flagship store in Venice, California, in 2012 and plans to expand its retail presence in the future. Mycoskie included a cafe in the flagship store, and describes it as more of a community meeting place than a retail location.

TOMS distributes donated shoes in two ways—with traveling shoe drops involving volunteers, employees, and contest-winning consumers; and through partner organizations with significant on-the-ground resources. The strategic Giving Partners are usually nonprofit humanitarian organizations that choose where and how the shoes are dispensed, often integrating donations into health and education programs. In some places, the shoes are gifts for families who bring their children in for checkups or immunizations; in others, they are simply given away, as at the Zaatari refugee camp in Jordan, where over 115,000 displaced Syrians are living in a massive makeshift city.

As of 2013, TOMS collaborated with 75 Giving Partners in over 50 countries, including Bridge2Rwanda, World Vision, goods for good, Save the Children, the Cambodian Children's Fund, Partners In Health, and the Seva Foundation.

## Impact Studies

Critics have questioned whether or not TOMS is truly a social enterprise, or if it merely uses cause marketing as a way to differentiate the brand and drive revenues. The inspirational message is so effective, and the feeling of moral certitude among supporters is so strong, that most customers do not ask the company to provide any statistical proof of its social, environmental, or economic impact on the developing world. At a time when consumers are demanding increased transparency and accountability from MNEs (multi-national enterprises) and NGOs (non-governmental organizations), TOMS has somehow managed to avoid criticism from this group for failing to measure its philanthropic efficiency or efficacy.

Journalists, academics, and aid workers have shown less restraint. In response to criticism from the media—from the *New York Times* to a Peace Corps volunteer's blog—TOMS funded a two-year study at the University of San Francisco to measure the company's effect on local economies in one of its Giving Areas. In August 2013, researchers released a report entitled, "Do In-Kind Transfers Damage Local Markets? The Case of TOMS Shoe Donations in El Salvador." After studying 979 households in 22 communities, they concluded that there was "little evidence to support the hypothesis that donated shoes exhibit negative impacts on local shoe markets." However, the report goes on to say, "El Salvador [is] in many ways an ideal context to test the impact of in-kind donations on local markets because, although there are many children that do not wear shoes out-of-doors, *most children do indeed own a pair of shoes* (ed. emphasis), providing greater scope for finding a negative impact on local markets than a context in which shoe ownership, and hence market purchases, are rare. Indeed there are many countries such as El Salvador, which are recipients of donated shoes and clothing, but where existing ownership of these goods is relatively widespread compared to developing countries with even lower income levels."<sup>22</sup> In effect, TOMS is arguing that it does not impact local shoe markets in El Salvador part

because children there already own shoes, which raises the question of whether the donated shoes are actually necessary.

## Topic for Debate: Follow the TOMS Model?

In this chapter's debate section, you are asked to play the role of an executive at a company that is considering adopting the TOMS model.

Our fictional company, Swensen Bags, Inc., owns a leading brand of backpacks and handbags in the United States, based in Albany, New York. The owner, Joe Swensen, has decided that the company needs to adopt a more active CSR profile. Swensen has decided to allocate \$1 million over the next 5 years to support some sort of charitable or socially responsible activity. Swensen has asked his senior executives to develop proposals.

Swensen's vice president for marketing, Alma Marlow, has proposed an idea that Joe is supporting: to create a subsidiary brand to be called Earth Bags, which would be made from recycled polyester and which would employ a one-for-one giving approach. For every bag purchased, a backpack would be given to a promising student in a developing country. Joe Swensen has always insisted on the highest quality for his bags and is fanatical about the life span of zippers. He is convinced that low-income people in developing countries probably have to settle for low-quality bags, which break easily, and make it difficult for students to transport their school supplies.

The role of devil's advocate is taken on by Joe's vice president for finance, Suzanne Rentof, who believes that the plan is impractical and that it would be simpler to give money to a promising charity. "How are we going to get these bags to the kids?" she asks, "We don't have any overseas sales offices. So how much money are we going to spend flying someone around the world, transporting bags through customs? The kids would probably prefer the cash; they could buy their own bags. Besides, how many of our customers are going to buy an expensive backpack just so kids overseas can get a free one? It's different with TOMS Shoes; most Americans have many pairs of shoes and they feel bad for a kid without shoes. But most people only have one backpack, and they probably don't feel that sorry for someone who doesn't have a good backpack. If we don't sell any of these bags, how are we going to pay for sending them overseas?"

Swensen admits that Rentof makes some interesting points, but he still supports the idea. He organizes a meeting and assigns two executives to develop pro and con arguments for the idea of the one-for-one bag. In this case, as opposed to some of the others in this text, if you are arguing the negative side of the debate, do not limit yourself to pointing out flaws in Alma Martin's idea of a one-for-one approach. Remember, Swensen is ready to commit \$1 million to some charitable enterprise. If you do not think the one-for-one approach is a good idea, give examples of projects that you feel would represent a better use of the money.

### Affirmative

Swensen Bags should create a backpack line based on the one-for-one giving model pioneered by TOMS Shoes.

### Possible Arguments

- It would be an inspiring and fun way for company employees to interact with schools in developing nations, which would foster understanding across class, culture, and community.
- The project would promote education, as many children in developing countries cannot afford good backpacks.
- It would inspire other entrepreneurs to follow the one-for-one model and find new ways to fight poverty, which is something we should support.

## Negative

Swensen Bags should not create a backpack line based on the one-for-one model, but should instead adopt a different form on social project.

### Possible Arguments

- Giving away free products does not address the underlying problems of poverty.
- Donations foster dependency on foreign aid, which is unsustainable.
- The one-for-one model gives consumers the feeling that they’ve “done enough,” instead of looking for ways they can really help.
- Donated products hurt local merchants who sell similar products.

## Readings

### 5.1 “Shoes for Business: The Unintended Consequences of Doing Good”

Jain, Niharika S. “Shoes for Business: The Unintended Consequences of Doing Good.” *The Harvard Crimson*. April 27, 2011. <http://www.thecrimson.com/article/2011/4/27/shoes-local-toms-pair/>.

TOMS is well known for its one-for-one business model: For every pair of shoes it sells, the company donates a pair of shoes to a child in need. At first, I thought this sounded like a great way to leverage business to help communities. But a skeptical friend prodded me to think more carefully about the impact TOMS—and other companies with similar business models—are making. By giving free shoes to impoverished populations, she pointed out, TOMS competes with local businesses and takes away customers that might otherwise buy locally made shoes.

Apparently, this isn’t uncommon in philanthropy. Several acknowledged instances can be found where in-kind donations have disrupted local markets in developing countries. A 2008 study found that used-clothing imports to Africa explained 50 percent of the fall in employment in that sector from 1981–2000. After the Haiti earthquake, an influx of foreign food aid—particularly donations of rice—hurt rice farmers’ livelihoods. Oxfam has also found that secondhand clothing imports to nations like Senegal and Ghana have likely hurt local industries and contributed to unemployment. The Oxfam report quotes the General Secretary of the International Textile, Garment and Leather Workers’ Federation

on the job losses: “Unable to compete [with secondhand clothing imports], local businesses are collapsing, leaving hundreds of thousands of workers jobless.”

Although TOMS likely has good intentions, its donation strategy may negatively impact the communities it seeks to support. Like the litany of organizations that donate shoes, clothes, and other items to developing countries, TOMS may be undermining the development of local businesses. And while making in-kind donations benefits consumers in the short run, stifling local industry and increasing unemployment in this way will intensify poverty in the long-term.

Another issue with organizations like TOMS is that donating shoes can be financially inefficient. Shoes are typically inexpensive in developing nations—in Mumbai, as in Port-au-Prince, one pair is sold for as little as \$2. Shipping a used pair of shoes often costs more; for instance, Soles4Soles solicits donations of \$3–\$5 to ship a pair of shoes to Haiti. In addition to hurting local business, in-kind donations sometimes simply waste money. We could actually save money and simultaneously help stimulate local economies by just keeping our old shoes and instead buying new ones from community-based vendors...

As consumers of “socially conscious” products, we need to be aware of the impact of our purchases. In a culture where giving back through consumption is increasingly popular, and where myriad companies market items that purportedly help those in need, we should be cautious and deliberate about how we choose to support international development.

## 5.2 “The Best and Simplest Way to Fight Global Poverty”

Yglesias, Matthew. “The Best and Simplest Way to Fight Global Poverty: Proof That Giving Cash to Poor People, No Strings Attached, Is an Amazingly Powerful Tool for Boosting Incomes and Promoting Development.” Slate.com. May 29, 2013. [http://www.slate.com/articles/business/moneybox/2013/05/unconditional\\_cash\\_transfers\\_giving\\_money\\_to\\_the\\_poor\\_may\\_be\\_the\\_best\\_tool.html](http://www.slate.com/articles/business/moneybox/2013/05/unconditional_cash_transfers_giving_money_to_the_poor_may_be_the_best_tool.html).

Poverty is, fundamentally, a lack of money. So doesn’t it make sense that simply delivering cash to poor people can be an effective strategy for alleviating it?

When it comes to the *global* poor—the hundreds of millions of slum-dwellers and subsistence farmers who still populate the world—one might be more skeptical. Perhaps the problems facing these unfortunates are simply too profound and too complex to be addressed by anything other than complicated development schemes. Well, perhaps. But there’s striking new evidence that helping the truly poor really is as simple as handing them money. Money with no strings attached not only directly raises the living standards of those who receive it, but it also *increases* hours worked and labor productivity, seemingly laying the groundwork for growth to come...

The research comes from a 2008 initiative in Uganda’s very poor northern sections. The government announced plans to give roughly a year’s worth of average income (about \$382) to young people aged 18–34. Youths applied for the grants in small groups (to simplify administration) and were asked to provide a statement about how they would invest the money in a trade. But the money was explicitly unconditional—parceled out as lump sums with no compliance monitoring.

[Researchers] surveyed 2,675 youths from both the treatment and the control group before dispersal of money, two years after dispersal of money, and four years after dispersal of money. The results show that the one-off lump-sum transfer had substantial *long-*

*term* benefits for those who got the cash. As promised, the people who received the cash “invest[ed] most of the grant in skills and business assets,” ending up “65 percent more likely to practice a skilled trade, mainly small-scale industry and services such as carpentry, metalworking, tailoring, or hairstyling.” Consequently, recipients of cash grants acquired much larger stocks of business capital and thus earn more money—a lot more money. Compared to the control group, the treatment group saw a 49 percent earnings boost after two years and a 41 percent boost after four.

...One of the most interesting results from the experiment is that recipients of grants actually report 17 percent *more* hours worked, suggesting that the money serves as a true bridge to economic opportunity. Grant winners increase both the quantity and quality of labor supplied, suggesting there should be at least some spillover benefits to the broader community. No doubt there are major limits to how far up the development ladder you can climb with this strategy: It might not work in moderately prosperous countries with more access to capital. But these results are extremely encouraging...

Poor people just need more money.

### 5.3 “Sacrificing Microcredit for Megaprofits”

Yunus, Muhammad. “Sacrificing Microcredit for Megaprofits” [op-ed]. *New York Times*. January 14, 2011. <http://www.nytimes.com/2011/01/15/opinion/15yunus.html>.

### 5.4 “Our Ineffectiveness at Measuring Effectiveness”

Pallotta, Dan. “Our Ineffectiveness at Measuring Effectiveness” (blog). *Harvard Business Review*. November 1, 2010. <http://blogs.hbr.org/2010/11/our-ineffectiveness-at-measuri/>.

## Synthesis Questions

1. Do you think the one-for-one model can be expanded to all product categories? Why or why not?
2. Would you like to start a social enterprise? What sector or type of product line do you think might work?
3. Do you think the world needs more people like Blake Mycoskie?
4. Are there any social enterprises that you support or whose products you buy? What attracts you to these companies and their products?

## Endnotes

1. Richard M. Murphy and Denielle Sachs, “The Fireflies Next Time: The Rise of Social Entrepreneurship and the Future for Global Capitalism.” Skoll World Forum in partnership with Forbes, May 2 2013, <http://skollworldforum.org/2013/05/02/the-fireflies-next-time/>.

2. Blake Mycoskie, "SXSW 2011 Keynote: Blake Mycoskie Gives Tip #1 for Business," YouTube video, 3:39, from a keynote speech at the SXSW festival, posted by "SX TX State" on March 15, 2011, <http://www.youtube.com/watch?v=Xlp1Pa1WKgM>.
3. Adriana Herrera, "Questioning the TOMS Shoes Model for Social Enterprise (blog) *New York Times*, March 19 2013, <http://boss.blogs.nytimes.com/2013/03/19/questioning-the-Toms-shoes-model-for-social-enterprise/>.
4. For more information on the United Nations Millennium Development Goals, go to <http://www.un.org/millenniumgoals/>.
5. A detailed outline of the study can be found on the website of the Convergences World Forum, "Convergences," accessed December 1, 2014, <http://www.convergences.org/en/bibliotheque/barometer-of-social-entrepreneurship/>.
6. Bill Gates "A New Approach to Capitalism in the 21<sup>st</sup> Century," transcript of remarks at the World Economic Forum 2008, January 24, 2008, Davos, Switzerland, <http://www.microsoft.com/en-US/news/exec/billg/speeches/2008/01-24wefdavos.aspx>.
7. Robert B. Zoellick, "Beyond Aid," transcript of speech given at George Washington University, September 14, 2011, Washington, DC, <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:23000133~pagePK:34370~piPK:42770~theSitePK:4607,00.html>.
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## Chapter 6

# Marketing Ethics: Selling Controversial Products



*Source: Frank Gruber, (CC BY-NC-NDS, 2.0, 2008)*

*Figure 6.1 Advertisers are continually exploring new media for advertising as they seek to break through the promotional clutter of modern life to attract the attention of consumers. Here, the Budweiser beer logo is imprinted on the top of a house adjacent to the Wrigley Field baseball park in Chicago, Illinois.*

## Legal and Ethical Constraints on Marketing and Advertising

This chapter explores the ethics of marketing and advertising. As the most visible form of marketing, advertising is one of the principal motors of a capitalist economy and also one of the largest modern industries: The global advertising market was valued at \$495 billion in 2013 (the United States was the largest national market at \$152 billion).<sup>1</sup> Ad-

vertisements not only inform consumers of available products, services, promotions, and sales, they serve a vital business function by allowing brands to distinguish themselves from competitors, which rewards firms for improving the quality of their offerings. Advertising is a key ally for innovation, because advertising allows firms to create awareness and desire among consumers to buy new products. Despite these benefits, the advertising industry has long been suspected of using devious tactics. As a result, many consumers are highly skeptical and even disdainful of advertising in general.

Advertisers sometimes take the risk of shocking the public with their ads because they are seeking to break through the communications clutter of modern life. Today, the average American is exposed to a great number of advertising messages every day, with estimates running from several hundred to several thousand ads per day.<sup>2</sup> In order to attract the public's attention, advertisers may resort to appeals and tactics of questionable taste. Little wonder that more than half of Americans believe that advertising today is out of control. Social critics point to advertising as one of the most objectionable aspects of our consumer economy. From the billboards that blot out the countryside along highways, to the television shows that are interrupted every few minutes by outlandish commercials, to the mailboxes and e-mail accounts that become cluttered with direct marketing, advertising methods are often criticized for being intrusive, offensive, silly, and even dishonest.

As a result of the perceived abuses of advertising, national governments all over the world have imposed laws and regulations on the advertising industry. Every country or region has its own area of sensitivity. In many Muslim nations, for example, there are prohibitions against advertisements that display nudity or offend traditional notions of decency. France and Germany prohibit comparative advertisements in which one brand claims to be superior to another.

The modern marketplace abounds with products that pose difficult challenges for regulators. Consider the example of tobacco and alcohol. These products can be harmful or dangerous, but many people nonetheless desire to consume them. Most Western countries have decided that it is counterproductive to outlaw the sale of tobacco and alcohol, as doing so may create a black market and stimulate organized crime. The official response of most governments has been to allow the sale of such products but to prohibit or strictly constrain their advertising. Other product categories that tend to be governed by specific advertising regulations include pharmaceuticals and financial products.

Many products have positive uses but can also be dangerous if misused, like automobiles, knives, razors, lighter fluid, pesticides, toys, athletic equipment, and so on. In such cases, the law usually prohibits advertising that encourages the consumer to use the product in a dangerous fashion. Another common type of marketing regulation is one that prohibits advertisements from making false, deceptive, or misleading claims. In most countries, such rules are enforced by the ministry for consumer affairs. In the United States, rules against deceptive advertisements are promulgated and enforced by the Federal Trade Commission (FTC).

There are certain product categories in which exaggerated claims are commonly made. For example, in the case of skin creams, cosmetics, perfumes, deodorants, toothpaste, mouthwash, and so on, advertisers typically claim (or suggest indirectly) that their products make the consumer more physically attractive, especially to the opposite sex. The problem is that some consumers may not be sophisticated enough to discern the difference between innocent puffery and claims of effectiveness. Thus, teenage boys have been known to douse themselves with Unilever's Axe deodorant products in the hope that they will

attract females as effectively as is suggested in Axe's notoriously provocative advertising. Many advertisements for such products come so close to making deceptive appeals that they may trigger the FTC's attention. As a result, advertisers have learned to be cautious in the precise wording of their claims. For example, advertisements for skin cream may permissibly suggest that the user's skin will "look and feel better" after use of the product, but they cannot include text guaranteeing the disappearance of wrinkles.

In many countries, regulators are especially vigilant when it comes to advertising aimed at children, because it is felt that children are sometimes more susceptible to manipulation or suggestion and are less likely to understand the dangers associated with the use of an advertised product. In Greece, for example, toy advertisements are prohibited between the hours of 7 a.m. and 10 p.m. In Sweden and Norway, all advertising aimed at children is prohibited, and in France, a child may not appear as the spokesperson in a commercial. In Holland, advertisements for sweets must include a toothbrush at the bottom of the ad to remind children to brush their teeth after eating sweets.

In this chapter, we will begin with a review of the advertising industry's "self-regulation" of objectionable or unethical advertising. Many advertisements and marketing tactics fall into a regulatory gray area, where the advertisement is technically legal but still manages to offend some of the population. A frequent cause of such offense is the advertiser's quest to develop a humorous or surprising advertisement. For example, one Danish advertisement featured an image of the Pope wearing a particular brand of sneakers, which offended many Catholics. In Italy, the fashion company Benetton shocked the nation by using an advertisement in which a priest is seen kissing a nun. In cases like these, it is not possible to make the advertisements illegal, but advertising industry associations feel it is necessary nonetheless to police the market for objectionable advertisements.

Our chapter-ending case study will deal with the ethical dilemma faced by executives at an advertising consultancy that is considering accepting an account for a global brand that manufactures skin-whitening products. The CEO of our company will call upon us to consider and debate the pros and cons of developing a US advertising campaign for Fair and Lovely, an Indian brand. In the United States, this product is demanded primarily by immigrants from South Asian countries, a large and growing demographic.

Many people feel that advertisements for such products contain racist appeals, since they are implicitly based on promoting the superiority of white skin. Is it ethical to market and promote such a product? Why or why not? Let us first consider some background to allow us to answer these questions.

## Principles of Marketing Ethics

As stated earlier, every country has a basic framework of advertising law. Many types of advertisement are simply prohibited by law. However, with respect to advertisements that are legal but morally questionable (or otherwise objectionable), the advertising sector polices itself by applying self-regulatory codes of marketing and advertising ethics. This means that the advertising industry sets up its own committees to police questionable advertisements. Virtually every country has at least one advertising industry trade association with a self-regulatory panel or committee that reviews consumer complaints. After examining the advertisement in question, the panel decides whether or not to ask the advertiser to remove

the advertisement; although advertisers are not legally obliged to follow the decisions of such committees, they usually do.

The self-regulatory panels base their decisions on ethical principles contained in codes of advertising ethics. The most influential codes are those established by the International Chamber of Commerce (ICC); ICC Codes are followed by advertising bodies in over 30 countries. The ICC Codes are based on the core principles of legality, decency, honesty, and truthfulness in all marketing communications. The ICC further emphasizes that “all marketing communications should be prepared with a due sense of social and professional responsibility and should conform to the principles of fair competition, as generally accepted in business. No communication should be such as to impair public confidence in marketing.”

Self-regulatory codes are deliberately framed in general terms, because it can be very difficult to objectively define what kind of advertisement can be considered “decent.” It is assumed that standards of decency vary on a national or cultural basis, and in addition are likely to change over time. Thus, the ICC Code thus provides general guidelines: “Marketing communications should not contain statements or audio or visual treatments which offend standards of decency currently prevailing in the country and culture concerned.”

The ICC Code further stipulates the following:<sup>3</sup>

- Marketing communications should be so framed as not to abuse the trust of consumers or exploit their lack of experience or knowledge. Relevant factors likely to affect consumers’ decisions should be communicated in such a way and at such a time that consumers can take them into account.
- Marketing communications should respect human dignity and should not incite or condone any form of discrimination, including that based upon race, national origin, religion, gender, age, disability, or sexual orientation.
- Marketing communications should not without justifiable reason play on fear or exploit misfortune or suffering.
- Marketing communications should not appear to condone or incite violent, unlawful, or antisocial behavior.
- Marketing communications should not play on superstition.

## Examples of Objectionable Advertising

### Discriminatory Advertisements

As we review the history of advertising, we will observe that certain ads and campaigns were previously considered acceptable, and even popular, but today would generally be regarded as objectionable (in clear violation of one or more of the principles outlined above). Such cases can help illustrate the ongoing evolution of community standards in marketing ethics.



Source: Kim Bhasin and Patricia Laya, "26 Shockingly Offensive Vintage Ads," *Business Insider*, June 14, 2011.

Figure 6.2 This is a vintage Schlitz beer advertisement from 1951.

Consider the vintage ad for Schlitz beer in Figure 6.2. A suit-clad husband is comforting his tearful wife, who has just burned the evening's dinner. The advertising copy reads as follows: "Don't worry, darling, you didn't burn the beer." This advertisement appears to be aimed at men and contains a mocking and patronizing reference to young housewives of the day. In its time, such an advertisement was probably considered by many to represent light-hearted humor, but today it would be considered offensive by many viewers. The unstated implication is that men are breadwinners while women are weepy and emotional homemakers. By contemporary standards, the Schlitz ad is overtly sexist.

While it might seem that such advertisements are relics of the past, controversial discriminatory appeals and references continue to appear in the media. As a further example, consider the advertisement for the Mountain Dew soft-drink in Figure 6.3:<sup>4</sup>



Source: Christopher Heine, "Mountain Dew Pulls 'Arguably Most Racist Commercial in History,'" *Adweek* (2013)

Figure 6.3 Mountain Dew's zany but ill-fated campaign featuring a Mountain Dew-crazed goat.

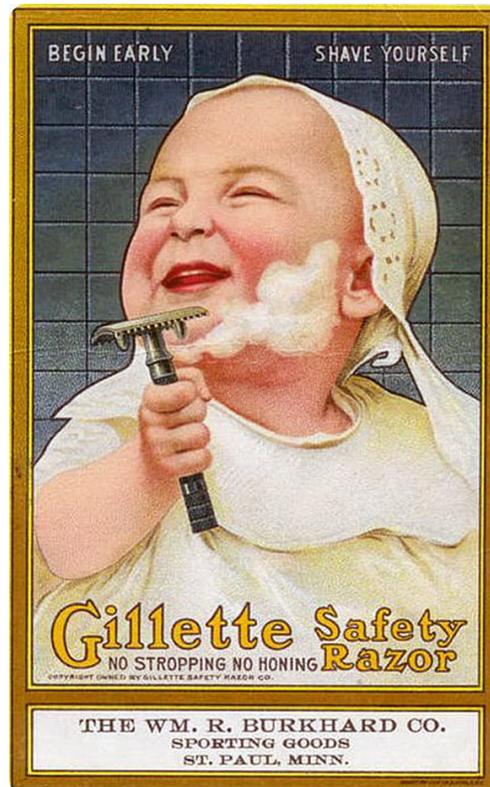
Mountain Dew had run a successful series of edgy commercials targeted at Internet viewers and users of social media (an increasingly popular tactic). Perhaps influenced by

the remarkable success of insurance company GEICO's advertising mascot (a green gecko with a cockney accent), Mountain Dew had created a series of ads featuring a goat with a crazed passion for the caffeine-laced green soda. For one of these commercials, Mountain Dew hired hip-hop artist Tyler the Creator to create and produce the advertisement. In the ad in question, the goat is driving a car and is pulled over and arrested by a policeman. In flashback, we see the goat attacking a woman to wrench away her bottle of Mountain Dew, leaving the woman bloodied and wounded. In the next scene, the woman tries to identify her assailant from a police line-up that features the goat and four black men. Drinking steadily from a bottle of Mountain Dew, the policeman prods the woman to make a choice. The goat responds to the situation by speaking in a parodic hip-hop style, employing slang phrases such as "do her up" and "ya better not snitch on a playa." Meanwhile, the Dew-amped policeman urges the woman to "nail this little sucker" and suggests it is "the one with the doo-rag."

In retrospect, one wonders how such an offensive advertisement could have been released by a subsidiary of one of the world's largest marketing organizations (Mountain Dew is a PepsiCo subsidiary). There was a great deal of outrage voiced when the ad was posted on Mountain Dew's music/arts website. One college professor labeled the commercial as "arguably the most racist commercial in history." The ad was promptly pulled and PepsiCo accepted full responsibility and apologized. To no avail, PepsiCo had pointed out that Tyler was African-American and that the four black men featured in the lineup were actually his close friends. Apparently, the irony intended by Tyler was meant to mock racism and discriminatory police practices. However, as many other advertisers had learned before, humor is a two-edged sword in advertising. It can attract attention, but it can also be misunderstood and cause offense.

## Encouraging Harmful or Dangerous Practices

The advertisement in Figure 6.4 illustrates two categories of advertising that merit special scrutiny: advertisements featuring children and advertisements encouraging misuse of a product. Would any parent think it appropriate to have his or her infant shave himself with a razor? Of course not, but clearly that was not the intent of the advertiser.



Source: Kim Bashin, "20 Creepy Ads Featuring Children," *Business Insider*, Oct. 26, 2011.

Figure 6.4 This is a vintage Gillette advertisement from 1905.

The ad is attempting to be humorous by employing an absurd image, a baby shaving itself. The ad is also trying to make the point that the new Gillette safety razor is so safe that even a baby could use it without harm. There also may have been an intention to create an association between the smoothness of a baby's skin and the closeness of the shave provided by the razor. By today's standards, however, the advertisement appears reckless. While it is not possible that a baby would be influenced by an advertisement, it is not inconceivable that a small child of five or six years of age might be encouraged by this advertisement to play with a razor: The baby seems to be having such fun, and the small child might have seen his or her father shaving. Regardless of the likelihood that the advertisement could cause harm, today's advertisers have become increasingly wary of using advertising that features children engaged in dangerous activities.

## Potentially Dangerous Products: Advertising Bans and Restrictions

As stated above, there are products that are sold legally but that are considered to have such a high potential for harm or abuse such that their advertising has been banned or regulated. Let us consider just two such product areas: cigarettes and alcoholic beverages.

## Cigarettes

When a cigarette means a lot...

you get **Lots More** from **L&M**

**more body in the blend**...there's a special rich-flavor leaf—and more of it—among L&M's choice tobaccos.

**more flavor in the smoke**...every puff is heartier, for L&M has more longer-aged, extra-cured leaf than even some unfiltered cigarettes.

**more taste through the filter**...for full pleasure. And with L&M's modern filter—the Miracle Tip—only pure white touches your lips.

It's the rich-flavor leaf that does it!

Source: Cory Doctorow, "Particularly Despicable Cigarette Ad," Nov. 25, 2011.

Figure 6.5 This is a 1962 advertisement for the L&M cigarette brand featured in the edition of *Popular Science* magazine.

Concerned with medical research that revealed the health hazards of smoking, the US and European governments began to regulate tobacco advertising in the 1960s. The print ad in Figure 6.5, from 1962, features an idyllic family scene that suggests that a smoker gets “lots more” from a particular brand. The ad suggests that one acceptable way to enjoy the smoking experience is to smoke in the company of one’s spouse and children. In 1964, however, the US Surgeon General issued a formal report that concluded that smoking caused lung cancer and chronic bronchitis. This led to the government instituting a series of regulations aimed at the tobacco industry. The new laws required health warning labels on all cigarette packages and required that all cigarette companies file annual reports to the FTC. One goal of these regulations was to oblige the large tobacco companies to disclose their advertising expenditures and strategies, so that the government would be able to assess the link between tobacco advertising and smoking-related health risks.

Throughout the late 1960s, the US government accumulated and analyzed data on the marketing and advertising practices of the large cigarette companies and finally concluded that tobacco advertising encouraged smoking. As a result, the Public Health Cigarette Smoking Act was passed and signed into law in 1970. This act banned all cigarette advertising on television and radio advertising in the United States. At the time the prohibition went into effect, tobacco companies were spending eighty percent of their advertising budgets on television advertising, so the impact of the law was significant.

Subsequently, the United States enacted further restrictions on cigarette advertising. In 1999, billboard advertising of tobacco products was banned. In 2010, tobacco companies were prohibited from sponsoring athletic, musical, or artistic events, and from featuring their logos on apparel. However, the government has stopped short of banning print advertising. These governmental efforts have been matched by a certain level of self-regulation on the part of tobacco companies. For example, after a public outcry over its use of a cartoonish camel to sell cigarettes (it was feared that such advertising would be appealing to children and teenagers), Camel Cigarettes voluntarily stopped advertising in magazines in 2007. However, in 2013 Camel resumed its practice of advertising in magazines.

## Alcohol

Alcohol has been classified by the International Agency on Research for Cancer (IARC) as a Group 1 carcinogen, meaning that the circumstances in which humans are exposed to alcohol are sufficient to create a risk of cancer. According to the World Health Organization (WHO), alcohol causes approximately 1.8 million deaths per year. In the United States alone, approximately 10,000 deaths per year are the result of automobile accidents caused by drunk driving. Despite these sobering statistics, the US government has taken a very different approach to alcohol advertising as compared with tobacco advertising. In essence, the FTC has primarily asked the alcohol industry to self-regulate.

Given that advertising is known to be an effective means of increasing sales and market share, why would alcoholic beverage companies agree to abide by self-regulation? Here, the example of advertising bans on tobacco products is instructive. Other industries whose products are seen as controversial have been influenced by the threat of an advertising ban similar to that placed on tobacco products. Consequently, trade associations for such industries have sought to maintain an open dialogue with legislators in the hope of appeasing them with effective self-regulation, so as not to be faced with a total ban. In the United States, the self-regulatory focus has been to minimize the exposure of underage drinkers to the advertising of alcoholic beverages. Currently, the alcoholic beverage industry has agreed to restrict advertising in print, TV, and radio to those venues where studies show that more than 70% of viewers will be of drinking age (i.e., older than 21). Further, the industry has agreed to support a public campaign against underage drinking and to include warnings about drinking responsibly in all advertising. The FTC has urged industry to apply the 70% rule to sponsorship of musical and sporting events as well but no agreement has been reached.

Even with these self-regulatory measures in place, there remains a good deal of concern among watchdog groups about the appeal of TV advertising to young people, who are considered more likely to abuse alcohol than older viewers. Moreover, the alcohol industry continues to employ advertising appeals based on the implicit sexual allure of drinking in bars or at parties. This approach is disturbing to industry critics who see the glamorizing and sexualizing of alcohol consumption as another way of attracting young people to alcohol products. As with cigarettes, the implicit threat is that if the industry can get young people “hooked” early in life, then they will become lifelong consumers of a product with known health risks. Youths who begin drinking at age 15 are four times more likely to become alcoholics than those who begin drinking at age 21.<sup>5</sup>

## Case Study: The Marketing of Skin-Whitening Creams

Americans—in particular, white Americans—spend hours in tanning salons going to great efforts (and sometimes even incurring great pain and health risks) to make their skin darker. In other parts of the world, such as the Caribbean, Africa, East Asia, and the Indian sub-continent, people go to much expense to lighten their skin. They do so through the purchase and application of skin-whitening or skin-lightening creams that purport to make dark skin lighter. (Whether or not they actually work is controversial.) In many of these regions, lighter skin is more highly regarded socially. Arguably, this phenomenon is a sad by-product of colonialism, in that it is based on a positive association with the skin color of Caucasians. The flip-side is that, in the United States and Europe, darker skin is often considered attractive and exotic.

*Fair and Lovely* is an Indian brand of skin-whitening products manufactured and marketed by Hindustan Lever Ltd. (HLL). *Fair and Lovely* is the top-selling skin-whitening brand in India, followed closely by *Fairever* which is made by CavinKare. HLL advertising touts Fair and Lovely as a “miracle worker” and claims that it is “proven to deliver one to three shades of change.” As a result of competition from *Fairever*, HLL stepped up its marketing efforts in recent years, which led to a great deal of controversy. One of the controversial HLL ad campaigns was based on the theme “The fairer girl gets the boy.”

In one of the typical television commercials used in this campaign, a poor father is lamenting the fact that he does not have a son who can work and help support the family. His daughter, who has dark skin, looks on and clearly feels a sense of guilt. When she seeks employment, she is rebuffed because of her dark skin. Her unhappy lot is magically transformed with the use of *Fair and Lovely* skin-whitening cream. Suddenly, she not only appears to have much lighter skin, but the other characters in the commercial perceive her as much more beautiful. She dons a miniskirt and finds employment as a flight attendant, receiving the romantic attention of a fair-skinned Westerner. Among the many improbable benefits associated with use of *Fair and Lovely*, it seems, are a wardrobe change, secure employment, and a foreign boyfriend. The newly confident young woman is now a success and can take her proud father out for a lavish dinner.

The popularity of *Fair and Lovely*, as well as other skin-whitening creams, is tied to Indian cultural traditions. Lighter skin has been associated with a higher caste and therefore greater social status. Most of the famous female stars in India’s popular Bollywood movie industry are light-skinned. Do the *Fair and Lovely* products—or those of competitors—really make someone’s skin lighter? Or is this idea just an illusion perpetuated by effective advertising? In its official documentation regarding Fair and Lovely, HLL only states that the cream contains vitamins essential to skin care and UV blocking agents (as in sunscreens). In other words, rather than actually turning the skin lighter, *Fair and Lovely* may only work by keeping skin from getting darker, something likely to happen in sun-drenched areas of India. Critics claim that at best such products temporarily bleach skin lighter.

Not everyone in India is comfortable with the promotion of skin-whitening creams. A number of groups have come out against HLL and Fair and Lovely, charging the company with deceptive advertising and the promotion of discrimination and sexism. Many critics point out that the celebration of lighter skin is implicitly a rejection of darker skin. Thus, the

Women of Worth Foundation launched a campaign called “Dark is Beautiful” to protest skin-whitening products.

Indian fashion writer Rumnique Nannar observed the following:

I’ve heard the stray dig “for a Punjabi, you’re quite dark” or jokingly mentioned, “are you sure you haven’t been adopted from Kerala?” or even the infamous, “wow, you are, like, so exotic”—all standard fare for me as the darker blip in family photos. Having your identity reduced to skin tone can be crushing, particularly when it doesn’t fit with the more fair ideal admired by most cultures. In India, ads by Emami and Fair and Lovely often seemed laughable and pompous to me, with grandfathers sanctioning the use of skin lightening creams to ensure the success and subsequent beauty of their dusky daughters.<sup>6</sup>

Nannar points out that to be identified or even judged according to one’s skin color is demeaning and diminishes a woman’s self-esteem and creates a sense of insecurity.

## Topic for Debate: Should an American Advertising Agency Represent Fair and Lovely?

In this fictional case, a small but highly successful new advertising agency based in New York City, Enviralism, Inc., has become known for its ability to craft effective social media campaigns targeting the so-called millennial generation (young people born between the early 1980s and early 2000s). Enviralism has become successful especially with rapidly growing high-tech, fashion, and communications groups. This small agency is known for its cutting-edge creativity.

The CEO of Enviralism, Ralph Rodriguez, has been approached by Unilever, one of the world’s largest consumer goods conglomerates, with a US advertising budget in the tens of millions, to craft a strategy for marketing Fair and Lovely products to South Asian and East Asian immigrants and their first-generation children. Unilever is aware of the controversies surrounding Fair and Lovely products, but is also aware that there is a significant US market for skin-whitening products. As a result, Unilever would like to tap into Enviralism’s knack for thinking up unusual, outside-the-box marketing strategies. In its initial discussions, Unilever has talked about starting with an annual \$2 million budget, which might be doubled or tripled in subsequent years. This would instantly make Unilever the largest client at Enviralism, which is still a very small boutique agency with only 18 employees.

However, when Rodriguez discusses the opportunity with his Creative Director, Elaine Williams, she demurs: “That’s a straight-up racist product, Ralph. We can’t go there, no matter how much money it makes us.”

Ralph, who has just invested \$200,000 in renovating a Williamsburg loft into beautiful new offices for Enviralism (complete with state-of-the-art computer and graphics equipment), is not so sure.

He counters, “What about Coppertone? What about Hawaiian Tropic? Those products make people’s skin darker, supposedly, but nobody complains. What about Afro Sheen and other hair-straighteners for the black community? Nobody says those are racist. This is a

\$500 million market in India alone, not to mention a standard skin-care product category in Japan, China, Indonesia, and Thailand—we're talking about a market with well over two and a half billion people!"

Ralph can see that Elaine is not convinced, so he schedules a board meeting where his top executives will argue the case, pro and con, for accepting the Unilever account. You will be assigned to one of those teams. Should Enviralism agree to craft advertising campaigns for the Fair and Lovely product line?

## Affirmative

Enviralism should agree to represent Fair and Lovely in the United States.

### Possible Arguments

- We have a responsibility to customers to provide them with the products they desire; we should not demean our customers by treating them like children.
- Fair and Lovely is not dangerous and may provide psychological benefits to customers, like other cosmetics products.
- Fair and Lovely's skin enrichment, sun blocking, and moisturizing features are beneficial.

## Negative

Enviralism should refuse to represent Fair and Lovely.

### Possible Arguments

- Fair and Lovely is an ineffective product and its related advertising claims are therefore deceptive.
- Fair and Lovely promotes and sustains social, racial, and ethnic stereotypes and prejudices.
- Marketing Fair and Lovely would be socially irresponsible.

## Readings

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## Synthesis Questions

1. Is there anything wrong in marketing cosmetics products with the suggestion that they make the buyer more beautiful, even if this is unrealistic in many cases?
2. Should skin-whitening products be legal? Why or why not?
3. Does modern society have too much advertising? How could we control it? Can you suggest any specific mechanisms or regulations that should be implemented?

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## Chapter 7

# Organic Food: Health Benefit or Marketing Ploy?



*Source: Richard Smith, (CC-BY 2.0, 2010)*

*Figure 7.1 Farmers and food distribution and retail companies have learned to capitalize on the allure of organic foods, as we see in this eye-catching display of organic produce farmed in India.*

*Many claims are made for the benefits of organic food—but is it really healthier?*

*What are the pros and cons of growing and eating organic food?*

## The Organic Trend

Consumers all over the world are becoming increasingly health conscious and are more than ever concerned about the quality of their food supply. Food is also crucial economically: Forbes magazine estimates that food is the world's biggest industry, citing 2006 World Bank statistics that indicated that food represented about 10% of global gross domestic product, roughly \$4.8 trillion dollars.<sup>1</sup>

One of the major food choices facing consumers today is whether to buy organic or conventional food. While consumers wishing to buy organic food once had to seek out a specialized health food store or a farmers' market, organic food is now a standard offering at major supermarket chains. Today, organic food is the fastest growing segment of the American food industry. Between 1997 and 2010, US sales of organic food increased from \$3.6 billion to \$26.7 billion, an extraordinary rate of growth.<sup>2</sup> By 2011, organic foods earned over \$31 billion in the United States and accounted for about \$450 million in exports in 2012. There are now over 17,750 USDA certified organic food producers and processors in the United States, and over 25,000 worldwide that meet USDA standards.

The growth in organic food sales has been so rapid over the past two decades that the phenomenon begs for explanation. Is it just a massive social fad, or does it reflect a profound change in our modern marketplace and in our personal consumption habits? Given the importance of food in the global economy, the trend toward organic foods is destined to have a major impact on a wide range of business sectors, including agriculture, food processing, supermarkets and groceries, fast food chains, restaurants, hotels, school and workplace cafeterias, caterers, and so on. Businesses in each of these sectors will have to make strategic decisions regarding the extent to which they will feature organic food products or related services.

In order to make responsible decisions, companies will need to understand the pros and cons of organic food, and especially why consumers are gravitating toward organic options. In fact, consumers who choose organic foods are driven by a number of different motivations and factors. The most common reasons for choosing organic foods are health concerns, including fear of pesticides and bacterial-borne illnesses; higher nutritional value; better taste; and environmental sustainability. However, as we will see, there is no clear consensus on the benefits to be derived from organic foods in any of these areas.

Regardless of the discussion over the benefits claimed for organic foods, there is no question but that they are more expensive. Organic foods are more costly to produce and as a result the prices to consumers are higher, with some organic options costing twice as much as their conventional counterparts. As a general rule, consumers will not pay significantly higher prices unless they are driven by some clear motivation. As with so many other areas in our society, the access to organic food—and the ability to afford it—comes most easily to those with deeper pockets. This creates a dilemma for many businesses faced with a choice between organic and conventional alternatives. If they offer organic food options, they will incur greater costs and have to charge a higher price. Whether or not this is a smart, strategic decision is an issue that every company (and every consumer) will have to decide on a case-by-case basis.

In this chapter's debate section, we will consider the case of a private hospital deciding whether or not to institute an all-organic food service. Many hospitals are already beginning to provide some organic and locally produced food. As consumer demand increases for organic food, should hospitals follow this trend? The disturbingly high cost of health care is already one of the most contentious issues in American politics today. Should hospitals nonetheless accept the higher costs (and hospital charges) associated with organic offerings, so as to model and promote a public health policy related to nutrition? Should a hospital devote a greater percentage of its operating budget to providing organic food? The more a hospital spends on food, the less it will have available for other important health-related services. Will the health outcomes associated with eating organic food (even for the short

time of the average hospital stay) outweigh the potentially higher costs entailed, or are the benefits too uncertain, taking money away from more pressing medical needs?

In order to answer these questions, we need to have a better understanding of the pros and cons of organic foods, especially relative to health outcomes. Organic farming practices attempt to promote a healthy and sustainable relationship between animals, humans, and the environment. Organic food production is a booming industry, but is it actually providing healthier, more nutritious food, or is it a successful packaging and marketing strategy with no real value to consumers?

## What Is “Organic”?

In general, organic means that food was grown or produced without the use of synthetic pesticides or fertilizers, without GMO ingredients, without chemical food additives or artificial food-ripening substances, and without irradiation. Meats labeled as organic must come from animals raised without hormones or antibiotics. Processed foods may be allowed to contain a small percentage of non-organic ingredients and still be labeled organic (in the United States, no more than 5% non-organic). Note, however, that organic fruits and vegetables may be grown with a certain usage of natural (non-synthetic) pesticides and natural fertilizers. Animals raised for meat on organic farms may be treated briefly with antibiotics to manage disease.

In the United States, the 1990 Organic Foods Production Act (OFPA) set the national standards for the meaning, regulation, and certification of organic food. Only farms and facilities that have been inspected and certified by the USDA can claim to be organic and use organic on their labeling and packaging. Other countries around the world have different standards for what it means to be certified organic, which makes the import and export of organic foods difficult. In response to these constraints, the European Union and the United States created a new partnership in organic trade equivalence in 2013 with the objective of allowing organic products to flow more easily internationally.

For most of human history, agriculture was, by default, what we now call organic. Chemical pesticides only came into regular use about 60 years ago, allowing for expanded farming and greater output. Early on, most pesticides used were insecticides, but as potency increased, the amount of insecticides needed began to drop. Now about 70% of pesticides used are herbicides, and most of those are used in the cultivation of corn. Although pesticides are used widely across the United States, there is some fluctuation depending on the current pest infestations and types of crops. As public awareness grew about the potential dangers of chemical pesticides, certain pesticides were banned during the 1960s and 1970s. Consumers and public health advocates began demanding a return to natural and organic food production. The increased scrutiny led to new restrictions on the toxicity of allowable pesticide use. Today, chemical pesticides must adhere to health and environmental standards, and chemical companies continue developing new pesticides that may be less harmful to humans and the environment.

In addition to organic pesticides, organic farmers battle insect and pest infestation with crop rotation and cover crops.

# Organic Food Evaluated: Pros and Cons

A poll conducted in 2011 by NPR–Thomson Reuters found that 58% of American consumers preferred organic foods.<sup>3</sup> The reasons cited by those that preferred organic were support for farmers' markets (36%), avoiding toxins (34%), environmental impact (17%), and taste (13%).

Let us now briefly examine some of the claimed benefits and alleged disadvantages of organic food and organic farming.

## Environmental Impact

### Pro

- Because organic farming is done without the use of pesticides and chemicals, toxic residues do not poison the land, water, and air. Organic farming is a sustainable use of land and resources. Crop rotation promotes fertile, healthy soil.
- Pesticide use in conventional farming contaminates runoff, water flowing over land, which is a natural part of the water cycle. Pesticide residues are found in ground water, surface water, and rainfall. This means that contamination may not be isolated in food produced with pesticides, but affects the environment as well.
- Healthy soil is a key component of organic farming.
- Organic farming seeks to protect and promote biodiversity.
- Conventional food production often involves thousands of miles of transportation from point of production to the grocery store, using oil and gas that contribute to global warming.

### Con

- While one of the arguments for organic farming is the absence of chemical pesticides, natural pesticides may be used on organic farms, and these may also have potentially harmful effects. Organic plants grown without chemical or natural pesticides or fertilizers may produce naturally occurring pesticides, called phenols, to protect themselves against insect infestation. The effects of phenols on humans is an ongoing area of research and debate, as those in favor of organics tout their benefits while those skeptical of organics purport their potential health risks.<sup>4</sup>
- Pesticides allow farmers to obtain larger harvests and are therefore an economic asset to food production. Every dollar invested in pesticides results in about four dollars' worth of crops produced. Pesticide use makes more economic sense, and provides more food to more people.
- Organic farming is too costly in terms of its greater use of land and resources. Organic farms are less productive (80% in one study) than conventional farms,<sup>5</sup> and therefore require greater land use. In organic farming, weeds are removed without the use of chemicals. However, mechanical cultivation—including turning soil between crops to reintegrate plant parts and physically removing unwanted plants—can actually damage soil structure, remove needed moisture, release carbon into the atmosphere, and lead to increased soil erosion.

- As organic food carves out a greater share of the market and international markets expand, the carbon footprint of organic food distribution may exceed that of conventional food.

## Health Impact

As often happens when opposing groups look at the same data, they come to different conclusions. In the view of proponents, organic food is much better for your health than conventionally grown alternatives. However, a number of studies, including a controversial metastudy published by researchers at Stanford University Medical School in 2012, find no evidence of significant benefits from organic food consumption in terms of health outcomes. There have been no long-term studies following children and adults who consume only organic food, and such studies would actually be rather cost-prohibitive to conduct. Nonetheless, let us review the arguments put forward by both sides.

### Pro

- Organic produce has much lower—as much as 81% lower—levels of pesticide residue than conventional food. It also almost never contains high-risk pesticides. And while conventional produce can harbor multiple pesticide residues, that is rarely the case with organic produce.
- Evidence suggests that fetuses exposed to pesticides have higher rates of neurodevelopmental problems and disorders, birth defects, autism, ADHD, asthma, and lower IQ. In one study, school-aged children who began a primarily organic diet showed no pesticide exposure after only five days. Switching to an organic diet can thus have immediate and very beneficial advantages. Like fetuses and young children, other segments of the population, especially the elderly and people with degenerative diseases, are particularly vulnerable to the damaging effects of pesticide exposure. Another area of pesticide use that cannot be overlooked is its impact on the health and safety of farmworkers who have higher levels of exposure with conventional farming practices than organic.
- Proponents of organic farming maintain that organic food is more nutritious than conventional food. Organic apples, strawberries, grapes, carrots, milk, and grains have been found to have higher levels of vitamin C, antioxidants, and phenolic acids as compared to conventional food. On average, organic produce has nutrient levels 12% higher than conventional fruits and vegetables.
- Organic dairy products and meats contain an optimal balance of omega-6 and omega-3 fatty acids. Fats, consumed in the right amount, are crucial to human health. They provide energy, are the building blocks of cell membranes, and can be converted into other essential substances, like hormones, which are necessary for healthy bodily functioning. Diets higher in omega-6 and lower in omega-3 fatty acids can lead to a higher incidence of myocardial infarction and heart disease. On the other hand, eating diets with the optimal ratio of omega-6 and omega-3, found in organic food, can decrease the risk of heart disease.
- Organic farming virtually eliminates the consistent use of antibiotics in meat and dairy production, limiting the spread of antibiotic-resistant bacteria into the human population. Conventional meats are 300% more likely than organic to test positive for bacteria resistant to three or more antibiotics.<sup>6</sup> About 70% of antibiotics given in the United States are used for animals in meat production, not in

treating sickness, but to enhance growth and to mitigate the ill effects of overcrowding.<sup>7</sup> Antibiotic resistance makes the treatment of infectious diseases much more difficult to control. The Centers for Disease Control (CDC) lists antibiotic resistance as one of its top concerns. The production of organic meat therefore has an immense public health benefit.

### Cons

- The now well-known and often referenced Stanford study, a meta-analysis and comprehensive review of academic research on organic food and production, found virtually no health benefits associated with consumption of organic food. The Stanford research reported that organic food had only a 30% lower risk of pesticide residue than conventional food, compared to the 81% lower risk claimed by those in favor of organics.
- The Stanford study also found no significant differences in the nutritional value of organic versus conventional produce. The researchers noted that the risk for the presence of *E. coli* (a common bacteria) was about the same in organic and conventional produce. Although they also acknowledged that only five studies have been done, they found that four out of the five studies actually found a slightly higher risk for *E. coli* in their organic samples.
- Other studies have found that manure, a natural fertilizer, often transfers *E. coli* to soil, plants, and water used in irrigation and cleaning. Even though organic farming requires manure to be composted before usage and may only be applied to soil not used for growing food for human consumption, *E. coli* may still survive and can live in soil for over 200 days. This means that even if crops are rotated, *E. coli* can remain a threat to a new crop and to human consumers.
- Actual practices in organic farming differ widely. Although the USDA has attempted to define “organic” for certification purposes, these regulations nonetheless permit a great deal of variation of production methods in organic farming, just as in conventional food production. Simply having an organic label may not be a guarantee of best practices or of safe and nutritious food.
- In October 2012, the American Academy of Pediatrics (AAP) issued their first statement about organic food consumption, stating that there simply is not enough evidence to support claims of clear health benefits from an organic diet. While the AAP confirmed research that higher levels of pesticide residues and antibiotic-resistant bacteria are found in conventional rather than organic food, they advocated for parents to provide their children with a well-rounded diet, including a variety of fruits and vegetables, whether organic or not.

## Hospitals, Health Care, and Organic Food

Just as ordinary consumers are showing a steadily increasing market preference for organic food, medical patients are following suit, expecting and demanding fresher, healthier, organic, and local foods. Many hospitals are beginning to respond to this demand, offering more organic food, hosting farmers’ markets in their facilities, and providing more information about nutrition to patients and medical workers. In addition to patient demand, organizations like the international coalition Health Care without Harm (HCWH) have

pushed for changes to provide healthier and more sustainable food options in the health-care industry as well as education about nutrition. HCWH has issued a blueprint for change, including a variety of ways that hospitals can incorporate healthier food in their facilities, ranging from forming food “teams” and holding conferences to purchasing local and/or organic food.<sup>8</sup>

Traditionally, economic costs and organizational issues have made buying and providing organic food in hospitals a challenge. Hospitals have their own regulations and standards concerning food and food delivery. For example, some hospitals require potatoes to be delivered already peeled and cut, which lies beyond the production and distribution capabilities of most small organic farms.

Hospitals in the United States have predominantly relied on large-scale, nationwide food distributors. However, in 2005, MedAssets, a major purchasing agent for the health care industry, teamed up with United Natural Food, the leading distributor of natural and organic food, to supply healthier food options to hospitals around the country. In the first quarter of 2013, United Natural Food earned revenues of about \$1.64 billion, up 22% from the previous year. There are almost 6,000 registered hospitals in the United States today.<sup>9</sup> More than 2,000 hospitals in the United States offer some permutation of organic and local foods to patients and staff.

Many hospitals already do community outreach, running educational programs targeting nutrition and healthy eating. Some examples of local/organic food initiatives supported by hospitals today include the following:

- Catholic Healthcare West, a health system with 42 acute care facilities in three states, has developed an educational program about the relationship between food production and ecology, and no longer purchases dairy products containing the hormone rBGH.
- Kaiser Permanente hosts farmers’ markets in 25 of its medical buildings around the country and serves local and organic produce according to seasonal availability. To balance cost concerns, Kaiser has made changes in some of its traditional food service, including eliminating dessert from patient meals and replacing it with fruit.
- Dominican Hospital in Santa Cruz, California, buys organic food from a local farm and has created its own vegetable garden.
- Good Shepherd Medical Center in Hermiston, Oregon, no longer serves deep fried food and is switching to more organic food.
- St. Luke’s hospital in Duluth, Minnesota, now provides fair trade coffee, rBGH-free milk, wild salmon, and local organic salad.
- Alice Peck Day Memorial Hospital in Lebanon, New Hampshire, purchases vegetables from a local organic farm and provides an informational card with food served to patients. Food waste is returned to the farm for composting.
- Fletcher Allen Health Care in Burlington, Vermont, buys organic eggs and grows vegetables on its rooftop garden.

Although food does not make up a large part of a hospital’s operating budget, food prices continue to rise between 3% and 5% yearly, and with the cost of health care also increasing, every dollar spent must be justified by hospital management.

While patient demand may be spurring change, physicians and hospital workers also have a personal stake in the food served in hospital cafeterias and commissaries. Doctors, nurses, and other hospital workers account for most of the food consumed in hospitals. As more research shows links between diet and health outcomes, hospitals have the op-

portunity to model best practices. But that begs the question, what are best practices, and do they imply 100% organic offerings? Health care costs are often exorbitant and keeping costs down is a major issue for hospitals operating on a tight budget. Some people argue that food eaten during a brief hospital stay will have negligible effects on patient health outcomes and may simply not be worth the cost. Others, however, suggest that hospitals have a unique and powerful role to play in public health.

## Case Study: Organic Hospital

In late January 2014, the (fictional) Lincoln Memorial Hospital of Yonkers is holding its annual strategic retreat for top executives. The retreat is held on a Friday and Saturday at the Taconic Hotel, a small hotel on the Hudson River. Item 1 on the agenda is a proposal by the hospital's vice president of marketing, Jonah Strong, who has suggested that the hospital move to a 100% organic food policy for patients as a means of distinguishing itself from competitors.

Lincoln Memorial is a for-profit hospital owned by a large health-care provider, OmniHealth, which owns 11 other hospitals in 3 states. OmniHealth management is concerned that profits have been stagnant for the past 3 years at Lincoln Memorial and has informed Lincoln's CEO, Dr. Sandra Maxwell that the company would like to see a return to 2% to 3% growth per year. Dr. Maxwell is prodding her executive staff to come up with new ideas to control costs and increase revenues.

Lincoln Memorial is an above-average sized hospital of 575 beds that offers a diverse range of medical services, from emergency care to maternity, pediatrics, cancer treatment, and so forth. Although it is not facing competition from other large hospitals in the area, a new trend toward small local clinics seems to be taking business away from Lincoln.

Lincoln is trying to control costs to stay attractive because the average cost of a stay at Lincoln is currently \$1,925/day, which puts Lincoln slightly above several other competitors. As a result, Lincoln's marketing approach is to vaunt its superior services. This is becoming increasingly hard to do as the main hospital building dates from 1968 and is beginning to need a renovation, which could cost over \$10 million.

When the idea of the all-organic option was put on the table, Dr. Maxwell was approached by the vice president of human resources, Martin Torres, who informed her that the doctors and nurses would insist that food in the hospital's cafeterias would also be organic, so that costs could escalate. The Food Services Director, Jennifer Wang, is extremely opposed to the idea. Ms. Wang tells Maxwell:

Do you have any idea how hard it is to source organic food for 1,000 people per day? Our patients and staff are used to eating food like tomatoes and spinach out of season, and that's when organic prices go sky-high, sometimes even three times higher than conventional. Right now, the average food cost per patient is running at \$55 a day and we're billing them \$125 just for food. If we have to go to 100% organic, my costs are going to go up at least 20% and we'll have to pass that on, it could add \$30–\$50 per day to the cost of a hospital stay. Patients are already disturbed by the current cost per day, if this is what pushes us over the \$2,000-a-day threshold, I'm afraid you'll get sticker shock.

On the other side, Jonah Strong, the marketing vice president, has argued that it would be worth it:

Have you been to the Whole Foods recently? It's packed every day, with very long lines, and those people are our customers. They're already voting for organic with their pocketbooks. Organic food consumption is going up 20% per year and now we're getting patients who get very upset if we can't tell them if their food has GMOs. There's no way we can keep bringing patients in, with all these new clinics, unless we can distinguish ourselves. If we don't jump ahead of the other hospitals and distinguish ourselves first, one of the other hospitals will beat us to the punch.

Dr. Maxwell asks you to prepare the strongest arguments you can think of, on one side or the other, for presentation at the executive retreat.

## Topic for Debate: Go Organic, or Stay Conventional?

### Affirmative

Memorial should go to a 100% organic option.

#### Possible Arguments

- It will allow us to improve the health outcomes of our patients.
- It will allow us to do public service by performing a leadership role in health education.
- It will distinguish us from competitors.
- It will motivate our employees and show them that we care about them.

### Negative

Memorial should not move to a 100% organic option.

#### Possible Arguments

- There is no evidence that organic food consumption has a significant impact on health.
- It would simply increase our costs, which will render us less competitive.
- Our average patient stay is only 5 days and, in that time, the benefit of organic food, if any, would be negligible.
- We should care more about cost and health outcomes than about marketing.

## Readings

### 7.1 “Lots of Chatter, Anger over Stanford Organic Food Study”

Mestel, Rosie. “Lots of Chatter, Anger over Stanford Organic Food Study.” *Los Angeles Times*. September 12, 2012. <http://articles.latimes.com/print/2012/sep/12/news/la-heb-stanford-organic-food-study-controversy-20120911>

### 7.2 “Michael Pollan Responds to Study Finding “No Significant Health Benefit” to Organic Food”

Brooks, Jon. “Michael Pollan Responds to Study Finding ‘No Significant Health Benefit’ to Organic Food.” *News Fix* (blog). *NPR: KQED News*. September 4, 2012. <http://blogs.kqed.org/newsfix/2012/09/04/michael-pollan-organic-study/>.

You may have heard the [NPR story](#) this morning about the meta-study from Stanford University, published in the *Annals of Internal Medicine*, which found “no significant health benefit” to organic food. As physician R. Dena Bravata, the study’s co-author, told KQED Science’s Amy Standen today, when it comes to healthfulness, “there is, in general, not a robust evidence base for the difference between organic and conventional foods.”

Huh.

A 2010 Nielsen study found 76 percent of respondents bought organic because they thought it was healthier. So this seemed to merit a call to the person who convinced me in the first place that it was okay to pay \$4.00 for a head of cauliflower: local journalist, professor, and food advocate Michael Pollan, whose book *The Omnivore’s Dilemma* was a major influence in popularizing organic and locally produced food.

**JON BROOKS:** So is this meta-study a big deal?

**MICHAEL POLLAN:** I’m not sure it’s a big deal. The media’s playing it as if there were something new here, but this is not new research, it’s a meta-study [a review of previously conducted research], and I’ve seen the exact same data analyzed in a very different direction. A lot of it depends on how you manage your assumptions and statistical method.

I think we’re kind of erecting a straw man and then knocking it down, the straw man being that the whole point of organic food is that it’s more nutritious. The whole point of organic food is that it’s more environmentally sustainable ...which has a lot more to do with how the soil is managed and the exposure to pesticides, not just in the eater’s diet but to the farmworker...

**JON BROOKS:** Let’s say you’re a consumer standing there at your grocery store and you have a choice between an organically grown piece of produce grown far away and a conventionally grown piece grown locally. All things considered, which is the best choice?

**MICHAEL POLLAN:** It depends on your values. If you’re concerned about nutritional value and taste, you might find that the local food, which is more likely to have been picked when it was ripe, is better. Because any food that’s traveled a few days to get to you or been refrigerated for a long time is going to have diminished nutritional value. That argues for fresh being more important than organic.

But if you're concerned about pesticides—let's say you're pregnant or have young kids you're feeding—then you might choose organic, because it will have on balance fewer pesticide residues. You may also be concerned with the welfare of the people picking and the farmers growing your produce, or you may be concerned about soil health—that would argue for organic too...

I tend to favor local food, whether it's certified organic or not. Most of the local food available to us in the Bay Area, though, tends to be grown organically, even if it's not certified. So it is possible to have it both ways. If you're shopping at your farmers' market, you're getting food that's very fresh, probably very nutritious, and probably grown without synthetic pesticides.

### 7.3 “Mythbusting 101: Organic Farming > Conventional Agriculture”

Wilcox, Christie. “Mythbusting 101: Organic Farming > Conventional Farming.” *Science Sushi* (blog). *Scientific American*. July 18, 2011. <http://blogs.scientificamerican.com/science-sushi/2011/07/18/mythbusting-101-organic-farming-conventional-agriculture/>.

### 7.4 “The Benefits of Organic Food—For Less”

Villacorta, Manuel. “The Benefits of Organic Food—For Less.” *Healthy Living* (blog). *Huffington Post*. July 12, 2011. [http://www.huffingtonpost.com/manuel-villacorta/natural-produce-pesticides\\_b\\_894031.html](http://www.huffingtonpost.com/manuel-villacorta/natural-produce-pesticides_b_894031.html)

... You have people who swear by organics and others who feel the whole movement is overblown—and often I hear that the organic movement is just a scheme to charge more at the markets. This whole “organic” concept has complicated our already difficult relationship with food.

I don't write this article to fan the flames of the argument. Certainly, I understand that emotions on both sides run high... What I have learned that's valuable to everyone, I think, is that there exists a middle ground between pesticide crops and certified organics: that is, fruits and vegetables that are seasonal, pesticide-free, and locally grown by farmers. There is such a thing as “clean” crop that is 100 percent natural in terms of no pesticides, but still absent an organic label. This comes as a surprise to many as we seem to think now that everything not marked organic is chemically tainted.

Finding pesticide-free non-organics is a great way to spend less money and enjoy natural produce. The only downside—if you consider it one—is that you have to eat seasonally, meaning you have to stop expecting ripe tomatoes and avocados in February in many parts of the country

Farmers' markets provide a great opportunity to learn exactly how and where your food is produced and to sample items prior to purchasing. This option will also reduce cost, as well as be pesticide-free. Regardless of the kind of produce you buy, please buy it. I believe the benefits that come from consuming fruits and vegetables will outweigh the hazards of conventional farming...

## Synthesis Questions

1. Does this chapter increase or decrease your motivation to consume organic food products? Explain why.
2. What is a more important motivation—in your view—for consuming organic food: a) that it is better for your health, or b) that it is better for the environment and for farmworkers? Explain.
3. Let us say that, instead of a hospital as our case study example, we had used the example of a wealthy private school for K–12 students. Would the argument be stronger or weaker for adopting organic food in the cafeteria of the school? Why?

## Endnotes

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## Chapter 8

# Fair Trade



*Source: Lisette Cheresson, (CC-BY, 2013)*

*Figure 8.1 Coffee is the world's second-most traded commodity, behind petroleum. Because coffee grows best on hillsides, harvesting can be labor-intensive – it takes a lot of work to get ripe coffee beans from the bush to your cup. Fair Trade's goal is to make life better for those involved in that process.*

## Fair Trade: Conscious Consumerism Comes to Coffee

The concept of *fair trade* arose in the mid-twentieth century as a means of providing farmers and farm workers around the world with employment benefits similar to those found in developed nations. At its broadest level, fair trade can be seen as an initiative of the developed world to reward principled production in the developing world. More specifically, fair trade operates primarily as a certification system under which qualified producers (who follow certain environmental and labor standards) are guaranteed a minimum price for their production. This price guarantee is intended to augment and stabilize the revenues

of producers in developing countries, so that they can invest in social welfare infrastructure and environmentally friendly farming methods. It is worth noting at the outset that there are some slight variations in the way this concept is spelled or presented. The generic term for this entire field is “fair trade,” but we also commonly see it spelled as “Fairtrade” or presented with capital letters as “Fair Trade.” These latter two versions are actually trademarks that are owned by fair trade organizations, which certify that a participating company has met certain standards.

When people discuss fair trade, the conversation usually begins with coffee, which remains by far the most economically significant product category covered by fair trade. Although fair trade has expanded to include other agricultural and manufactured products, such as bananas, tea, honey, sugar, rice, cacao, organic cotton, textiles, and handicrafts, any attempt to evaluate the success or failure of the fair trade movement must begin with an examination of its role in the coffee industry. With corporate coffee giants like Starbucks vaunting their sales of fair trade coffee, most consumers have become aware of the movement, although few are able to precisely define the mandatory standards that must be satisfied in order for a product to be called fair trade. Now, fair trade coffee is as ubiquitous on supermarket shelves as food deemed certifiably organic—but compared to the organic label, the fair trade certification process is more complex and subject to different interpretations from different certifying bodies.

In this chapter, you will be asked to consider whether a New York–based specialty coffee chain should make the transition to selling exclusively fair trade coffee and tea products. The chain’s CEO is aware that fair trade is generally well viewed by consumers, but she has also read some disturbing articles in the press about inconsistencies and even corruption in the fair trade sector. Should she ignore what she has read? Making the switch will increase costs to her consumers, whose cup of coffee will have to go up in price by twenty-five to fifty cents—but on the positive side she will be able to claim that her business is socially responsible and sustainable. Does a coffee shop chain that aspires to the highest level of social responsibility have an obligation to engage in fair trade, even if the existing fair trade system is not perfect? In order to discuss this issue, we need to arrive at a deeper understanding of what fair trade means.

## The Origins of Fair Trade

As with many other progressive social programs, the fair trade concept can be traced back to the personal initiatives of a few dedicated reformers with a social conscience. In 1946, Edna Ruth Byler, an American businesswoman, had the idea of importing needlecrafts from impoverished Puerto Rican communities and paying their creators a fair wage for their work. Byler’s efforts became the foundation for Ten Thousand Villages, the first North American nonprofit organization devoted to connecting handicraft manufacturers in developing countries with developed-world commodity buyers. Today, Ten Thousand Villages maintains long-term relationships with artisans in 38 countries that provide stable opportunities for income.<sup>1</sup>

Byler’s efforts constituted a precursor of fair trade, but the first organizations to utilize the fair trade designation in its modern sense were European. The first fair trade organization in Europe was in the United Kingdom, an offshoot of Oxfam UK, which during the 1950s had sold crafts made by Chinese refugees. By 1964, this had developed into the fair

trade Organization, and in 1967, the Netherlands initiated its own cooperative, fair trade Original. Following a concept similar to that of the Ten Thousand Villages storefronts in the United States, the Dutch opened a fair trade World Shop in 1969. World Shops became the first retail distribution network of fair trade products and the first European World Shops conference was held in 1984.<sup>2</sup>

Guatemalan-grown fair trade coffee was introduced in the Netherlands in 1973. In 1988, the first fair trade coffee brand, Max Havelaar, hit the market. Within a year, Max Havelaar commanded a 3-percent share of all coffee sales in the Netherlands. By the late 1980s, there were several national fair trade cooperatives operating in Europe under different umbrella organizations, some of which spanned the jurisdiction of several countries. One of these was the Network of European World Shops (NEWS!), which was formed in 1994 and soon represented roughly 3,000 different shops across the continent.

Fair trade quickly outgrew its European origins. In 1989, the first global fair trade network was initiated, the International Fair Trade Association (IFAT). Five years later, the first network of fair trade organizations was founded in North America, called the Fair Trade Federation. In 1997, Fair Trade Labeling Organizations International (FLO) was founded with the intention of creating a unified worldwide certification scheme. There are currently 23 members of FLO around the world. Founded in 1998, TransFair USA (which changed its name to Fairtrade USA in 2010) was an early FLO member and became the leading third-party certifier of fair trade goods sold in the United States. TransFair got its start in California, importing the production of Nicaraguan coffee farmers.

In 1998, four European Fair Trade organizations banded together to form an international coalition to promote and more clearly define fair trade practices around the world. Calling their coalition FINE, these organizations set forth one of the most commonly used definitions of fair trade:

A trading partnership, based on dialogue, transparency, and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, disadvantaged producers and workers—especially in the South.<sup>3</sup>

Fair trade, in the view of its supporters, is quite different from free trade, the defining international economic strategy of the twentieth century. The primary goal of free trade is to increase the economic growth of both developed and developing nations. The massive and continuing expansion of global free trade has been driven by consumers and manufacturers in developed nations. Fair trade, on the other hand, is intended to serve the interests of workers in developing nations. Fair trade is meant to empower manufacturers and farmers in developing nations by providing them with privileged access to socially conscious consumers in the developed world.<sup>4</sup>

## Fair Trade in Action: The Key Players

Most socially conscious consumers who are aware of fair trade simply assume that it signals that an item is somehow a “good product,” either for environmental reasons or because workers involved in production are well paid. However, as we shall see, the system is more complicated than one might expect, and a well-informed consumer or business needs to go deeper to have a sufficient basis for evaluating fair trade and deciding whether or not to participate in it.

One of the reasons for the complexity of the fair trade system is that there is no universal fair trade authority. There are several important international organizations that serve a coordinating function, but none of these has the power to impose standards on all players in the field. In fact, there are many different kinds of fair trade organizations: international nonprofit organizations, regional nonprofit organizations, local nonprofit organizations that certify fair trade brands, local nonprofit organizations that certify fair trade farming and exporting cooperatives, and finally, both nonprofit and for-profit inspection organizations that visit the farming cooperatives to determine whether they meet the criteria to be certified as fair trade. Let us describe a few of the most important organizations.

Most fair trade certifiers and umbrella organizations are now members of the *World Fair Trade Organization* (WFTO; formerly IFAT). The WFTO serves as a global network and clearinghouse, serving the interests of over 370 independent organizations in more than 70 countries.<sup>5</sup>

*Fairtrade International* (FLO) is an international organization, based in Bonn, Germany, that promotes the most widely used certification system for products designated as fair trade or “Fairtrade.” Note that FLO deliberately distinguishes itself by using a special way of spelling the term with no space between the words. One reason for this approach is that FLO has registered “Fairtrade” as a trademark, which it then licenses only to those organizations that meet its standards. The Fairtrade trademark has become the world’s leading way of designating that a product qualifies as fair trade. Note, however, that other organizations may still prefer to certify a product as fair trade.

*FLO-CERT* is a private, for-profit company that carries out certification audits for national organizations that wish to authorize local brands and vendors to use the Fairtrade label.<sup>6</sup>

*Fair Trade USA* is America’s largest fair trade organization; notably, it does not use the Fairtrade trademark, as it resigned from FLO in 2011 out of disagreement with several aspects of the FLO system. In particular, Fair Trade USA objected to the fact that FLO certification is inconsistent with regard to who can be considered a certified producer: With coffee products, certification is limited to cooperatives made up of independent farms, while with other products, like bananas and tea, workers on large farms can also receive certification. Consequently, Fair Trade USA has developed its own certification system that does not use the Fairtrade label, but rather designates products and producers with its own trademark: “Fair Trade Certified.”

The above-described organizations are just a few of the literally hundreds of nonprofit and for-profit organizations operating in the fair trade sector. Next, let us describe how the process works in bringing fair trade products to your kitchen.

## How It Works: From Farm to Supermarket

There are two different types of fair trade certification: *organizational recognition* and *producer certification*.

### Organizational Recognition

To become a fair trade vendor or brand and obtain the right to use one of the authorized trademarks or labels, importers and vendors are certified by national fair trade organizations. Such brands are recognized as trading only products from authorized suppliers who,

in turn, buy from farms that pay their workers a fair wage and follow sustainable practices. When you see a product in a supermarket or store that is labeled fair trade, it indicates that the brand has sought and obtained certification from a national Fair Trade organization.

## Producer Certification

*Producers*, in fair trade terms, usually refer to cooperatives of independent farms; however, in the case of particular products, the farms and farm workers themselves may be certified. Producers gain Fair Trade or Fairtrade certification from independent certification organizations. FLO-CERT, which provides Fairtrade certification for farmers in more than 70 countries, is the largest certifying organization in the world.<sup>7</sup>

Now let us look more closely at the different operators in the fair trade supply chain, working backward from your local retailer all the way to the farm workers at the other end.

## Retailers

Any local retailer, whether it is a supermarket, boutique, or coffee shop, can sell Fair Trade or Fairtrade products. As noted above, the brands and products themselves must be authorized to use one of the recognized labels or trademarks, but any store or shop that buys legitimate products at wholesale is free to resell them to consumers any way it pleases. Note, in particular, that the local retailer is under no obligation to sell the products at any given price or to return any of its revenues or profits directly to producers in the exporting country. What this means in practice is that, some retailers, aware that a small percentage of affluent consumers is desirous of socially responsible products, will simply charge a very high premium for the fair trade products. The profits generated by such high prices are purely for the retailer alone. Thus, a consumer who pays a high price for a fair trade product, under the impression that this premium will go directly to the producers or farm workers, is somewhat misguided. Indeed, as we will see, some portion of these high prices is *indirectly* returned to the farmers, but in most cases, the amount is less than consumers would expect.

## Vendors, Brands, and Importers

Companies that wish to market their products as fair trade and feature a certification label or trademark (such as “Fairtrade” or “Fair Trade Certified”) on their packaging must conform to the standards of one of the national certification authorities. Essentially, this means they must buy their product from a certified importer or directly from one of the certified exporting cooperatives. Fair trade importers must pay a minimum price of \$1.20/pound for Arabica beans or \$1.05 for Robusta beans. This minimum price guarantee is one of the essential features of the fair trade concept.

## Exporting Cooperatives

In the coffee sector, there are more than 300 exporting cooperatives in over 20 coffee-exporting nations. Cooperatives are certified by an international certification authority, which in most cases means FLO-CERT. Cooperatives buy their coffee from small, independent farms that adhere to fair trade principles, meaning that workers are paid fairly and that environmental standards are followed. Fair trade coffee is not required to be fully organic, though growers may use organic farming methods if they wish; however, limits are placed on the use of pesticides and herbicides.

The cooperative has the responsibility of visiting the individual farms to make sure that they are complying with standards. The trouble is, according to some farmers, that cooperatives do not always enforce international fair trade standards. Allegedly, the crops from farmers who bribe fair trade cooperatives to be lax with their inspections are mixed in with those from farmers that are truly committed to fair trade practices.

The cooperative consolidates its purchases and sells the bulk coffee to certified importers in developing nations. It is the cooperative that is guaranteed the minimum price maintained by the fair trade system. Note that most cooperatives are unable to sell all of their coffee as fair trade due to insufficient demand, so roughly half to two-thirds of their coffee is sold without a special label. Cooperatives are required to use their profits to engage in social projects, such as building schools or athletic fields for farm workers.

## Farmers

In order to sell their coffee to fair trade exporting cooperatives, farmers must agree to limit their use of child labor, GMOs, herbicides, and pesticides. Farmers are not guaranteed a minimum price for their coffee.

## Fair Trade Social Projects

Most fair trade organizations, including Fair Trade USA and FLO, promote social and economic development projects in the farmers' communities. One of the principal elements of the fair trade concept is the requirement that a portion of each cooperative's earnings must be invested locally in projects to benefit the farmers, e.g., building schools, hiring teachers, funding for women's empowerment groups, and/or investment in healthcare. Farmers are taught how to lobby large international organizations and demand fair prices for their labor, and children are encouraged—sometimes required—to go to school rather than to work. Fair Trade USA requires that all its farmers have access to doctors and affordable medical treatment in case of illness or injury. Projects are also funded to help protect the environment, for example, through clean water initiatives, training on ways to reduce pesticides and herbicides, education about crop cycling, and funding for reforestation.

One problem with fair trade social projects is that their effects are extremely difficult to quantify. As of 2013, no universal metric had yet been developed to measure the impact that fair trade projects actually have on the developing world. Moreover, it has been alleged that many cooperatives devote all of their profits (if they make any) to social projects, leaving them unable to pay higher cash prices to their farmers. The farmers are thus left with social projects of arguable utility rather than the higher cash prices for their crops that many of them might have preferred. Thus fair trade organizations have come under fire for allegedly making promises they cannot keep.

## Fair Trade and the Global Coffee Market

The rise of the fair trade coffee market provides an interesting case study on the interplay between international politics and the global economy. Although coffee is the world's second-most traded commodity, after petroleum, the global coffee market has been subject to periodic boom and bust periods; when prices are low, living conditions become abject for

the world's millions of coffee farm workers.<sup>8</sup> In response to this problem, the first International Coffee Agreement was signed in 1962 to impose export quotas and set international prices for coffee as a means of protecting the world's coffee farmers from rollercoaster market swings in coffee prices.<sup>9</sup> By 1989, however, the arrival of new coffee-producing nations on the market, compounded with a change in consumer tastes favoring Arabica coffees, led to the demise of the quota system; this in turn led to a global collapse in prices as farmers were faced with a worldwide coffee glut. The devastating impact on the livelihood of farmers across the developing world was one of the driving motivations behind the creation of the first fair trade cooperatives and marketing organizations, such as Holland's Max Havelaar, which were intended to provide stable prices so that farmers would be less vulnerable to volatile world markets.

By 2002, however, the *Wall Street Journal* reported that an oversupply of coffee beans had once again driven coffee prices to an all-time low, pushing many farmers out of business.<sup>10</sup> This second collapse of world coffee prices was estimated to affect 125 million people internationally, and most farmers were again at the mercy of a volatile market, without recourse. In areas where coffee is grown, few other legal crops are as profitable. The collapse of the global coffee market was relatively painless for consumers: The price of coffee declined disproportionately in developed-world supermarkets. And yet, in the midst of this market turbulence, there is some evidence that farmers that had signed on with fair trade cooperatives enjoyed a relatively stable price for their goods throughout the market collapse.<sup>11</sup>

Fair trade had grown from humble origins to the point where it could be claimed that it was having a major impact on global coffee production. By 2009, fair trade coffee had become a \$1.8 billion market.<sup>12</sup>

## Coffee Social Responsibility: The Starbucks Example

As America's largest coffee importer, Starbucks was lobbied early on to sell fair trade coffee. In 1999, Starbucks began working with FLO and TransFair USA to buy and sell Fairtrade certified products and launched the first official sales of certified coffee in 2000.<sup>13</sup> Thereafter, Starbucks established the Coffee and Farmer Equity (CAFE) Practices buying guidelines to delineate a specific set of rules and regulations pertaining to ethically sourced coffee, with the goal of eventually ensuring that all of Starbucks's imported coffee would qualify as ethically sourced (though relatively little of that would be Fair Trade certified). The four main areas on which the CAFE guidelines focused were economic accountability, social responsibility, product quality, and economic leadership. An independent body, Scientific Certifications Systems, oversees the evaluation of CAFE products.

In 2009, Starbucks announced that, with cooperation from FLO and TransFair USA, it would promote a \$20 million loan program to support small-scale farmers in the developing world.<sup>14</sup> Labeled the Small Farmer Sustainability Initiative (SFSI), the program was designed to promote responsible trading practices throughout the coffee industry. Also in 2009, Starbucks became the largest purchaser of Fair Trade certified coffee in the world, purchasing 40 million pounds of Fair Trade certified crops from vendors on three continents. By 2012, ninety-three percent of the coffee that Starbucks sold worldwide was ethically sourced (according to Starbucks)—ninety percent of which was certified through

CAFE practices. The company has announced that its goal is to ensure that one hundred percent of its coffee products are ethically sourced by 2015.

One goal of the SFSI program was to streamline the process of small-scale farmers applying to become a part of the fair trade program. Starbucks and FLO-CERT developed a single-audit system so that farmers applying for Fairtrade certification and Farmer Equity Practices verification could become Starbucks vendors in one step. The streamlined process was intended to eliminate fifteen to thirty percent of the cost of auditing expenses for coffee farmers in the developing world.

Although Starbucks has acquired a reputation for a strong commitment to CSR, having appeared on the list of *Ethisphere Magazine's* most ethical international companies for four consecutive years, critics have pointed out that Starbucks's promotion of their CAFE program has misled American consumers. Many Starbucks customers have come to believe that all of Starbucks's coffee is fair trade, while it actually only accounts for about 6% of Starbucks's coffee sales.

## Good Coffee, Bad Coffee? Evaluating Criticisms of Fair Trade

Fair trade coffee is often held up as one of the great success stories of responsible consumerism. Supporters of the fair trade movement argue that it promotes a more direct trade system, fosters long-term economic improvement in developing nations, provides living wages, strengthens labor protection for artisans and farmers in impoverished communities, and provides access to otherwise unreachable global markets.

Critics of fair trade argue that it constrains the beneficial flexibility of the free market and that most of the social projects promoted by fair trade are such small-scale endeavors that they are not sufficiently influential. Rather than supporting and protecting the interest of small-scale farmers, critics contend that fair trade does little more than play on "developed-world guilt." Critics argue that staying in the fair trade system raises costs for farmers who sometimes experience a decrease in profits due to a decrease in yield, and who also must adhere to labor rules that require them to hire workers rather than employing their own children or offering "work for trade" within their community. Some researchers have found that fair trade labeling cooperatives are able to turn a profit while farmers, originally enticed by the promise of a higher per-pound price, fail to see any significant benefits. In any event, there is no evidence that farmers on average are receiving higher income due to selling to fair trade cooperatives.

There are a number of reports and investigations that indicate that fair trade inspections are unreliable. Some of these criticisms have come from former insiders, such as Christian Jacquiau and Paola Ghillani, formerly associated with Fairtrade Labelling Organizations.<sup>15</sup> In 2006, a *Financial Times* investigation of fair trade in Peru revealed that out of ten mills that claimed to sell fair trade coffee, all ten had sold uncertified coffee as certified. It also found that workers on fair trade farms were often paid beneath the minimum wage, in violation of fair trade standards.

Ironically, many of these criticisms began surfacing just as fair trade was starting to achieve widespread acceptance from consumers and retailers. In many cases, it appears that retailers believe they can increase profits if they jump on the fair trade bandwagon. Argu-

ably, though, such retailers have a tendency to exaggerate the benefits of fair trade. Whole Foods, for example, has boasted that five percent of the money from coffee sales goes to growers. Investigation revealed, however, that the five percent figure merely reflected the price that Whole Foods paid its coffee unit. In Europe, supermarket giant Tesco was reportedly charging upwards of an additional \$3.46 for its fair trade coffee, while the farmers of that coffee only received 44 cents of that premium.

Regardless of its real impact on producers and farmers in developing countries, the fair trade movement is already beginning to change the ways that consumers in rich countries think about shopping and consuming. In 2006, Media, Pennsylvania, became the first US town to become fair trade certified by successfully converting a critical percentage of all goods it purchases to those certified by third-party certification schemes.<sup>16</sup> By 2013, approximately thirty-two other US towns had followed suit. In Europe, this process is much further advanced, with hundreds of towns and municipalities having received certification. The success of fair trade certification has spawned a number of similar certifications, of which the best known is the Rainforest Alliance, which certifies food products as grown in a sustainable fashion.

Regardless of the ongoing controversy about its legitimacy, it appears that fair trade certification is here to stay.

## Topic for Debate: Should a Specialty Coffee Chain Sell Only Fair Trade Coffee?

In the fictional case that is the topic for this chapter's debate, a small specialty coffee chain, known as World Coffee, Inc., is considering switching over to a 100% fair trade brew for its coffee and tea products.

World Coffee is a chain of eleven stores in the greater New York metropolitan area, with five in Manhattan, three in Brooklyn, two in Long Island, and one in Hoboken, New Jersey. The founder, Wendy Mueller, opened her first store in the trendy Tribeca neighborhood of Manhattan in 2004 and quickly attracted a devoted following due to its use of extremely high-quality coffee, which was complemented with a 100% organic product line—organic milk and cream for the coffee and tea, organic sugar and honey as sweeteners, and pastries and baked goods made from 100% organic ingredients. Building on its initial success, the chain quickly expanded to its current size and each of its store operations is highly profitable. Wendy has a full-time executive staff of four people and the stores employ an additional ten store managers and fifty to sixty part-time employees.

A potential franchise partner from San Francisco, Blake Morton, has approached Wendy and is proposing opening an additional twenty to thirty stores in the western United States, especially in California, Oregon, and Washington.

However, her potential partner has proposed a significant change to World Coffee's operations: They would switch over to 100% fair trade coffee and tea.

Wendy is concerned because she is aware that there has been a lot of criticism of fair trade as a system that promises more than it delivers. She is also concerned that the supply is more limited and that she will have to choose lower quality coffees. Additionally, she feels that it would be hard to source all her coffee from Fair Trade providers unless she raises

her coffee prices by twenty-five to fifty cents per cup, and she was already worried that they were too high to begin with.

Despite this, Blake Morton is a vocal supporter of fair trade and is convinced that a 100% fair trade concept will help distinguish her from competitors and drive business to the store.

Wendy proposes that she and Blake research the topic and present their arguments to a jury composed of five people whom Wendy considers as New York's top experts in running and expanding socially responsible businesses. Blake agrees to Wendy's list and they both begin to prepare their arguments.

You will be assigned either to the team supporting Wendy's position or the team supporting Blake's position.

The debate positions may be formulated as follows:

## Affirmative

World Coffee should move to 100% fair trade.

### Possible Arguments

- Customers are attracted to the fair trade concept.
- Despite the increased cost to consumers and reports that fair trade is not always as transparent as it should be, every little bit helps. If we wait for a perfect system, we will never help poor farmers.
- Fair trade raises awareness that it is possible to help citizens in developing countries.
- Fair trade products are more sustainable than conventional products.
- Fair trade helps put an end to unjust and unsustainable practices in global trade.
- If the coffee shop does a good job of promoting why their prices have increased and gives consumers a reason to pay more, they will.

## Negative

World Trade should not adopt a 100% fair trade policy.

### Possible Arguments

- Fair trade is not all that it is cracked up to be: It is a marketing gimmick aimed at socially conscious consumers.
- It would be more ethical to buy directly from known farmers, regardless of certification.
- Fair trade coffee is not necessarily organic.
- Our employees and other stakeholders are our first concern, and if we charge too much for coffee, we will find ourselves out of business.
- We can still make fair trade coffee available to customers who want it, but we do not have to offer it exclusively.
- If fair trade improves its certification procedures, we can increase our support later.
- Because fair trade may benefit retailers more than suppliers, it actually adds to the problem by creating a false sense of philanthropy.

# Readings

## 8.1 Benefits of Fairtrade

“Benefits of Fairtrade.” Fairtrade International, accessed Nov. 25, 2014. <http://www.fairtrade.net/benefits-of-fairtrade.html>

### **For producers, Fairtrade is unique in offering four important benefits:**

1. **Stable prices:** For most products there is a Fairtrade Minimum Price that aims to cover the costs of sustainable production—even when world market prices fall.
2. **A Fairtrade Premium:** The Premium helps producers to improve the quality of their lives. It is paid on top of the agreed Fairtrade price, and producers decide democratically how to use it. Typically they invest it in education, healthcare, farm improvements, or processing facilities to increase income.
3. **Partnership:** Producers are involved in decisions that affect their future. Fairtrade certified producers jointly own and manage Fairtrade International. Through Fairtrade International’s Board, its Committees, and consultation processes, producers can influence prices, premiums, standards, and overall strategy.
4. **Empowerment of farmers and workers:** This is a goal of Fairtrade. Small farmer groups must have a democratic structure and transparent administration in order to be certified. Workers must be allowed to have representatives on a committee that decides on the use of the Fairtrade Premium. Both groups are supported by Fairtrade International to develop their capacity in this area.

### **With Fairtrade, Everyone Wins**

#### **Consumers**

Shoppers can buy products in line with their values and principles. They can choose from an ever-growing range of great products. By buying into Fairtrade, consumers support producers who are struggling to improve their lives.

#### **Traders/Companies**

Since its launch in 2002, the Fairtrade mark has become the most widely recognised social and development label in the world. Fairtrade offers companies a credible way to ensure that their trade has a positive impact for the people at the end of the chain.

#### **Environment**

Fairtrade rewards and encourages farming and production practices that are environmentally sustainable. Producers are also encouraged to strive toward organic certification. Producers must:

- Protect the environment in which they work and live. This includes areas of natural water, virgin forest, and other important land areas and dealing with problems of erosion and waste management.
- Develop, implement, and monitor an operations plan on their farming and techniques. This needs to reflect a balance between protecting the environment and good business results.
- Follow national and international standards for the handling of chemicals. There is a list of chemicals that they must not use.
- Not, intentionally, use products that include genetically modified organisms (GMO).

- Work out and monitor what affect their activities are having on the environment. Then they must make a plan of how they can lessen the impacts and keep checking that this plan is carried out.

## 8.2 “Fair Trade in Bloom”

Downie, Andrew. “Fair Trade in Bloom.” *New York Times*. October 2, 2007. <http://www.nytimes.com/2007/10/02/business/worldbusiness/02trade.html>.

## 8.3 “Voting with Your Trolley”: Can You Really Change the World Just by Buying Certain Foods?

“Food Politics: Voting with Your Trolley.” *The Economist: Special Report*. December 7, 2006. <http://www.economist.com/node/8380592>.

## 8.4 “The Problem with Fair Trade Coffee”

Haight, Colleen. “The Problem with Fair Trade Coffee.” *Stanford Social Innovation Review*. Summer 2011. [http://www.ssireview.org/articles/entry/the\\_problem\\_with\\_fair\\_trade\\_coffee](http://www.ssireview.org/articles/entry/the_problem_with_fair_trade_coffee).

...As the name implies, Fair Trade has sought not only to protect farmers but also to correct the legacy of the colonial mercantilist system... To its credit, Fair Trade USA has played a significant role in getting American consumers to pay more attention to the economic plight of poor coffee growers. Although Fair Trade coffee still accounts for only a small fraction of overall coffee sales, the market for Fair Trade coffee has grown markedly over the last decade, and purchases of Fair Trade coffee have helped improve the lives of many small growers.

Despite these achievements, the system by which Fair Trade USA hopes to achieve its ends is seriously flawed... Among the concerns are that the premiums paid by consumers are not going directly to farmers, the quality of Fair Trade coffee is uneven, and the model is technologically outdated...

The primary way by which FLO and Fair Trade USA attempt to alleviate poverty and jump-start economic development among coffee growers is a mechanism called a price floor, a limit on how low a price can be charged for a product. As of March 2011, FLO fixed a price floor of \$1.40 per pound of green coffee beans...

It is these requirements and pricing structure that create a quality problem for Fair Trade coffee... A simple example illustrates this point. A farmer has two bags of coffee to sell and there is a Fair Trade buyer for only one bag. The farmer knows bag A would be worth \$1.70 per pound on the open market because the quality is high and bag B would be worth only \$1.20 because the quality is lower. Which should he sell as Fair Trade coffee for the guaranteed price of \$1.40? ...To maximize his income, therefore, he will choose to sell his lower quality coffee as Fair Trade coffee...

...Membership in a cooperative is a requirement of Fair Trade regulations... Premiums are retained by the cooperative and do not pass directly to farmers. Instead, the farmers vote on how the premium is to be spent for their collective use. They may decide to use it to upgrade the milling equipment of a cooperative, improve irrigation, or provide some community benefit, such as medical or educational facilities.

Fair Trade USA is a nonprofit, but an unusually sustainable one. It gets most of its revenues from service fees from retailers. For every pound of Fair Trade coffee sold in the United States, retailers must pay 10 cents to Fair Trade USA. That 10 cents helps the organization promote its brand, which has led some in the coffee business to say that Fair Trade USA is primarily a marketing organization...

Another challenge for FLO is the issue of transparency in business dealings... Records kept by cooperatives have shown that premiums paid for Fair Trade coffee are often used not for schools or organic farming but to build nicer facilities for cooperatives or to pay for extra office staff...

FLO also provides incentives for some farmers to remain in the coffee business even though the market signals that they will not be successful. If a coffee farmer's cost of production is higher than he is able to obtain for his product, he will go out of business. By offering a higher price, Fair Trade keeps him in a business for which his land may not be suitable.

## Synthesis Questions

1. After studying this chapter, are you more likely or less likely to buy fair trade coffee?
2. Is there another way of achieving the objectives of improving the lives of developing-country farmers and producers than the Fair Trade approach? Describe at least one option.
3. Why do consumers buy Fair Trade products? List a few reasons and analyze each of them.

## Endnotes

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## Chapter 9

# CSR and Sweatshops



*Source: Weronika, (CC-BY 2.0, 2013)*

*Figure 9.1 A relative of one of the workers in a clothing factory at Rana Plaza, Bangladesh, holds up the picture of his missing family member, presumed dead.*

## The Importance of Sweatshops

On April 24, 2013, at Rana Plaza on the outskirts of Dhaka, Bangladesh, a building containing apparel factories collapsed, trapping and killing over 1,100 employees. It was not only the worst industrial disaster in the history of the garment industry, it was also the world's most fatal industrial building collapse. News reports soon emerged that the factory owners had ignored ominous warning signs, such as visible cracks in the wall, and had illegally added several stories to the top of the building, creating a weight the building could not bear. Many of the factories operating in the building were producing apparel for well-known Western brands, such as Walmart, Joe Fresh, and Mango.

Rescue workers struggled for over a week to reach trapped survivors, while hospitals tended to the over 2,500 workers who had escaped, many with severe injuries. Survivors

told heart-rending tales of having lost mothers and sisters who had worked in the same factories. The deaths of so many innocent workers created a firestorm of controversy in Bangladesh and around the world. Accusations and recriminations were leveled at corporations and government officials. A period of intense and profound soul-searching ensued for the global fashion companies that made substantial use of outsourced factory labor in Bangladesh. Within a few months, two major initiatives were announced, one American and one European, to increase safety and accountability in Bangladeshi factories.

In this chapter, we will explore the complex issues underlying the outsourcing of manufacturing and its relationship to sweatshops and child labor. While the horrific example of Rana Plaza might lead one to assume that sweatshops are always a bad thing, a closer examination reveals the limitations of a simplistic view. In fact, Bangladesh relies heavily on outsourced apparel manufacturing for the well-being of its citizens. Clothing factories employ over 3 million Bangladeshi citizens and the country obtains nearly 80% of its export earnings from the apparel sector.<sup>1</sup> An outright ban on outsourced manufacturing would leave many poor Bangladeshis without a job. Although such jobs may not seem desirable from the perspective of citizens of industrialized countries, in developing countries these kinds of factories often pay more than the average salary.

In this chapter's debate section, we will ask ourselves what is the proper attitude of a major global brand toward manufacturing in a country like Bangladesh, which has suffered from a spate of manufacturing disasters in recent years. The company we will consider is Disney, which is known for producing toys, clothes, and movies aimed at children. Disney has been accused of producing goods in sweatshop factories that employ child labor. Obviously, Disney cannot afford to become known as a company that is unconcerned with the rights of children. What should they do? In order to discuss this issue, we first need to come to a more sophisticated understanding of sweatshops and their benefits and disadvantages.

## Understanding Sweatshops: History and Definitions

The term *sweatshop* refers to a factory that is guilty of some sort of labor abuse or violation, such as unsafe working conditions, employment of children, mandatory overtime, payment of less than the minimum wage, unsafe working conditions, abusive discipline, sexual harassment, or violation of labor laws and regulations. The US Government Accounting Office has chosen to define a sweatshop as any manufacturing facility that is guilty of two or more of the above types of labor abuses.<sup>2</sup> However, it is important to understand that the term *sweatshop* is not just a legally defined term but a word that has entered the general lexicon and is used broadly.

Historically, the term was first used in association with the manufacture of articles of clothing and apparel. Shortly after the beginning of the industrial revolution, which began in the United Kingdom at the end of eighteenth century and the beginning of the nineteenth, a rise in living standards led to a much greater consumer demand for clothing. Although the raw materials of clothing—fabric, yarn, buttons, and thread—could be produced efficiently in large, mechanized factories, the same was not the case for the final garment itself. To the present day, it has remained difficult to mechanize the sewing process involved in making clothing: The manual dexterity of a human being has always been needed in addition to a

simple sewing machine. Consequently, the manufacturing of clothing has remained labor intensive relative to other industries.

Another particularity of the apparel industry is that it is difficult to predict demand for articles of fashion. In any given year, some styles and colors will be wildly successful, while others will prove unpopular and need to be sold at a discount (hence the ubiquitous nature of discount sales of clothing). Given high labor costs and unpredictable demand, garment manufacturers turned to a system built on outsourcing production to middlemen who would then parcel out production to a number of small workshops. The middlemen were tasked with making sure that production deadlines were met, so they put pressure on the workshops and became known as *sweat-ers*, meaning that they made the workshops and their employees sweat. In time, these high-pressure workshops became known as sweatshops.

By the 1830s, the abuse of workers in sweatshops had become a topic of social concern, and the United Kingdom passed its first Factory Act, which was then amended some 7 times by 1878.<sup>3</sup> In 1844, Friedrich Engels, who would attain fame as Karl Marx's intellectual partner and one of the founders of Marxism, wrote a critique entitled *The Condition of the Working Class in England*. As industrial production developed in the United States, sweatshops also became a major American political issue. Many of the Abolitionists who became famous for their staunch opposition to American slavery also fought against sweatshops, considering them a form of human oppression akin to slavery. By the 1890s, a number of groups sprung up to try to alleviate and control sweatshop conditions.

## Origins of the Anti-Sweatshop Movement: The Triangle Shirtwaist Factory Fire

By the first years of the twentieth century, New York City had become a center for apparel manufacturing and, consequently, for sweatshops as well. Tens of thousands of immigrant workers toiled in the sweatshops of an area that is still referred to as the Garment District, the heart of which lies along Seventh Avenue in midtown Manhattan.

By 1900, a number of local unions allied to form the International Ladies Garment Workers Union (ILGWU), the first major attempt to unionize sweatshop labor in the United States. In 1909, approximately 20% of the workforce of the Triangle Shirtwaist Factory walked out in the first major strike in the garment sector.<sup>4</sup> As the strike wore on and the owners of the Triangle Shirtwaist Factory learned of attempts to unionize the remaining workers, the owners locked out the entire staff. At a series of public meetings at which female workers spoke movingly of their deplorable working conditions, a mass walkout ensued, in which 20,000 out of 32,000 total shirtwaist workers walked off the job, giving this action the name of the "Uprising of the 20,000." While a few shops accepted unions and most agreed to improve conditions, the Triangle Shirtwaist Factory did not accept a union. Shortly afterwards, in 1910, 60,000 workers walked off the job in an action that became known as the "Great Revolt." The dispute was mediated by legendary jurist Louis Brandeis, who later became known as one of the Supreme Court's greatest justices.<sup>5</sup>

Despite the central role of the Triangle Shirtwaist Company in these actions, and despite the promises of improvement made pursuant to Brandeis's mediation, it soon became clear that not enough had yet been accomplished. On March 25, 1911, a fire broke out in

the Triangle Shirtwaist Company factory located next to Washington Square Park.<sup>6</sup> With several of the main exits locked to prevent employees from stealing, only one exit was available and it was soon blocked by flames. Many workers succumbed to the heat and smoke while others, trapped by the growing fire, stepped out onto an eighth floor ledge, and when the heat became unbearable, jumped off. Dozens of young women fell to their deaths on the pavement below, creating a horrific image that would transform the entire industry. It was the worst industrial accident in the history of the United States.

In the wake of the Triangle Shirtwaist Fire, a number of reforms were promptly undertaken in New York, with over sixty laws dealing with fire safety and labor rights passed by the state legislature in the first two years after the fire. These reforms were echoed and amplified throughout the United States and around the world in the decades that followed. In 1919, the International Labour Organization was created to protect worker rights.<sup>7</sup> In 1937, the United States passed an important national statute on union and labor rights, the National Labor Relations Act.<sup>8</sup> Despite these and other reforms, however, sweatshops stubbornly refused to disappear. In 1994, the US Government Accounting Office noted that thousands of sweatshops continued to operate in the United States.<sup>9</sup> Rather than disappearing, the sweatshop problem would follow the international path of globalization and spread around the world.

## Modern Sweatshop Scandals: Kathie Lee Gifford, Nike, Saipan, and Bangladesh

*Globalization* is a term that refers to the growing interconnection of the world's economies. The globalization trend greatly picked up speed after international moves to lower import tariffs were instituted by the General Agreement on Trade and Tariffs (GATT) in 1947 and even more so after the GATT system was institutionalized in the World Trade Organization (WTO) in 1995. At the corporate level, one manifestation of globalization is foreign outsourcing, the practice of moving manufacturing operations to low-cost countries. Fashion and apparel companies were among the first to take advantage of the benefits of outsourcing. Throughout the period from 1970 to the present, employment in American apparel factories dropped sharply as companies moved production to countries like Indonesia, Vietnam, China, Mexico, and the Dominican Republic.

The outsourcing movement was accompanied by increasing reports of sweatshop abuses. As a result, a number of nongovernmental organizations (NGOs) became involved in anti-sweatshop activities. One of these was an American organization called the National Labor Committee, headed by labor activist Charles Kernaghan. Kernaghan was devoted to ferreting out instances of sweatshop abuse in foreign factories producing for American brands, and then publicizing the abuses in an effort to shame the companies into changing their practices. Not surprisingly, both the factories and their American clients were quite reluctant to share information with Mr. Kernaghan. He therefore developed a number of sleuthing tactics; for example, he would surreptitiously trail the garbage trucks that picked up the factory's waste, following the truck to the local dumpsite. Later, displaying remarkable commitment to his job, he would sneak in and rummage through the waste, looking for discarded office files. When he found the factory's production records, often minutely described in spec sheets, he was able to determine who the client was and how much the

client was paying for the labor cost included in assembling a particular garment. Another technique employed by Kernaghan was to find the local food stands where workers would go for lunch or coffee. There he would seek to engage the workers in conversation about the factory. This technique had to be employed with great discretion because, if a factory owner or foreman heard that a worker was collaborating with Kernaghan, there was a great likelihood the worker would be punished or fired.

After several years of watching his reports go ignored by the mainstream media, Kernaghan finally broke a story in 1993 that would transform the public image of American outsourcing. Kernaghan discovered that a fashion line produced for Walmart under the label of a prominent American television personality, Kathie Lee Gifford, was manufactured in Guatemala in a factory that used child labor and engaged in a number of worker abuses. Although Kernaghan expected that this report would receive little coverage, he was unwittingly helped by Gifford herself, who went on the air during her popular morning show, *Live with Regis and Kathie Lee*, to tearfully deny the allegations. In the United States as in many other countries, any incident involving a media celebrity becomes fodder for the popular press. Kernaghan found himself at the center of a news storm. As Kernaghan and Gifford exchanged accusations and denials, the issue of sweatshop abuses came to the fore. Gifford eventually promised publicly to ensure that employment of children would cease and worker rights would be respected, and the controversy abated. Kernaghan has stated that, in the end, Gifford changed nothing of substance.

Throughout the 1990s, a number of other sweatshop-related abuses came to light in factories used by American brands. Several of these involved the island of Saipan, a small American protectorate in the Pacific. A number of factory owners discovered that since Saipan is technically American territory, clothing produced in Saipan could enter the United States duty-free and carry the label "Made in America." Since Saipan is much closer to Vietnam and the Philippines than to the United States, a number of these factories recruited Vietnamese and Filipino natives as factory workers. Upon their arrival in Saipan, however, some of these workers were exposed to flagrant human rights abuses and, in the worst of cases, outright slavery. In one notorious case, workers were literally imprisoned in the factory and forced to work without pay. Eventually, these abuses were revealed and US prosecutors filed charges against factory owners, some of whom were sentenced to substantial prison sentences.

In the early 1990s, one of America's most prominent footwear brands, Nike, also came under attack as reports emerged from Indonesia and Vietnam of worker abuse. In Vietnam, a young female factory employee was working on basketball shoes when her machine exploded and sent a bolt through her heart. The American cartoonist Garry Trudeau began featuring a series of strips satirizing Nike's sweatshop factories in his popular newspaper cartoon *Dooniesbury*. At first, Nike refused to accept responsibility, pointing out that Nike had never manufactured its own footwear and apparel. Nike's contracts with its sourcing factories required the factories to obey labor regulations and, in Nike's view, this meant that any abuses were the factories' responsibility. However, by 1998, the continuing negative publicity obliged Nike to reverse course by instituting a strict code of conduct for its factories.

Through the efforts of a crusading Secretary of Labor Robert Reich, the Clinton administration sought to leverage the power of the bully pulpit available to the US presidency. In 1995, the Clinton administration announced the formation of the Apparel Industry Partnership, a government-industry collaboration aimed at reducing instances of sweat-

shop abuse. Companies who were able to establish that they had produced their items in sweatshop-free environments would be allowed to add a special label in their clothes: “No Sweat.” It seems this approach was ill-advised, as no companies ever made use of it, perhaps because many people would be disconcerted to find a reference to sweat in their garments.

In 1998, America’s college students created *US Students Against Sweatshops* (USAS), which has proven to be an influential public interest group. USAS’s initial goal was to convince American universities to eliminate sweatshops from the sourcing of college apparel, such as the sweatshirts and T-shirts bearing university logos that are commonly sold in campus stores and bookshops. Around the same time, a group of large American brands announced the creation of the Fair Labor Association (FLA), a group that set standards for certifying American brands as sweatshop-free if they submitted themselves to a regime of regular inspections. The FLA was viewed with suspicion by many antisweatshop activists and NGOs, in part because the FLA did not accept membership from unions, and also because it was felt that FLA’s principal approach, to reward corporations with certification for a few years of minimal inspections, was insufficient to truly eliminate sweatshop abuses. As a result, union groups and the USAS led the way in creating a rival group, the Worker Rights Consortium (WRC), which took a different approach. The WRC investigated reports of abuse and published its findings.

In light of continued scrutiny from groups like the WRC, the USAS, the National Labor Committee, and other international groups such as the Clean Clothes Campaign, most large apparel brands developed and publicized their own internal codes of conduct for suppliers. Such codes of conduct were contractually imposed on all suppliers and required that factories comply with all local labor laws, refrain from employing children, and maintain safety programs. In addition, most brands began to require that factories make themselves available for inspections to make sure that they were complying with the standards set forth in the codes of conduct. A number of inspection companies sprang up to service the needs of the corporations and groups of young inspectors soon scanned the globe, moving from factory to factory, checking them for fire violations, reviewing records to make sure that rules on overtime were respected, and so forth.

Despite all these efforts, reports of violations continued to be heard. The American consumer seemed to have wearied of the sweatshop issue to some extent, and companies like Walmart and Nike, which had often been accused of sweatshop abuses, saw their sales and stock valuations continue to rise. Many companies began to focus more on environmentalism and anti-global warming issues, and a number of brands began to require that their supply factories obtain some sort of environmental certification, such as the Bluesign certification that was established in Germany under the auspices of SGS, the world’s largest inspection company. Then, in 2012 and 2013, a horrific series of accidents—eerily reminiscent of the Triangle Shirtwaist fire that had occurred a century before—reminded the world’s consumers that the sweatshop issue was still with us.

In 2012, a fire broke out at an apparel factory in Pakistan, killing some 270 Pakistani workers. Among the western companies sourcing from that factory were the UK retailer Tesco and the German apparel brand Kix. Kix’s offer of compensation to the victim’s families of \$2,000 per fatality was viewed by many Pakistanis as insulting. Then, just a few months later, at the Tazreen Fashions factory in Dhaka, Bangladesh, another 112 factory workers perished in a fire. Again, it was discovered that well-known western brands such as Walmart, Disney, and the Gap had sourced products from the factory. The world’s attention was squarely focused on Pakistan and Bangladesh when the building collapse at

Rana Plaza in Bangladesh became the worst industrial catastrophe in the history of apparel manufacturing.

## The Other Side of the Story: In Praise of Sweatshops

In light of the above history, it might seem startling that many experts appear to accept the existence of sweatshops as something positive. Economist Jeffrey Sachs, who is perhaps the world's foremost expert on the eradication of poverty (he was the creator of the United Nation's Millennium Project to cut global poverty in half) was quoted in 1997 as saying, "The problem with sweatshops is not that there are too many, but that there are not enough."<sup>10</sup> What did he mean by that?

In general, economists are less disturbed by sweatshop abuses than are labor activists, but most economists would deny that this is because they are heartless or unconcerned with human rights. Rather, they concede that sweatshop abuses are both common and reprehensible, but they also believe that the benefits to the local economy from international outsourcing more than outweigh the harm. According to this point of view, sweatshops are part of the industrialization process and are an inevitable by-product of economic development. Factories in poor countries are able to attract foreign customers because local labor is cheap. As factories proliferate and employment rises, factories must begin to compete for better workers. Wages therefore increase, and factory conditions improve. With a broader tax base and greater economic growth, local governments are able to invest in the infrastructure for further development, building roads, hospitals, and schools.

Some international research studies appear to confirm the economists' point of view. One study revealed that, in most countries where the presence of sweatshops had been reported, apparel factory workers actually earned more than the average national wage.<sup>11</sup> A number of countries have passed through a manufacturing phase in which sweatshop conditions were more prevalent on their way to full industrialization and a diversified economy. Examples include the United States, Japan, and Korea. Most recently, China appears to be following a similar path, though it is still in a transition phase and reports of sweatshop abuses are still common.

## Case Study: Disney in Bangladesh

The Walt Disney Corporation is one of the world's largest entertainment conglomerates, known for its theme parks, such as Disneyland and Disneyworld; its long history of producing blockbuster animated movies from *Fantasia* and *Snow White* to *The Lion King* and *Tangled*; and its sale of licensed apparel and toys featuring famous characters from the Disney movies. Given that an important segment of Disney's target market is children, the company is especially exposed to negative publicity related to certain sweatshop abuses, in particular, the use of child labor.

After the 2011 Tazreen Fashions factory fire in Bangladesh, Disney management became concerned about the company's public relations exposure due to its sourcing operations in Bangladesh. Although Disney's apparel manufacturing was far from neg-

ligible, it still represented a very small percentage of Disney's total earnings, which came predominantly from its television, film, and theme park divisions. One commonality to the Disney-branded products was that they all relied on Disney's image as a wholesome provider of family fare. If Disney were to become tagged with accusations similar to those leveled at Kathie Lee Gifford—namely that it was the beneficiary of child labor in sweatshop conditions—the consequences could be quite devastating for Disney's public image. What would Disney do if high-school students started nagging their parents to abandon Disney vacations or to stop renting Disney movies?

Therefore, in early 2013, Disney decided to pull its manufacturing operations out of Bangladesh. That Disney departed from Bangladesh shortly before the Rana Plaza building collapse was misinterpreted by many as having been caused by the collapse, whereas Disney had actually made its decision well before the collapse. Despite this, many representatives of antisweatshop NGOs and workers' rights groups condemned Disney's decision as an abdication of responsibility. In the view of such critics, Disney should have stayed behind to help remedy the problem.

## Topic for Debate: Should Disney Return?

In this chapter's debate section, we ask, would it more ethical for Disney to stay in Bangladesh and use its considerable reputation to help lobby for improved worker conditions at Bangladesh apparel factories?

We will assume for the purposes of this debate that the Disney Board of Directors has been pressured to reconsider its position. Two directors are preparing their presentations for an upcoming board meeting at which the issue will once again be discussed. One of the directors, whom we will call Mr. Jones, is one of the founders of an international NGO dedicated to worker rights. He was invited onto the board specifically because of his ability to speak to issues of human rights compliance in outsourcing factories. It is Mr. Jones's opinion that Disney should resume operations in Bangladesh.

On the other side is a director we will call Mr. Smith, who is one of the principal shareholders of the Disney Corporation. Mr. Smith is very concerned that a return to Bangladesh would expose Disney to major financial risk, because another factory catastrophe coming after Disney's return could lead to Disney's name being tarnished. You will be asked to help one of these directors prepare their presentation at the Board meeting.

### Affirmative

Disney should resume manufacturing in Bangladesh.

#### Possible Arguments

- Disney has sufficient prestige to help lobby for improved human rights compliance in Bangladesh.
- Disney's departure may only encourage Disney's suppliers and related parties to leave Bangladesh as well, thereby diminishing employment in Bangladesh and harming the local workers through unemployment.
- By helping support the efforts of other foreign companies sourcing in Bangladesh, Disney will learn state-of-the-art methods for working with governments and

community groups to help improve worker safety, which can only serve Disney positively in the other countries where Disney sources its apparel products.

## Negative

Disney should not resume manufacturing in Bangladesh.

### Possible Arguments

- Disney markets products to children and families; any reports of child labor or the deaths of teenage workers in factories could be devastating to Disney's image.
- Disney should reward—with its factory contracts—those countries that are doing a good job in providing a safe working environment for its employees, free of sweatshop labor.
- Disney's departure should help create an incentive for Bangladeshi authorities to improve conditions in their factories. If no foreign buyers leave, it is too easy for them to become complacent and do little to change the status quo.

## Readings

### 9.1 Address the Real Challenges

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### 9.4 Responsibility Is Local, Not Global

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## Synthesis Questions

1. When you buy clothing do you check the inside label to see where the item was manufactured? Would it matter to you to discover that an item was manufactured in Bangladesh?
2. If you found an article of clothing that had a label stating that it was manufactured in the United States, would this make it more attractive to you? What if the item was 20% or 30% more expensive, would that keep you from buying it?
3. What is the best way to make sure the workers in factories are treated fairly? Can you come up with one detailed proposal?

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## Chapter 10

# Corruption in International Business



Source: Stockmonkeys.com, (CC-BY 2.0, 2012)

*Figure 10.1 A common practice worldwide is for government favors to be sought in exchange for surreptitious payments in cash. Corruption is not merely a problem in developing countries. In recent years, American, German and Italian companies have been implicated in corruption scandals, both domestic and international.*

## The Problem of Corruption

When a large corporation decides to enter a foreign market, it must usually secure a number of licenses, permits, registrations, or other government approvals. Certain types of business may be even be impossible or illegal unless the corporation is first able to obtain a change or adjustment to the nation's laws or regulations. Since the power to authorize the foreign corporation's activities is vested in the hands of local politicians and officials, and since corporations have access to large financial resources, it should not be surprising

that some corporate executives resort to financial incentives to influence foreign officials. While certain financial incentives, such as promises to invest in local infrastructure, may be legitimate, any form of direct payment to the foreign official that is intended to influence that official's public decisions will cross the line into illegal *subornation*, also commonly referred to as *bribery*.

Bribery is one of the archetypal examples of a corporation engaged in unethical behavior. A number of problems can be attributed to business bribery. First, it is obviously illegal—all countries have laws that prohibit the bribery of government officials—so the foreign company engaging in bribery exposes its directors, executives, and employees to grave legal risks. Second, the rules and regulations that are circumvented by bribery often have a legitimate public purpose, so the corporation may be subverting local social interests and/or harming local competitors. Third, the giving of bribes may foment a culture of corruption in the foreign country, which can prove difficult to eradicate. Fourth, in light of laws such as the US Foreign Corrupt Practices Act (FCPA) and the Organization of Economic Cooperation and Development (OECD) Convention on Anti-Bribery (discussed in greater detail below), bribery is illegal not only in the target country, but also in the corporation's home country. Fifth, a corporation that is formally accused or convicted of illicit behavior may suffer a serious public relations backlash.

Despite these considerable disincentives, experts report that worldwide business corruption shows little signs of abating. Transparency International (TI), a leading anticorruption organization based in Berlin, estimates that one in four people worldwide paid a bribe in 2009. It appears that the total number of bribes continues to increase annually. The World Economic Forum calculated the cost of corruption in 2011 at more than five percent of global GDP (US\$2.6 trillion) with over \$1 trillion paid in bribes each year.<sup>1</sup>

Governments and intergovernmental organizations have redoubled their efforts to combat the perceived increase in international business corruption. Globalization, which accelerated in the final decades of the twentieth century, is often cited by specialists as contributing to the spread of corruption. Corporations and businesses in every nation have become increasingly dependent on global networks of suppliers, partners, customers, and governments. The increased interaction between parties in different countries has multiplied the opportunities for parties to seek advantage from illicit incentives and payoffs. Although outright bribery is clearly unethical and illegal, there is great deal of behavior that falls into a gray zone that can be difficult to analyze according to a single global standard. When does a business gift become a bribe? What level of business entertainment is “right” or “wrong”? Over the past two decades, governments and regulators have sought to clearly define the types of behavior that are considered unethical and illegal.

Another factor that has heightened the sense of urgency among regulators is the magnitude of recent cases of corruption (several of which are described in greater detail below). The cost to shareholders as well as stakeholders and society has proven enormous. Governments and international organizations have ramped up their enforcement of anticorruption laws and sought increasingly severe penalties, sometimes imposing fines amounting to hundreds of millions of dollars. Largely as a result of these efforts, most multinational corporations have developed internal policies to ensure compliance with anticorruption legislation. However, as we will see in the case study featured in this chapter, such compliance also raises complex ethical dilemmas for corporations. It remains difficult to regulate ethical behavior when social and cultural norms vary significantly from country to country.

Acts that are considered unethical in one country may represent a traditional way of doing business in another. One legal scholar explains the difference as follows:

A common misconception, held in both Western and developing countries, and even among many researchers on corruption, is to confuse what is corrupt with what is legal. Laws are defined by values, as are ethical norms, but the two are not equivalent.<sup>2</sup>

In this chapter, we will explore the impact, reasonableness, and the effectiveness of anticorruption laws and corporate compliance rules. Finally, we will discuss a case in which the line between corruption and traditional business practices remains difficult to ascertain.

## The Scope of the Problem

Recent cases of corruption in international business have attracted considerable media attention. Paying a traffic officer to ignore a minor traffic violation is unremarkable; paying a senior government official a secret bribe of millions of dollars to get a large contract signed is a different matter.

While virtually all multinational companies have adopted anticorruption policies, it is not clear how often these policies are fully implemented and internalized as part of the corporate culture. The emphasis on anticorruption policies is relatively recent and, even in the most responsible organizations, such policies are still works in progress. However, there is some evidence that the implementation is not always as effective as might be hoped.

For example, a study by Control Risks and the *Economist* magazine's Intelligence Unit showed that while most companies acknowledge the need to combat bribery and corruption, many are complacent and unprepared to deal with scandals inside their own organizations.<sup>3</sup> The review of global attitudes on corruption surveyed more than 300 senior lawyers and compliance heads in April 2013. It painted a disturbing picture. The authors concluded that "too many companies still fall short of best practices in their anticorruption compliance programs." Despite ranking anticorruption high on most corporate agendas, the report noted a "danger of complacency" among companies, and as a result, "the risk of a company finding itself in the middle of a corruption-based investigation remains real."<sup>4</sup>

Transparency International's Corruption Perceptions Index (CPI) ranks countries and territories according to their perceived levels of public sector corruption. It is an aggregate indicator that combines different sources of information about corruption, making it possible to compare countries. Perceptions are used because corruption is generally a hidden activity that is difficult to measure. The CPI confirms that corruption remains a problem worldwide and takes place even in the wealthiest countries.<sup>5</sup> Research in 2012 by the Austrian economist Friedrich Schneider placed the annual loss to the German economy alone at €250 billion.<sup>6</sup>

The Dow Jones State of Anti-Corruption Survey in 2011, which surveyed more than 300 companies worldwide, found that more than 55 percent of companies have found cause to reconsider working with certain global business partners due to concerns about possible violation of anticorruption regulations. Additionally, the biannual survey indicated that more than 40 percent of companies believe they have lost business to competitors who won contracts unethically, an increase from only 10 percent in the 2009 study. "Strict liability provisions in legislation like the UK Bribery Act make businesses responsible for the activities of their agents and partners overseas, and this is having a direct impact on the

occurrence of new business partnerships between firms,” said Rupert de Ruig, managing director of Risk and Compliance, Dow Jones.<sup>7</sup>

Global social costs from corruption include the reluctance of investors to commit to projects in developing economies, inhibited growth of businesses due to syphoning off of revenues for bribes, and diversion of funds from food, medical, and educational aid programs. In addition, it seems likely that corruption hampers the development of executive talent in developing nations, given that frustrated local executives may seek to emigrate to countries where corruption is less prevalent. Consider for example, the long term impact of the necessity of paying a bribe to get running water in a household in rural India.<sup>8</sup> This type of corruption can effectively exclude the poor from access to vital public services. Economist Daniel Kaufmann of the Harvard Institute of International Development cites public sector corruption as the most severe obstacle to development in developing and post-communist countries.<sup>9</sup>

## Notable Examples of Corruption

The number and magnitude of recent corruption cases prosecuted by government authorities is disconcerting. Moreover, these widely-publicized cases may represent only the tip of the iceberg: Regulatory bodies focus principally on the bribery of public officials so that other forms of business corruption are under-reported. To date, the ten largest cases successfully tried pursuant to the FCPA are listed below (in order of magnitude of fines):

1. Siemens (Germany): \$800 million in 2008
2. KBR/Halliburton (USA): \$579 million in 2009
3. BAE (UK): \$400 million in 2010
4. Total SA (France): \$398 million in 2013
5. Snamprogetti Netherlands BV/ENI SpA (Holland/Italy): \$365 million in 2010
6. Technip SA (France): \$338 million in 2010
7. JGC Corporation (Japan) \$218.8 million in 2011
8. Daimler AG (Germany): \$185 million in 2010
9. Alcatel-Lucent (France): \$137 million in 2010
10. Magyar Telekom/Deutsche Telekom (Hungary/Germany): \$95 million in 2011

There are other recent examples of large-scale corruption in international business.

## Walmart in Mexico

According to a report issued by the Mexican Employers Association in 2011, companies operating in Mexico spend more than 10 percent of their revenue on corrupt acts. One of the most well-known cases was the Walmart scandal that was brought to light in September 2005 and resulted in the company’s stock value dropping by as much as \$4.5 billion. Evidence unearthed by internal and external investigations revealed a widespread use of bribes, alleged to total over \$24 million. The bribes were paid to facilitate the construction of Walmart stores throughout Mexico. The country is a huge market for Walmart—one in every five Walmart stores is in Mexico. As of October 2014, the investigation con-

tinued, having implicated Walmart management at the most senior levels of complicity or awareness.

## GlaxoSmithKline in China

In September 2013, China's Xinhua news agency reported that a police investigation into bribes paid by drug manufacturer GlaxoSmithKline (GSK) indicated that the bribes were organized and paid by GSK China and not by individuals operating on their own prerogative as had been reported by the company initially. Police also alleged that the corporate parent merely went through the motions of an internal audit process, indicating a knowledge and acceptance of the bribery. This very recent case suggests that the Chinese government's widely publicized arrests and convictions for bribery have not yet served as a sufficient deterrent to corrupt practices by foreign corporations.

## Alcatel in Costa Rica

In January 2010 Alcatel agreed to pay Costa Rica US \$10 million in reparations for social damage caused by Alcatel's payment of US\$2.5 million in bribes to get a contract to provide mobile phone services in that country. This case is notable for its application of the concept of *social damage* and the resulting order of compensation to the citizens of Costa Rica.

# Anticorruption Laws and Regulations

The first major international anticorruption law was the United States' Foreign Corrupt Practices Act (FCPA), adopted in 1977.<sup>11</sup> The FCPA criminalized bribery of foreign public officials by American business enterprises. Initially, the FCPA was not well received. Few other countries followed suit and US companies complained that the FCPA shut them out of the competition for billions of dollars' worth of overseas business contracts. Slowly, however, the push for concerted anticorruption measures gathered momentum, and inter-governmental institutions such as the OECD, the African Union, and the United Nations eventually adopted anticorruption conventions. Further support for a global anticorruption agenda was provided by the lending institutions such as the World Bank, by NGOs such as Transparency International, and by the rapidly evolving CSR movement. Notable among these efforts was the Communist Party of China's promulgation of a code of ethics to fight the widespread [corruption](#) within the [Communist Party of China](#).<sup>12</sup>

The FCPA applies only to bribes paid (or offered) to foreign government officials to obtain or retain business or to develop an unfair competitive advantage. The concepts of *bribe* and *foreign government official* can be interpreted broadly. While companies and executives charged with FCPA violations have often sought to characterize their payments as business "gifts," this has not shielded them from liability when there was evidence that the payments were intended as a means of obtaining illicit objectives. However, where payments have been characterized as "facilitation" or "lubrication" payments, meaning that they merely created an incentive for an official to promptly execute legal actions, such as mandatory customs inspections, the payments have been allowed. In numerous countries, the state owns all or part of commercial enterprises so that a great number of business executives could be classified as foreign government officials.

In 1997, the OECD established legally binding standards for defining bribery in international business transactions. Similar to the FCPA, the OECD Anti-Bribery Convention focuses on the bribery of public officials. Like the FCPA, the OECD also potentially creates the opportunity for companies to circumvent the regulations by hiring consultants or agents (this topic will be the focus of this chapter's case study discussion). Notably excluded from the scope of the OECD Convention is a prohibition against bribing private parties. Despite such loopholes, the OECD Convention was an important step in the right direction. By 2012, forty-three countries had ratified the agreement and begun its implementation.

## Corruption and Culture

Prior to the expansion of international trade in the nineteenth and twentieth centuries, most commerce was local and followed traditional norms and ethical standards. With the expansion of international trade, however, businesses began to operate across cultural and linguistic boundaries. Misunderstandings and transgressions, both intended and unintended, became commonplace. To some extent, perceptions of corruption may derive from cultural differences, because behavior that is considered corrupt in one society may represent a normal business practice in another.

One example can be found in the Chinese concept of *guanxi*, which refers to the reciprocal obligations and benefits expected from a network of personal connections. A person with a powerful level of *guanxi* is considered a preferred business partner because such a person can utilize connections to obtain business or government approvals. *Guanxi* can derive from extended family, school friends and alumni, work colleagues, members of common clubs or organizations, and business associates. Chinese businesspeople seek to cultivate an intricate and extensive web of lifelong *guanxi* relationships. The key expectation in *guanxi* networks is reciprocity in the granting of favors; the failure to reciprocate is considered a breach of trust. The greater the favor asked or granted, the greater the favor owed. *Guanxi* thus generates a cycle of favors over time. Among the questionable practices facilitated by *guanxi* are certain types of corrupt favoritism—such as nepotism (favoring family members) and cronyism (favoring friends). In fact, relatively high levels of nepotism or cronyism are accepted and tolerated in many non-Western cultures, not only in China. As applied to business transactions, *guanxi* opens doors and creates opportunities for business relationships and dealings. In itself, *guanxi* is not corrupt. However, strong *guanxi* connections and obligations can serve as an incentive to corruption.

Many traditional business practices around the world are rooted in concepts analogous to *guanxi*, as in the practice of using business gifts or personal connections to speed up transactions both large and small. Russians use the term *blat* to refer to the ability to get things done through personal networks or contacts with people of influence. The Japanese have adapted the English word *connections* to coin a term of their own, *konne*. In Pakistan, the use of personal *sifarish* (“recommendation”) refers to the ability to make contact with the right official on the most favorable terms. The French expression for bribe is *pot de vin* (“jug of wine”), which implies friendly relations. In Urdu and Hindi, petty bribes are known as *chai pani* (“tea water”). In West Africa the term is *dash*. The English colloquial term *grease* and the German *schmiergeld* (“grease money”) imply a lubrication or easing of resistance to

the transaction. In Mozambique, one term for corruption is *cabritismo* or “goatism,” which is derived from the saying “a goat eats where it is tethered.”

The universality of such terms suggests that various forms of business bribery and graft are prevalent worldwide. However, specific business activities that are considered acceptable in some societies may be considered taboo in others. Thus, the American practice of lobbying legislators and governmental agencies would be considered an illegal form of buying influence in many other countries. In some societies, gift giving to chiefs, elders, or religious leaders is considered not only acceptable and appropriate, but even a mandatory traditional expression of respect and obligation.

A survey conducted by KPMG in the United Kingdom found that while 80 percent of respondents agreed that the UK Anti-Corruption Act was an admirable attempt to address the problem of corruption, 58 percent believed that the Act was impractical and ignored the reality that bribery is an accepted way of doing business in many countries. Other similar studies have revealed widespread international criticism of US anticorruption law as hypocritical in light of the American business practice of offering gifts to potential customers or clients (e.g., trips to conferences, golf outings, tickets to entertainment and sporting events, use of luxury facilities such as spas, condos, and country clubs, etc.).

## Case Study: The Chinese Agent

The fictional case subject for this chapter is based on the difficult issue of determining the ethics of employing a well-connected agent. In our case, an American for-profit educational institution, which we will call Cleveland College, is opening a Shanghai campus to offer United States-style college programs in China. There is a ready market in China for “prestigious” US baccalaureate degrees. However, Cleveland College needs to satisfy a lot of red tape to be accredited in China and obtain the necessary licenses for an educational institution in the Shanghai area.

On an exploratory trip to Shanghai, the President of Cleveland College, Mark Rollins, is approached by a prominent businessman, Wang Li, a former member of the Shanghai city government who is familiar with the educational bureaucracy. Wang offers to assist as a public relations agent, but his fee is so hefty (\$200,000 per year) that Rollins fears that Wang is going to use much of it to grease palms. Research with local authorities indicates that Wang is well respected and has a high level of *guanxi* with local educational officials. Wang promises to get Cleveland College all the necessary certifications in much faster time than it usually takes, and also promises to prevent bothersome audits and bureaucratic problems. Should Cleveland College sign him on? What FCPA danger would this entail?

## Corruption in China

Over the past decade, the Chinese government has joined the global community in decrying corruption and initiating regulations and laws, and publically stating a strong intent to clamp down on corruption. Thus, in a widely publicized 2011 statement by China’s Premier, Wen Jiabao, anticorruption actions were emphasized as a “primary task in 2011.”<sup>13</sup> This was interpreted as an indication that increased enforcement of anticorruption laws will be a top government priority and that these prohibitions must be taken seriously by foreign corporations operating in China.

A number of recent high-profile cases have illustrated the extent of the Chinese crack-down on corruption. One notorious case was that of the former anticorruption official Huang Songyou, who was sentenced to death for accepting 7.71 billion yuan in bribes. In another case, Wang Huayuan and eight other senior officials of the provincial governments in Guangdong and Zhejiang provinces were convicted of corrupt actions that took place between 1998 and 2009. The former president of the Supreme Court and the former vice president of the state-owned China Development Bank were charged with taking bribes and then convicted to life in prison. In 2011, China sought the repatriation of Lai Changxing from Canada after twelve years there. As former chairman of Yuanhua International Corporation, Changxing was accused of absconding with \$7.7 billion dollars. His defense against the repatriation was that he would face torture and execution.

Some observers have questioned the resolve of the Chinese government and have suggested that the small number of corruption prosecutions concluding with extreme punishments may have less to do with ending corruption than with sending a message to those who engage in corruption beyond an acceptable level. Others have suggested that anticorruption prosecutions may be an alternative means of conducting political purges. A more positive but still skeptical interpretation is to view the anticorruption cases as an expression of support for global anticorruption, an encouragement to foreign investors who fear corruption, and a way of appeasing the Chinese citizenry. According to Yan Sun, Associate Professor of Political Science at the City University of New York, it was corruption, rather than democracy as such, that lay at the root of the social dissatisfaction that led to the Tiananmen protest movement of 1989.

## Foreign Educational Institutions in China

Accompanying China's meteoric economic development over the last three decades has been a corresponding growth in sophisticated higher education. The number of institutions of higher education in China has doubled in the last ten years. By 2020, China intends to have produced 195 million college graduates. The Chinese government has determined that it must not only increase the number of college graduates, but also make China an education destination for non-Chinese students. Accomplishing these goals will necessitate increased cooperation with Western institutions of higher education

In an interview with *University World News* in 2013, Michael Gaebel, head of the higher education policy unit at the European University Association (EUA) reported that, just a few years ago, "it was very difficult to convince European vice-chancellors that Asia was not just a provider of fee-paying students. Now no one in Europe can ignore that China has become important globally for research and will continue growing in importance."<sup>14</sup> In 2013, China's vice minister for education announced that China would take efforts to attract more foreign students. By 2020, China hoped to attract some 500,000 international students, making the country the largest Asian destination for international students. Currently about 35,000 foreign students are studying in China.

With 37 million students studying in over 2,400 universities and colleges, China has the largest system of higher education in the world. The rapid growth of demand for colleges and universities in recent years has resulted in a number of problems, including rushed and poor quality construction, high student-lecturer ratio, shortages of qualified faculty, and questionable academic quality, not to mention allegations of corruption.

Corruption in higher education in China has been widely reported, including allegations of widespread plagiarism, selling of degrees, favoritism in admissions, and bribery

for grades. A [study](#) by Wuhan University Professor Shen Yan showed that ghostwriting academic theses was a one billion–yuan business in 2009, and that 70 percent of the published theses were plagiarized. John Bray, author of “Facing up to Corruption, a Practical Guide,”<sup>15</sup> reports that parents in China often have to pay for a spot in a university for their child.

Compounding these problems is the growing level of unemployment among recent graduates. The *Epoch Times* reported a 7.7 percent employment rate among the seven million graduates in 2014.<sup>16</sup> The decline in the perceived value of Chinese higher education has created an opportunity for foreign universities. There is a perception that a degree from a Western university is more credible and that its graduates are more employable than graduates of Chinese institutions. Carl Fey, Dean of Nottingham University Business School China, discusses the growing number of foreign campuses opening in China. At his school, they spend the first year teaching students English, so they learn to work, study, and speak in English before diving into subject matter. “Your diploma looks exactly the same whether you graduated from Nottingham, UK, or Nottingham, China,” Fey said. “That’s because the education’s actually the same.”<sup>17</sup>

The number of foreign universities operating in China is changing rapidly as institutions from Europe, the United States, and other Western countries enter the fray. This course is not without operational hurdles, as was noted when Harvard University pulled out of a high profile and widely published and joint venture with its Chinese counterpart, the prestigious Beijing University. Harvard cited several reasons for ending the relationship, including low enrollment, high operating expenses, and issues within the Chinese language program.

One of the problems faced by Western universities operating in China is that the potential for government censorship places severe limitations on academic freedom. While this is the most notable issue, there are many other challenges, mostly related to cultural differences. The red tape involved in getting the appropriate licenses, accreditations, and building permits from the various governmental agencies involved in local, regional, and centralized government is a daunting task for a foreigner. Most foreign institutions find it more expedient to partner with established Chinese universities than to attempt to open a new university, but even then, there are all the usual issues related to operation of a partnership or joint venture, all complicated by the cultural differences.

## Topic for Debate: To Hire, or Not to Hire a “Consultant” Who May Be Bribing Officials on Behalf of the University

Should Cleveland College hire the local Chinese agent, or “public relations” consultant, who requests a sizeable enough retainer that we may reasonably suspect he is making cash donations to obtain the goodwill of local educational institutions?

### Affirmative Position

Cleveland College should hire the local Chinese agent/consultant.

## Possible Arguments

- Secret cash payments may act as a morally-acceptable “lubricant” to facilitate commercial exchanges.
- Corruption is an inevitable part of the process of opening up new and developing markets.
- Companies that elect to comply with the letter of the law in the strictest sense may be at a severe competitive disadvantage.
- Payment of “fees” to officials can serve as an incentive to development, cutting through unnecessary bureaucracy.
- Corruption as defined in this context is a Western concept and may not be applicable in all countries.
- In many societies, the “gift culture” is a form of appropriate behavior based on long-standing traditions of exchanging favors.

## Negative Position

Cleveland College should not hire the local Chinese agent/consultant.

## Possible Arguments

- Paying an agent a fee, who then bribes a government official does not necessarily relieve the college of the risk of violating anticorruption laws.
- Paying an agent to bribe a government official sets a precedent that can lead to ongoing demands for bribes.
- If the organization pays a bribe, and they do not get what they paid for, they have no recourse. This is a high-risk form of investment.
- If the college goes down the path of bribing officials for any purpose, using the justification that it is a traditional and acceptable way of conducting business, it implicitly condones a lack of ethics to its employees—the next step would be to sell grades, diplomas or admissions.

## Readings

### 10.1 “Corruption from a Cross-Cultural Perspective”

Hooker, John. “Corruption from a Cross-Cultural Perspective.” Pittsburgh, PA: Carnegie Mellon University. October 2008. <http://ba.gsia.cmu.edu/jnh/corruption08s.pdf>.

The world is shrinking, but its cultures remain worlds apart, as do its ethical norms. Bribery, kickbacks, cronyism, and nepotism seem to be more prevalent in some parts of the world, and one wants to know why. Is it because some peoples are less ethical than others? Or is it because they have different ethical systems and regard these behaviors as acceptable?

...The phenomenon of corruption provides a good illustration of these realities. Corruption is best understood as behavior that corrupts: it undermines the cultural system in which it occurs. Because cultures can operate in very different ways, very different kinds of behavior can corrupt. Practices that Westerners consider questionable, such as cronyism and nepotism, may be functional in other cultures. Practices that are routine and acceptable

in the West, such as bringing a lawsuit for breach of contract, may be corrupting in a wide range of cultures, Western and non-Western, but for very different reasons.

The West tends to be universalist in its outlook: every society works, or should work, essentially the same way. Its business practices, for example, should be based on a market system that is characterized by transparency and regulated by laws that apply to everyone. A country that fails to conform to this model is seen as underdeveloped or dysfunctional. It follows from this view that that corruption is basically the same in Sweden as in Sudan.

The reality, however, is that different cultures use radically different systems to get things done. Whereas Western cultures are primarily rule-based, most of the world's cultures are relationship-based. Westerners tend to trust the system, while people ... cemented by personal honor, filial duty, friendship, or long-term mutual obligation. Loyalty to cronies is suspect behavior in the West but represents high moral character in much of the world.

...What is corrupt in the West may be acceptable elsewhere. The classic example of the purchasing agent illustrates this point. The Western purchasing agent is expected to award contracts based on the quality of bids and transparently available financial information about the bidders. An agent who favors personal friends is viewed as corrupt, because cronyism subverts this transparency-based system. It creates a conflict of interest: A choice that is good for the agent and his or her cronies may not be good for the company.

In much of the world, however, cronyism is a foundation for trust. A purchasing agent does business with friends because friends can be trusted. He or she may not even ask to see the company financials, since this could insult the other's honor. It is assumed that cronies will follow through on the deal, not because they fear a lawsuit, but because they do not wish to sacrifice a valuable relationship in an economy where relationships are the key to business. In such a system it is in the company's interest for the agent to do business with friends, and cronyism may therefore present no conflict of interest.

What is acceptable in the West may be corrupt elsewhere ... Even so basic a practice as negotiation, which is routine in the West, can disrupt harmony in Confucian cultures. Westerners tend to organize their affairs around agreements, deals, or contracts, relying on a concept of covenant that traces back to the ancient Middle East. These agreements are hammered out in negotiation, as for example when labor and management sit across the table from each other. This practice is functional and constructive, so long as it proceeds according to rules of fair play and good faith.

Confucian cultures ... are based primarily on loyalty and obligation to friends, family or superiors rather than on a system of rules.

## 10.2 “Facing up to Corruption: A Practical Business Guide”

Bray, John. “Facing up to Corruption: A Practical Business Guide.” London: Control Risks. 2007. <http://www.giacentre.org/documents/CONTROLRISKS.CORRUPTIONGUIDE.pdf>

### **Direct and Indirect Bribery**

Indirect bribery is one of the most sensitive policy issues facing international companies. A typical example would be a case where a company employs a commercial agent to help it win a government contract. The agent is paid by commission based on a percentage of the contract fee; part of that commission is passed on to a government official. The agent's employers do not know—and do not wish to know—what happened...

The OECD Anti-Bribery Convention explicitly covers payments made “directly or through intermediaries” to secure a business advantage. US and other international legal practice already includes several cases where companies have been prosecuted for paying bribes via agents. Ignorance—wilful or otherwise—is not a defence.

...A broad understanding of corruption includes certain kinds of influence, although the boundary between acceptable and unacceptable forms of influence is often hard to define. A series of cases in the US and other countries have drawn attention to the ethical issues surrounding political lobbying. In principle, political lobbying is legitimate. One of the main roles of industry associations is to lobby government on their members’ behalf. Individual companies, like ordinary citizens, are entitled to seek assistance from their political and diplomatic representatives. Problems arise when such contacts appear secretive, when there is a suspicion of favouritism or when a company’s influence appears to be both disproportionate and against the wider public interest.

In many societies it is common to speed up both larger and smaller transactions through personal connections... The use of personal contacts is both commonplace and useful. However, as with political lobbying, it becomes problematic when the connections lack transparency and when officials break rules on behalf of their business friends, or seek illicit favours in return.

In cases of doubt, the so-called “newspaper test” provides a useful indicator: would a proposed transaction cause you or your company embarrassment when reported in the press? If it would, do not do it.

### 10.3 “The Cost of Corruption: A Discussion Paper on Corruption, Development and the Poor”

Evans, Bryan R. “The Cost of Corruption: A Discussion Paper on Corruption, Development and the Poor,” (Middlesex, UK: Tearfund, 1999), accessed December 3, 2014, <http://www.tearfund.org/webdocs/Website/Campaigning/Policy%20and%20research/The%20cost%20of%20corruption.pdf>.

Far from being a “victimless crime,” corruption infringes the fundamental human right to fair treatment. All persons are entitled to be treated equally, and when one person bribes a public official he acquires a privileged status in relation to others. He becomes an ‘insider’ while others are made “outsiders” (and the more “outside” they are—the very poor, the landless, women, ethnic minorities—the more they will be hurt). Clare Short, the UK Secretary of State for International Development, notes a report in the Indian magazine Outlook to the effect that the bribe for a new water connection was R1,000. This effectively excluded the poor from access to running water, with all the health and time-loss implications that this entails. Corruption is thus profoundly inegalitarian in its effects—it has a “Robin Hood-in-reverse” character. Hugh Bayley MP, introducing a bill to create offences of international bribery and corruption, went so far as to say that “bribery is a direct transfer of money from the poor to the rich.”

...The ramifications spread yet further. Productive foreign investment may be lost. Before the Asian crisis of 1997/98 there were some who argued that corruption was not harmful, it merely greased the wheels of commerce. It was pointed out that some countries which ranked high in surveys of the level of corruption, also excelled in economic growth. The World Development Report notes that the question of predictability (the amount to be paid, the certainty of outcome) throws some light on this apparent paradox. “For a given

level of corruption, countries with more predictable corruption have higher investment rates...”

However, the Report went on to state that even in these countries corruption had an adverse impact on economic performance, because the higher transaction costs and increased uncertainty put off potential investors. Time magazine quotes research by Professor Shang-Jin Wei of Harvard School of Government to the effect that the high level of corruption in Mexico compared with Singapore was the equivalent of a 24 per cent increase in the marginal rate of taxation.

A conservationist, Lansen Olsen, in a letter to the Transparency International Newsletter notes that “political corruption is a major feature of the political habitat in which wildlife conservation efforts sink or swim.” When corruption breaches regulations designed to protect the environment, everyone suffers in the long term, as the loss of primary forest leads to soil erosion, local climate change, etc., but it is the poor who have the smallest resources with which to weather environmental degradation.

Corruption can also have ugly and unpredictable consequences for the (Western) briber. As soon as he pays he begins to lose control. If he does not get what he paid for he is in no position to complain. Having broken the law he is vulnerable to blackmail. If he tries to break the corrupt relationship he may face a variety of threats, including the threat of violence.

## Synthesis Questions

1. Consider the following hypothetical example: An American college seeks to obtain a good image among Chinese educational regulators and accreditors by inviting a number of them, all expenses paid, to a week-long conference in Hawaii. Is this morally acceptable? Does it constitute a form of bribery? Why or why not?
2. In the past two decades, a number of very large corporations have paid large fines for corrupt behavior. Presumably, the executives who authorized the payments were highly-educated, experienced, professional people. Why do you think they failed to speak up against the corruption?
3. This chapter explores the concept of guanxi. Do you think guanxi is morally wrong, or rather, is an acceptable form of traditional practice that must be allowed to continue? What are the prospects for guanxi in the future?

## Endnotes

1. “Clean Business is Good Business,” International Chamber of Commerce, Transparency International, the United Nations Global Compact and the World Economic Forum Partnering Against Corruption Initiative (PACI), accessed Nov. 26, 2014, [http://www3.weforum.org/docs/WEF\\_PACI\\_BusinessCaseFightingCorruption\\_2011.pdf](http://www3.weforum.org/docs/WEF_PACI_BusinessCaseFightingCorruption_2011.pdf).
2. Sharon Eiher, “Corruption in International Business: The Challenge of Cultural and Legal Diversity,” Wichita, KS: Friends University, accessed October 29, 2013, [http://www.ashgate.com/pdf/SamplePages/Corruption\\_in\\_International\\_Business\\_Ch1.pdf](http://www.ashgate.com/pdf/SamplePages/Corruption_in_International_Business_Ch1.pdf).

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## Chapter 11

# Corporations and Politics: After Citizens United



Source: courtesy of John Montgomery, (CC-BY 2012), <http://www.commondreams.org/views/2012/10/17/freedom-beach-dump-citizens-united>

*Figure 11.1 The Supreme Court's decision in Citizens United v. Federal Elections Committee gave First Amendment rights to corporations in election periods, allowing business interests to spend unlimited amounts on U.S. elections. Do corporations deserve the same rights as individuals when it comes to political speech?*

## Corporate Influence on Politics

Corporations today exert a considerable (and occasionally overwhelming) influence on global politics. In some countries, the influence of corporations on government is so great as to give rise to the suspicion that the government is actually controlled by corporations. Even in those countries that strictly limit corporate influence on political campaigns, the corporate sector can still play an important role in the development of governmental policies through sophisticated, high-level lobbying. In this chapter we ask, how much of this corporate influence is acceptable? We will also explore the following related questions: How can corporate influence be controlled? What is the appropriate level of corporate participation in the drafting of laws and regulations? Should corporations be allowed to

contribute freely to political campaigns? What is the role of foreign and multinational corporations? Should they also be allowed to influence domestic politics?

Although we will focus on corporate influence, let us note at the outset that they are not the only source of money in politics; wealthy individuals, unions, and other participants in the electoral process also contribute significant funds and resources to campaigns. In the United States, as in most other industrialized democracies, electoral campaigns have become increasingly expensive despite attempts to limit allowable expenditures.

Given the importance of the issue, it is not surprising that a storm of controversy arose over a US Supreme Court's ruling in 2010 that government limits on corporate spending in political campaigns violated the First Amendment right to freedom of speech. In the view of an openly dismayed President Barack Obama, the Court's decision in *Citizens United v. Federal Elections Commission* "reversed a century of law to open the floodgates for special interests—including foreign corporations—to spend without limit in our elections."<sup>1</sup>

The validity of President Obama's objection to *Citizen United* has been hotly contested, and it will provide us with a focal point for our discussion: Is it true that corporations have achieved excessive influence over national politics? Are corporations entitled to be treated as "persons" when it comes to freedom of speech?

## A Basic Distinction: Private vs. Public Funding of Campaigns

While private election spending in the United States is increasing, the situation around the world is quite diverse. In some countries, expenditures are increasing while elsewhere they are decreasing. A basic distinction in national campaign finance regulations is that some countries allow private support for political campaigns while other countries provide public funds to candidates.

### Private Finance

In the United Kingdom there are no limits on corporate or individual giving in the general election, yet total spending on the 2010 general election was down 26 percent from 2005.<sup>2</sup> However, in the United Kingdom, the Prime Minister may call for elections at any time within a maximum period, which shortens the total time available for campaigning and explains the need for funds. National elections tend to be more expensive in the United States because they come along at predictable four-year intervals.

In Brazil, it is estimated that \$2 billion was spent by parties and candidates in the 2010 presidential election, with nearly 100 percent of total campaign donations coming from corporations.

### Public Funding

In countries such as Norway, government funding accounts for up to 74 percent of political campaigns, and political ads are banned from television and radio.

In Canada, candidates are given strict spending limits based on the number of voters in their districts, in order to even the playing field in elections, and private donations (a maximum of \$1,200 to any party) are heavily subsidized by public funds paid out through

tax credits. Although the price of elections has grown 50 percent in the past decade, Canadians spent just \$300 million on the 2008 general election.<sup>3</sup>

## Campaign Finance in the U.S.

### US Campaign Finance Law, PACs and Super PACs

*“There are two things that are important in politics. The first is money, and I can’t remember what the second one is.”*

—Mark Hanna, campaign manager of President McKinley’s successful bid for the Presidency in 1896.

Concern over the influence of money in politics began at an early stage in the life of the United States, with Thomas Jefferson stating in 1816 that he feared it would be necessary to “crush in its birth the aristocracy of our moneyed corporations, which dare already to challenge our government to a trial of strength and bid defiance to the laws of our country.”<sup>4</sup>

Despite Jefferson’s hopes, the influence of corporations on politics grew substantially in the latter half of the nineteenth century. The presidential elections of 1896 and 1904 left much of the American populace disgusted and convinced that political office in the United States was up for sale. In 1896, the victor in the presidential election, William McKinley, outspent his competitor, the populist William Jennings Bryan, by a factor of 10 to 1. In 1904, the Democratic candidate, Alton Parker, lost the election and complained bitterly afterward that he had been defeated by large insurance companies. Parker challenged the nation to face the reality that corporations were taking over the political process: “The greatest moral question which now confronts us is shall the trusts and corporations be prevented from contributing money to control or aid in controlling elections?”<sup>5</sup>

President-elect Theodore Roosevelt took the accusation seriously and joined his own voice in the call for control of corporate contributions. In a 1905 address to Congress, Roosevelt called for legislation:

All contributions by corporations to any political committee or for any political purpose should be forbidden by law; directors should not be permitted to use stockholders’ money for such purposes; and, moreover, a prohibition of this kind would be, as far as it went, an effective method of stopping the evils aimed at in corrupt practices acts. Not only should both the National and the several State Legislatures forbid any officer of a corporation from using the money of the corporation in or about any election, but they should also forbid such use of money in connection with any legislation save by the employment of counsel in public manner for distinctly legal services.<sup>6</sup>

As a result, Congress passed the 1907 Tillman Act, the first US law prohibiting corporations from contributing directly to federal elections. However, it turned out that the law was easy to circumvent. Not only was there no enforcement mechanism or agency, the Tillman Act did not prevent corporate contributions to party primaries, and in many Congressional districts these were even more determinative than the general election. Moreover, the Tillman Act did not prohibit corporate officers from giving money personally to campaigns (the executives were then often reimbursed by bonuses from the corporations). It rapidly became clear that the Tillman Act would only be the beginning of a long and tortuous effort to curtail corporate influence.

After World War II, labor unrest reached a historical high. From 1945–1946, millions of railroad, auto, meatpacking, electric, steel, and coal workers went on strike, protesting falling wages amid rising corporate profits. Corporate fears of powerful labor unions and the perception among politicians that labor unions had communist leanings convinced Congress to pass the Taft–Hartley Act (also known as the Labor Management Relations Act) in 1947, which limited workers’ rights to strike, boycott, and picket. The law also prohibited labor unions from spending money in federal elections and campaigns. As an extension of the Tillman Act of 1907, Taft–Hartley constrained labor unions to raising money for campaign contributions only through so-called political action committees (PACs).

It was not until the 1970s that PACs were firmly regulated by the federal government. With the passing of the Federal Election Campaign Act (FECA) in 1971 (and subsequent Amendments in 1974, 1976, and 1979), the modern campaign finance system was born, along with an independent body to enforce it—the Federal Election Commission (FEC). The new law defined how PACs could operate, set contribution limits, and instituted public financing for presidential elections.<sup>7</sup>

Until 2010, individuals were limited to \$2,500 contributions to PACs, and corporations were strictly banned from donating. However, as we shall see below, the *Citizens United* case radically altered this landscape, removing all corporate restrictions and giving rise to the so-called Super PAC—a political action committee that can accept unlimited donations from individuals, corporations, and unions, and engage in unlimited spending. The only restriction on Super PACs is that the donors cannot coordinate activities with any candidate or campaign. As we can see below from the satirical commentary by television personality Stephen Colbert on the effectiveness of such a bar on coordination, many felt that Super PACs were in reality little more than funding mechanisms under the control of politicians themselves. It seemed that the efforts to control corporate contributions, begun with the Tillman Act, had finally reached a dead end.



Source: Cliff, (CC-BY 2.0 2010)

*Figure 11.2 In 2011, comedian Stephen Colbert formed a Super PAC called, “Americans for a Better Tomorrow, Tomorrow.” While it was intended as a satire of existing Super PACs, it was also a way to educate viewers about the Citizens United decision. In January 2012, Colbert decided to run for “President of the United States of South Carolina.” As was legally required, he passed off control of his Super PAC to someone totally unconnected to the committee—his Comedy Central cohort Jon Stewart.*

### **Milestones in Campaign Finance<sup>8</sup>**

- 1907: Passage of the Tillman Act, which banned corporate political contributions to national campaigns.
- 1925: The Federal Corrupt Practices Act increased disclosure requirements and spending limits on general elections.
- 1971: Passage of the Federal Election Campaign Act (FECA), the first comprehensive campaign finance law.
- 1974: Amendments made to the Federal Election Campaign Act: limits on contributions, increased disclosure, creation of the Federal Election Commission (FEC) as a regulatory agency, government funding of presidential campaigns.

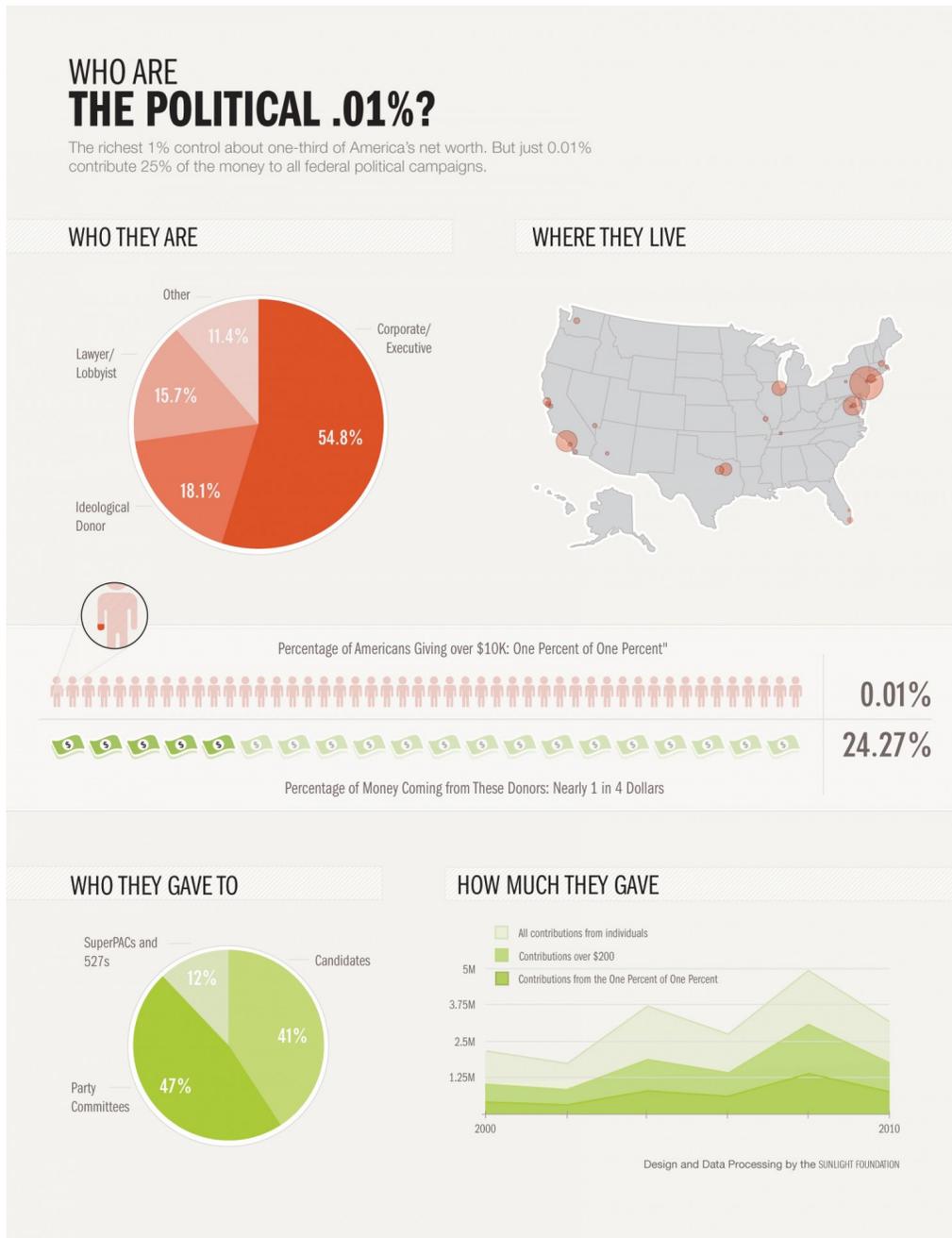
- 1976: *Buckley v. Valeo*: The Supreme Court upheld limits on campaign contributions, but held that spending money to influence elections is protected speech under the First Amendment.
- 1978: *First National Bank of Boston v. Bellotti*: The Supreme Court upheld the rights of corporations to spend money in non-candidate elections (i.e., ballot initiatives and referendums).
- 1990: *Austin v. Michigan Chamber of Commerce*: The Supreme Court upheld the right of the state of Michigan to prohibit corporations from using money from their corporate treasuries to support or oppose candidates in elections, noting: “corporate wealth can unfairly influence elections.”<sup>9</sup>
- 2002: Passage of the Bipartisan Campaign Reform Act of 2002 (McCain–Feingold), which banned corporate funding of issue advocacy ads that mentioned candidates close to an election.
- 2010: *Citizens United v. FEC*: The Supreme Court held that corporate funding of independent political broadcasts in candidate elections cannot be limited under the First Amendment, overruling *Austin* (1990).

## The 2012 Presidential Election

The 2012 US presidential race was the most expensive in history. According to the Federal Election Commission, approximately \$6 billion was spent on the election by candidates, parties, and outside groups. Of that, \$933 million came directly from companies, unions, and individuals funneling money into Super PACs specifically enabled by Citizens United. The Center for Public Integrity found that nearly two-thirds (approximately \$611 million) went to just ten political consulting firms, who spent 89 percent of the money on negative advertising spots attacking candidates.<sup>10</sup>

### *Influence of the Wealthy: The One Percent of the One Percent*

According to the Sunlight Foundation, there is a growing dependence on the One Percent of the One Percent—an elite group of the wealthiest Americans, including corporate executives, investors, lobbyists, and lawyers in metropolitan areas who give to multiple candidates, parties, and independent issue groups. Data suggests that, while these ideological donors make up less than 1 percent of the US population, they control about one-third of America’s net worth and contribute up to 25 percent of the money provided to all federal political campaigns.<sup>11</sup>



Source: Courtesy of Sunlight Foundation (2013)

Figure 11.3 Statistics show that the wealthiest 0.01% of the U.S. population contributes a major share of all American political campaign funding.

## Case Study: Citizens United v. Federal Elections Commission

In early 2010, the United States Supreme Court shocked much of the nation when it ruled that corporations have the same rights of political free speech as individuals under the

First Amendment to the US Constitution.

*Citizens United v. Federal Elections Commission* was a constitutional law case challenging the Bipartisan Campaign Reform Act (BCRA) of 2002, otherwise known as the McCain–Feingold campaign finance law. The BCRA barred corporations and unions from running broadcast, cable, or television ads for or against Presidential candidates for thirty days before primary elections, and within 60 days of general elections. In addition, the law required donor disclosure and disclaimers on all materials not authorized or endorsed by the candidate.

## The Supreme Court

The United States Supreme Court plays a central and occasionally polarizing role in the American democratic system. Created by the Judiciary Act of 1789, the Supreme Court is the only court specifically prescribed by the Constitution. As the “highest court in the land,” it remains the functional and symbolic defender of American civil rights and liberties.

As the United States’ final court of appeal, the Supreme Court is the ultimate interpreter of law in the United States. With the authority to strike down any federal and state law it deems unconstitutional, the Court acts as a check on the power of the executive and legislative branches of government. In theory, the Supreme Court guarantees that changing majority views don’t subjugate vulnerable minorities or undermine fundamental American values such as freedom of speech.

Because it often appears to defend these values in direct opposition to popular opinion, the Supreme Court has been criticized as an antidemocratic institution that fails to take into account progressive social evolution. Indeed, justices are often accused of ideological activism, constitutional fundamentalism, and ignorance of the changing face of the American public. It can also be argued, however, that the Supreme Court’s decisions historically have reflected growing national sentiments about constitutional issues more consistently than it has rejected them.

Virtually every political and social hot-button issue—abortion, gay marriage, affirmative action, civil rights, immigration, and so on—appears before the Supreme Court at some point. Justices are appointed for life so that, ideally, they will not be swayed by outside political influences; unlike the president or Congress, they do not have to worry about re-election campaigns or approval ratings. The Supreme Court’s decisions have often had sweeping and profound consequences to society, and they almost always inflame passions on both sides of the political spectrum.

## The Plaintiff

Citizens United, a conservative nonprofit corporation, wanted to run an on-demand cable documentary called *Hillary: The Movie*, which harshly criticized then-Senator Hillary Clinton during the Democratic presidential primary in 2008. The documentary featured interviews with conservative pundits and politicians who claimed that Clinton would be a presidential disaster.

The Federal Elections Committee (FEC) blocked the documentary from being broadcast, designating it as “electioneering communication” under the BCRA. Citizens United brought its case to the United States District Court for the District of Columbia, citing violation of the group’s First Amendment rights, but the lower court sided with the FEC. The case was appealed and appeared before the Supreme Court in early 2009.

## Origins

In 2004, Michael Moore released a documentary, *Fahrenheit 9/11*, shortly before the GOP primary elections. The movie was a scathing indictment of George W. Bush, his administration's War on Terror, and the far-reaching consequences of his first term as President. Citizens United filed a complaint with the FEC, stating that ads for the film were television broadcast communications designed to influence voters, and therefore violated federal election law. The FEC dismissed the complaint, saying it was clear that *Fahrenheit 9/11*, along with its television trailers and website, were purely commercial pursuits. In response, Citizens United decided to start producing its own "commercial" documentaries.

## Arguments

Before the Supreme Court, Citizens United argued that the BCRA (the McCain–Feingold Act) only applied to commercial advertisements, not to video-on-demand, 90-minute documentaries such as *Hillary: The Movie*. The group's lawyer, Ted Olson, did not even mention the First Amendment, nor did he call for the repeal of any part of federal election law.

Taking the opposite position was the deputy solicitor general, who argued that the Clinton documentary was the equivalent of an extended campaign advertisement, recalling the Supreme Court's decisions in *Austin v. Michigan Chamber of Commerce* (1990), which held that state legislatures may prohibit corporations from using treasury funds on electoral speech, and *McConnell v. Federal Election Commission* (2003), which validated the BCRA's spending limitations, stating that "express advocacy and its functional equivalent may be treated alike, and that BCRA's definition of 'electioneering communication' is not facially overbroad."<sup>12</sup>

## First Opinion

After the case was argued, the Court decided that the BCRA did not apply to *Hillary: The Movie*, and therefore Citizens United could air it unhindered. Chief Justice John Roberts drafted an opinion, but it soon became clear that many of the justices didn't think it went far enough. The conservative majority felt that the case was a perfect opportunity to broaden the discussion to address whether or not corporate speech should be regulated at all under the Constitution.

Roberts withdrew his opinion, and the Court called for the case to be reargued in September, almost a month before the official start of the fall term and two months before the 2010 midterm election. The justices directed the parties to file supplemental briefs addressing the question of whether the Court should overrule *Austin v. Michigan* and parts of *McConnell v. FEC*, which would amount to eliminating decades of restrictions on corporate electoral spending.

## Second Opinion

The Citizens United case was reargued on September 9, 2009. By a five-to-four vote, the conservative majority held that the First Amendment to the United States Constitution prohibits the government from imposing any limits on political spending by corporations, associations, and unions. Justice Anthony Kennedy wrote the majority opinion, which he summarized from the bench in this way: "Political speech is indispensable to decision

making in a democracy and this is no less true because the speech comes from a corporation rather than an individual.”<sup>13</sup>

Justice Kennedy was joined by Chief Justice John Roberts and Justices Antonin Scalia, Samuel Alito, and Clarence Thomas. To the conservative judges, the ruling was a vindication of the power of free speech; because of *Citizens United*, the First Amendment could now be applied universally and without prejudice.

## Dissent

Justice John Paul Stevens wrote a highly critical 90-page dissent, arguing that Justice Kennedy’s opinion constituted “a rejection of the common sense of the American people, who have recognized a need to prevent corporations from undermining self-government since the founding.”<sup>14</sup> Stevens believed that the limits Congress had for years imposed on corporate spending were necessary to curb political corruption by the wealthiest Americans, who would inevitably out-spend, out-lobby, and “out-speech” the vast majority of Americans. Stevens also argued that corporations are not “people” in the real sense—they do not have consciences, feelings, beliefs, or desires—and therefore are not true members of society, or “‘We the People,’ by whom and for whom [the] Constitution was established.”

Justice Stevens was joined in his dissent by Justices Ruth Bader Ginsburg, Stephen Breyer, and Sonia Sotomayor. These liberal justices recognized that the decision would open the floodgates for spending in electoral campaigns, making it “exceedingly difficult to maintain that independent expenditures by corporations ‘do not give rise to corruption or the appearance of corruption.’”<sup>15</sup>

## Corporate “Personhood”

Widespread public criticism of the *Citizens United* decision has not diminished with time, particularly from liberal or progressive voters and pundits. Protesters, lawmakers, and organizations such as Move to Amend have called for a constitutional amendment to overturn the ruling. Across the country, a number of public demonstrations were held where participants waved signs reading, “Corporations Are Not People.” Despite the widespread outrage, the reality is that corporations have had many of the same rights as individuals for a very long time.

*Corporate personhood* refers to the legal concept that allows organizations of people, as individuals acting collectively, to be both protected by the Constitution and subject to the same laws as citizens. The word *corporation* derives from the Latin, *corpus*, meaning *body*, and is defined as “a body of people acting jointly, ... recognized by law as acting as an individual.”<sup>16</sup>

The Romans first devised corporate personhood as a way for cities and churches to legally organize for the purposes of joint land ownership, taxation, and institutional perpetuity. Creating a “legal” or “artificial” person made it unnecessary to develop separate laws enabling large groups of people to do the same things as individuals: for instance, make contracts, own property, pay taxes, borrow money, enter into law suits, and be protected from persecution.

Since at least 1819, in *Trustees of Dartmouth College v. Woodward*, the Supreme Court has recognized corporations as having the same rights as “natural persons” for the purpose of contracts. Since then, the Supreme Court has given corporations increasingly more rights traditionally reserved for natural people: Fourteenth Amendment rights of equal protection

(*Pembina Consolidated Silver Mining Co. v. Pennsylvania*, 1888), Fifth Amendment protections of due process ([Noble v. Union River Logging](#), 1893), Fourth Amendment search and seizure protection (*Hale v. Henkel*, 1906), double-jeopardy immunity (*Fong Foo v. United States*, 1962), First Amendment protection (*Grosjean v. American Press Company*, 1936), Seventh Amendment rights to trial by jury (*Ross v. Bernhard*, 1970), the right to spend money in noncandidate elections (*First National Bank of Boston v. Bellotti*, 1978), and the right to spend in campaigns as a form of “speech” (*Buckley v. Valeo*, 1976).<sup>17</sup>

## Amending the Constitution to Overrule Citizens United

Move to Amend, a coalition of political interest organizations, lead the campaign for a Constitutional amendment that would overturn the Supreme Court’s decision in *Citizens United*. MoveToAmend.org clearly states:

We, the People of the United States of America, reject the US Supreme Court’s ruling in *Citizens United* and other related cases, and move to amend our Constitution to firmly establish that money is not speech, and that human beings, not corporations, are persons entitled to constitutional rights.<sup>18</sup>

## Consequences

Specialists in campaign finance law predict that the Supreme Court’s ruling will shape the US electoral process for years to come. The matter is far from settled, however, as there is a growing movement of nonpartisan municipal, county, and state bodies calling for a constitutional amendment to overturn the decision. *Citizens United’s* legacy is far from over.

## Topic for Debate: Overrule Citizens United

In this debate section, you will be asked to assume the role of a college student at a SUNY campus in New York State. The Congressional representative who has been elected from your university’s district has introduced a bill in Congress that would authorize a constitutional amendment to overturn *Citizens United*. The university newspaper has sponsored a public debate so that it can determine what position to take—should the newspaper endorse (or not) the proposed amendment? You have been invited to be a part of one of the two debate teams that will address the issue at a public forum. You are expected to base your arguments to some extent on the statements and publications of legal and public policy experts.

### Affirmative

The university newspaper should endorse a constitutional amendment to overturn *Citizens United*.

### Possible Arguments

- Corporations are not people, and should not have the same rights as individuals.
- The Supreme Court erred with its decision in *Citizens United*, due to judicial activism.

- Electoral issues should be decided by elected officials and not by the Supreme Court.
- Corporate money inherently leads to political corruption and “secret” financing.
- Wealthy Americans by and large represent the corporate interests of America and should not drown out the voices of those with less power and money.

## Negative

The university newspaper should oppose a constitutional amendment to overturn *Citizens United*.

### Possible Arguments

- American democracy relies on freedom of speech, which should therefore be enjoyed by everyone, regardless of their legal status.
- Corporate money in elections increases political competition and awareness of issues.
- Americans can decide for themselves whether or not to elect a candidate; ads don't make a difference either way.
- Corporations advocate for their employees, customers, and communities, and regulation will only constrain this ability.
- Corporations are fundamental to American economic progress and should be allowed to influence the political process to maintain their positive contributions to society.

## Readings

### 11.1 Supreme Court Opinion and Pleadings

The Supreme Court's majority opinion, the various dissenting and concurring opinions, and the parties' briefs, may be accessed on the Internet at the following links:

The official arguments and decision can be found at “*Citizens United v. Federal Election Commission*.” The Oyez Project at IIT Chicago-Kent College of Law. Last updated August 25, 2014. [http://www.oyez.org/cases/2000-2009/2008/2008\\_08\\_205](http://www.oyez.org/cases/2000-2009/2008/2008_08_205).

The official briefs and amicus briefs can be found at “*Citizens United v. Federal Election Commission*.” SCOTUSblog. June 17, 2010. <http://www.scotusblog.com/case-files/cases/citizens-united-v-federal-election-commission/>

A video can be found at “The Story of *Citizens United v. FEC* (2011).” YouTube video, 8:50. Posted by “storyofstuffproject” on February 25, 2011. <https://www.youtube.com/watch?v=k5kHACjrdEY>.

## 11.2 “Why Super PACs Are Good for Democracy: Super PACs Get Government out of the Business of Regulating Speech”

Smith, Bradley A. “Why Super PACs Are Good for Democracy: Super PACs Get Government out of the Business of Regulating Speech.” *U.S. News and World Report*. February 17, 2012. <http://www.usnews.com/opinion/articles/2012/02/17/why-super-pacs-are-good-for-democracy>.

## 11.3 “The New York Times’ Disingenuous Campaign against Citizens United”

Kaminer, Wendy. “The *New York Times*’ Disingenuous Campaign against *Citizens United*.” *The Atlantic*. February 24, 2012. <http://www.theatlantic.com/politics/archive/2012/02/the-new-york-times-disingenuous-campaign-against-citizens-united/253560/>.

*The paper is promoting the misconception that the ruling allowed for unlimited campaign contributions from super-rich individuals. It didn't.*

Like Fox News, the *New York Times* has a First Amendment right to spread misinformation about important public issues, and it is exercising that right in its campaign against the *Citizens United* ruling. In news stories, as well as columns, it has repeatedly mischaracterized *Citizens United*, explicitly or implicitly blaming it for allowing unlimited “super PAC” contributions from megarich individuals. In fact, *Citizens United* enabled corporations and unions to use general treasury funds for independent political expenditures; it did not expand or address the longstanding, individual rights of the rich to support independent groups. And, as recent reports have made clear, individual donors, not corporations, are the primary funders of super PACs.

When I first focused on the inaccurate reference to *Citizens United* in a front-page story about Sheldon Adelson, I assumed it was a more or less honest if negligent mistake. (And I still don't blame columnists for misconceptions about a complicated case that are gleaned from news stories and apparently shared by their editors.) But mistakes about *Citizens United* are beginning to look more like propaganda, because even after being alerted to its misstatements, the *Times* has continued to repeat them. First Amendment lawyer Floyd Abrams wrote to the editors pointing out mischaracterizations of *Citizens United* in two news stories, but instead of publishing corrections, the *Times* published Abrams' letter on the editorial page, effectively framing a factual error as a difference of opinion...

As these examples suggest, ...campaign-finance reforms dating back decades have produced an overcomplicated, overreaching web of laws and regulations that are easily abused, misunderstood, or intentionally obfuscated. The complexities of campaign finance law (and tax-code provisions governing independent groups) also create incentives to oversimplify the problems caused by the campaign-finance regime by naming *Citizens United* as the root of all evils. This helps advance what appears to be a simple solution—repeal *Citizens United* with a “free speech for people” constitutional amendment declaring that corporations aren't people. Putting aside the dangers of this approach, it wouldn't solve the problem of super PACs: The billionaires funding them may lack personal appeal but they are, after all, people, whose expenditures were not at issue in *Citizens United*. When the press promotes false

understandings of *Citizens United* and the problems of campaign finance, it “paves the way” for false solutions.

It’s worth noting that the *Times* is not alone among proponents of reform in scapegoating *Citizens United* (although it seems to have taken the lead.) The *New York Times*, the *Washington Post*, and MSNBC regularly and routinely misstate the meaning and impact of the Supreme Court’s *Citizens United* decision on campaign finance rules,” Steve Brill recently [observed](#), citing a post by Dan Abrams. Brill recommends confronting reporters and commentators with their frequent misstatements. Former ACLU Executive Director Ira Glasser has gamely tried engaging *New York Times* Public Editor Arthur Brisbane in an effort to stop misleading readers...Are you confused yet? What does the *Times* believe or want you to believe about *Citizens United*? Whatever.

## 11.4 “The Citizens United Catastrophe”

Dionne, E. J., Jr. “The Citizens United Catastrophe.” *The Washington Post*. February 5, 2012. [http://www.washingtonpost.com/opinions/the-citizens-unitedcatastrophe/2012/02/05/gIQATOEfsQ\\_story.html](http://www.washingtonpost.com/opinions/the-citizens-unitedcatastrophe/2012/02/05/gIQATOEfsQ_story.html)

## 11.5 Experts Assess Impact of Citizens United: HLS Professor Suggests Constitutional Amendment Stating Corporations Are Not People

Greenfield, Jill. “Experts Assess Impact of Citizens United.” *Harvard Gazette*. February 3, 2012. <http://news.harvard.edu/gazette/story/2012/02/experts-assess-impact-of-citizens-united/>.

Few recent Supreme Court cases have received as much attention—and drawn as much ire—as *Citizens United v. Federal Election Commission*. In a 5–4 decision, the court ruled that the First Amendment prohibits government from placing limits on independent spending for political purposes by corporations and unions. To proponents of campaign finance reform, *Citizens United* had the detrimental effect of inundating an already-broken campaign finance system with corporate influence. At an event sponsored by the Harvard Law School (HLS) American Constitution Society on Tuesday, HLS Professor Lawrence Lessig, author of *Republic Lost*, and Jeff Clements, author of *Corporations Are Not People*, reviewed the impact that *Citizens United* has had on the political process.

Clements said that the court’s decision exacerbates two problems that the American political and electoral system had already been facing—the large amount of campaign spending and the growing influence of corporate power on the political process. Clements said that both problems need to be fixed in order to restore democracy but that, rather than addressing these problems, the *Citizens United* decision instead requires that the American people fundamentally reframe their notion of corporations.

“We need to look at what *Citizens United* really asks us to do, which is to accept a lot. The court asks us to pretend that corporations are not massive creations of state, federal, and foreign laws. It asks us to pretend that they’re just like people, that they have voices, and that we’re not allowed to make separate rules for them,” he said.

Although some legal observers regard the decision as simply a bad day on the court, Clements said that *Citizens United* actually represents the culmination of a steady creation of a corporate rights doctrine that is radical in terms of American jurisprudence. He pro-

vided a history of the idea of corporate personhood and corporate speech, which began only in the 1970s under Chief Justice William Rehnquist. Lessig added that the system that has resulted is one in which elected officials must spend 30 to 50 percent of their time fundraising, and thus make decisions based not on what is best for their constituents, but on what their super PACs and other major donors want to see.

“We have a corrupt government, yet one that is perfectly legal,” said Lessig. “We’ve allowed a government to evolve in which Congress isn’t dependent on people alone, but is instead increasingly dependent on its funders. As you bend to the green, that corrupts the government.”

As a result, he said, members of Congress develop a sixth sense as to what will raise money, which has led them to bend government away from what the people want government to do and toward what their funders want government to do. To fix the problem, we need to produce a system where the funders and the people are one and the same. The solution, Lessig said, is a multipronged approach that includes a constitutional amendment explicitly stating that corporations are not people, as well as a movement to publicly fund elections and provide Congress with the power to limit independent expenditures.

## Synthesis Questions

1. Do corporations have too much influence on American politics? Support your arguments with examples of excessive influence or lack of excessive influence.
2. Why do so many people find it repugnant to treat corporations as “persons”? Is this disfavor justifiable?

## Endnotes

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## Chapter 12

# Animal Rights and CSR



Source: David Shankbone (CC-BY 2.0, 2002)

*Figure 12.1 PETA (People for the Ethical Treatment of Animals) has become known for its creative and sometimes controversial publicity campaigns against mistreatment of animals (in this case, chickens)*

## Donna Karan: “Bunny Butcher”

In 2010, the animal rights group People for the Ethical Treatment of Animals (PETA) garnered media attention by protesting the Donna Karan fashion company’s use of rabbit fur. Karan’s company (DKNY, a fashion subsidiary of Moët Hennessy) had previously been the focus of criticism from PETA. Several years earlier, PETA had tried to meet with Donna Karan to convince her to suspend the use of real fur in her company’s clothing. Many other high-end fashion companies, such as Tommy Hilfiger, Stella McCartney, Ralph Lauren, Calvin Klein, and others had joined PETA’s ranks as PETA-approved fashion retailers, endorsing fur-free practices. DKNY, however, did not consistently participate in a PETA-approved production agenda. PETA claimed that, on repeated occasions in 2008 and 2009, DKNY had promised PETA that they would remove fur from their fashion lines, but

then DKNY had failed to follow through. As a result, the high-end fashion brand became the target of a PETA-driven, viral campaign that harshly criticized the company's use of farmed fur and labeled Donna Karan herself as a "Bunny Butcher."

DKNY used rabbit fur and skins in various items of clothing and accessories, from the fur lining in hoods and boots to the leather on bags and shoes. PETA claimed the fur and leather farmed for these purposes was obtained from factory farms operating under inhumane conditions. According to PETA, the animals on Chinese fur farms are penned in cages without fresh air, sanitation, water, or light, conditions that take a mental and physical toll on the animals. When the animals are skinned, they are often improperly anaesthetized. Accounts have surfaced of Chinese factories that simply beat the animals over the head before beginning the skinning process. Allegedly, many animals are still alive during the skinning process and are then thrown onto piles of carcasses. Another claim was that cat and dog fur are often used to supplement the rabbit fur when factories have reason to believe that the skins will not be properly inspected.

Making strategic use of social media, PETA timed its protest on DKNY's Facebook page for an important marketing period, so-called Cyber Monday. PETA posted the message "DKNY: Bunny Butchers" among DKNY's Facebook comments.<sup>1</sup> The innovative use of social media for protest purposes drew substantial media coverage. Despite the protest, according to PETA, DKNY did not alter their fur usage practices. Consequently, PETA maintained an ongoing Internet-based protest by creating the website [DKBunnyButcher.com](http://DKBunnyButcher.com). The website, which features links to supportive videos from fashion celebrities such as Project Runway's Tim Gunn, describes in gruesome details the practices of the fur-farming industry in China. Many fur producing operations in the United States and Europe have become less competitive in global markets due to high production costs and the tightening of legislation on fur trapping and skinning. China has subsequently stepped in as the world's top fur exporter in the world, but not without allegations of inconsistent quality and inhumane production methods.

This chapter will ask the question, what is the role of CSR in regard to animal rights? Should fashion companies only source products from humane farms, or should they even stop using animal products at all? While many consumers may feel sympathy for a tortured rabbit, the fact remains that the majority of Americans consume meat products such as beef and pork. Leather from cows remains the preferred material for shoes, belts, and handbags. Is it hypocritical to stand up for the rights of cute animals like bunnies, dogs, baby seals, and dolphins, all while preparing to eat a bacon burger? In addition to fashion, many other industries must contend with the issue of animal rights. Businesses that are dependent on medical and scientific research, such as pharmaceutical and cosmetics companies, have been forced to implement policies and reviews to determine whether the laboratory animals they use for testing purposes are treated humanely.

Clearly, the issue of animal rights is a broad one that cannot be confined to a discussion of Chinese fur factories. Many other countries, including the United States, have been accused of lax regulation of factory farming of animal products. According to *Factory Farm Map*, there are four factory-farmed chickens for every single American.<sup>2</sup> US commercial livestock and poultry operations produce three times more waste a year than that produced by the entire human population.<sup>3</sup> The environmental toll of such methods is worrisome, but so are the potential health consequences of consuming factory farmed meat. Consumer advocates have suggested that the meat produced on factory farms is often tainted with antibiotic-resistant bacteria. Infection caused by such bacteria cannot be treated by current

medicines and thus may pose a looming threat to both animals and humans.<sup>4</sup> However, before exploring the ethical dilemmas that may be faced by a specific company in choosing how to make use of animal products, let us examine the ethical framework of the animal rights movement.

## The Development of Animal Ethics and Rights

The awakening of a consciousness of animal rights began as early as the seventeenth century. Diane Beers, an animal rights activist and historian, cites examples of animal rights principles held by the first Puritan immigrants to America.<sup>5</sup> Puritan theology accorded sanctity to the realm of animals, but the people felt that the fair treatment of animals was the sole responsibility of their owners. Anyone who did not own a particular animal did not have a right to mistreat it. Further, the Puritans believed that owners of animals had no right to abuse their investment, as this was considered un-Christian and immoral. These principles of animal rights were based on a moral hierarchy that held humans to be more deserving of rights and privileges than animals. The privileges of humanity came, in the Puritan view, from a spiritual, emotional, and intellectual superiority. The Puritans' initial attempt to curb animal abuse and/or provide animal rights is considered by Beers a great step forward, though limited by its conception of humans as special creatures in the eyes of God.

Animal rights historians often point to the mid-eighteenth century British philosopher Jeremy Bentham as the founding ethicist of the modern animal rights movement. Bentham, known for the utilitarian philosophy that would later become associated with his protégé John Stuart Mill, believed that ethical decisions should be based on what allows the most good or happiness (and least suffering) to the largest number of people. Bentham's utilitarianism assumed that all human individuals are equal from a moral point of view. In fact, Bentham went further and posited that all living creatures were equal in terms of this principle. This egalitarian principle was influential in the struggles for abolition of slavery and universal suffrage, but also served as a cornerstone of modern conceptions of animal ethics.

In his *Introduction to the Principles of Morals and Legislation*, Bentham stated: "The day may come, when the rest of the animal creation may acquire those rights which never could have been withholden from them but by the hand of tyranny.... The question is not, Can they reason? nor, Can they talk? but, *Can they suffer?*"<sup>6</sup> Bentham's approach led many citizens to consider for the first time the ethical imperative to limit the suffering of animals. Bentham's thinking prompted the creation of Britain's Society for Prevention of Animal Cruelty (SPCA, later the Royal SPCA, or RSPCA), and the adoption of the first laws curbing animal mistreatment in England throughout the 1830s–1850s.

The United States eventually followed the lead taken by England in animal rights, as it had with the earlier abolitionist movements and suffrage movements. The first major American animal rights group, the American Society for the Prevention of Cruelty to Animals (ASPCA), was created in 1866 by Henry Bergh.<sup>7</sup> This nascent movement was further strengthened by Charles Darwin's publication of *Origin of the Species* and the resultant acceptance of the theory of evolution. Darwin's hypothesis that humans had evolved from

primitive life forms gave credence to the notion that humans were not essentially superior to other members of the natural world. The impact of Darwinian theory on philosophy and theology challenged the traditionally held view of a hierarchy among species, according to which humans were superior to other animals. The Darwinian revolution paved the way for a more open-ended approach to rights (for humans and animals alike).

Throughout the nineteenth and early twentieth centuries, activist groups in the United Kingdom and United States promoted the fair treatment of domesticated animals. This activism reflected a broader social trend toward recognition of the need for fair treatment across social and biological categories, and in particular recognized the rights of laborers, women, and children. Upton Sinclair's *The Jungle* (1906), a novel describing the violent and unclean practices of the Chicago meat industry, was notably influential in this regard. *The Jungle* drew public attention to labor abuses in the meat industry, and also to the horrors of the slaughterhouse floor.

## Animal Liberation: The Contribution of Peter Singer

The contemporary animal rights movement received an important impetus from the publication in 1975 of a book entitled *Animal Liberation* by Australian philosopher Peter Singer. Singer extended Bentham's utilitarian ethics to include animals, arguing that just because animals cannot think on the same level as humans does not mean they cannot suffer. He pointed out that in the case of mentally handicapped people, as with small infants, the lack of cognitive capacity does not imply that they do not deserve the same caring treatment as other humans. The fact that animals react to pain and torture with writhing or whining suggests that they experience suffering in much the same way that humans do. The suffering communicated by animals does not have to be expressed linguistically to be understood. Singer applied the term *speciesism*, which had been coined by Richard Ryder, to the unjustifiable discrimination against animals by humans, reminiscent of racism, sexism, and other forms of intolerance.

Singer argued that speciesism, like racism and sexism, is based on an indefensible and biased preference for one's own kind. Speciesism is expressed in the assumption that animals can be exploited to provide benefits to humans without regard to the suffering or well-being of animals. In Singer's view, overcoming speciesism will require the progressive elimination of cruelty in animal experimentation, the eradication of factory farming practices, and the end of consumption of meat as a consumer good. While Singer acknowledges that it is theoretically possible to raise animals humanely, he argues that such farming is extremely uncommon and that it is better simply to move to a vegetarian diet. Singer's radical argument has been labeled the "rights/abolitionist" doctrine of animal ethics.<sup>8</sup>

Rights/abolitionists believe that humans have no moral right to slaughter, domesticate, or use animals for pleasure or consumption in any way. This implies that animals should be left in a state of nature and allowed to lead lives free of impact from human society. A different and more moderate faction of animal ethicists are the so-called welfarists, who seek to recognize and protect animal welfare within the current system of consumption. Welfarists believe that animals may ethically be used for human benefit, so long as they are treated humanely and fairly. The welfarist perspective implicitly assumes that human rights

and interests are entitled to some sort of intrinsic superiority over the rights and interests of animals.

The most important American activist group that has adopted a rights/abolitionist perspective is People for the Ethical Treatment of Animals (PETA), a nonprofit founded in 1980 with the goal of preventing animals from being abused and tortured in any way, whether via factory farming, the fashion industry, labs and scientific research, or the entertainment industry.<sup>9</sup> PETA has become known for its highly publicized and sometimes aggressive actions and campaigns. The organization has achieved recognition as the primary face of the animal rights movement today and, as such, has taken on the responsibility of publicly castigating those businesses that fail to exercise humane treatment of animals.

## Factory Farming

As of 2007, approximately 56 billion animals were being slaughtered annually worldwide for human consumption.<sup>10</sup> Most of these were harvested in factory farm settings. These numbers do not take into account the vast number of fish and other sea creatures that are caught for industrial use or consumption as food.<sup>11</sup> United States growers annually slaughter some 9 billion chickens, 99 percent of which are raised in factory-farm conditions. For the chickens, *factory-farm conditions* include preventative beak clipping (to quell cannibalism in tight quarters), unsanitary and overcrowded cages, injections of antibiotics and hormones to augment and accelerate weight gain, and little or no lighting.<sup>12</sup> Due to the high demand for chicken and eggs as consumer goods, the production of broiler chickens and laying chickens is a high-volume endeavor. Worldwide, 31 billion chickens are slaughtered annually,<sup>13</sup> most of them under conditions similar to those found in the US farms.

As of 2011, 5.8 million pigs were bred for slaughter in the United States.<sup>14</sup> The factory farming of pigs requires a life of solitary confinement for each mother sow, who spends most of her life in a gestation cage that prevents movement and waste removal, leading to widespread respiratory diseases. Sows are moved to a farrowing cage after the birth of their litters, where they cannot turn around or lie down while their young feed off of them. The piglets are taken from the mother sow's farrowing cage after about 3 weeks of initial feeding, and are then moved to group pens. There, they are fed until they reach market weight (a period of roughly 6 months), at which time they are brought to slaughter. Following the production of 2 to 3 litters, the mother sow is also taken to slaughter, usually about a year after she is brought to the factory farm.<sup>15</sup>

Cattle production for beef, the most expensive of the meat-producing industries, is somewhat more humane, despite the large numbers involved (upwards of 34.2 million cows slaughtered for meat in 2010 alone).<sup>16</sup> Cattle raised for beef are allowed to roam somewhat freely in open spaces. They are still penned in and fed hormones, and put on a rigorous diet to gain weight. US dairy-producing cows, numbering 9.3 million in 2008, with roughly 2.3 million of these being sent to slaughter,<sup>17</sup> share a fate similar to that of pigs and chickens. They are kept in tightly penned cages, fed hormones, and milked by machine until they are no longer viable. Additionally, both modes of cattle production can cause serious environmental harm to the areas surrounding the farm. The enormous production of manure can contaminate groundwater and render surrounding areas unlivable.

Wool, fur, leather, angora, silk, feathers, and other materials are all harvested from various types of animals, and are prominent resources in the fashion industry.<sup>18</sup> Although

many people can understand the ethical issues inherent in the factory farming of meat for consumption, most consumers do not feel similar concerns for the materials used to make clothing, especially when, as in the case of wool, silk, or feathers, it does not seem necessary to slaughter the animal to obtain the material. However, such materials are also developed and sourced under factory farming conditions. As reported by PETA, wool farmers routinely practice *mulesing*,<sup>19</sup> which involves shearing sheep so close to the skin that the shears cut or remove chunks of hide and flesh in the process. Cows and all other kinds of animals are utilized for their leather. A high percentage of the leather apparel items sold in the United States are manufactured from leather that was harvested abroad. China, the world's leading leather exporter, has been criticized for poor supervision of factory farms, where animals are not properly anaesthetized before they are skinned.

## Animal Consumption in Research and Cosmetics

Approximately 100 million animals a year are killed as a result of cosmetic, medical, and scientific experimentation in the United States alone.<sup>20</sup> Though laboratory animals are generally euthanized following the completion of the experiment or trial, it is not uncommon for many to die in the testing process. These tests include skin and eye irritation tests, repeated force feeding, “lethal dose” injection tests, vivisection, bone-breaking, paralyzing, and infection with disease.<sup>21</sup> Though ultimately these tests are meant to benefit mankind, even proponents of animal testing for scientific benefits admit that experiments are only beneficial in some cases. According to DoSomething.org, “92 percent of experimental drugs that are safe and effective in animals fail in human clinical trials because they are too dangerous or don't work.”<sup>22</sup> The large margin of error in the trials and experimentations suggests that many laboratory animals experience great suffering for relatively little benefit to humans.

## Proposed Solutions: Vegetarianism, Ecofarming, and Cruelty-Free Production

Animal activist groups like PETA and the Humane Society of the United States have been successful in promoting laws and codes of best practices to curb the incidence of factory farming and laboratory experimentation abuse. However, it is generally accepted that the most powerful long-term solution would be market based, in which consumers who are dissatisfied with factory farming methods turn to alternative sources of food, cosmetics, and clothing. For this reason, one of PETA's principal goals is to raise awareness of the abuses that occur in factory farming, so that consumers will be motivated to seek alternatives. Let us consider some of the leading alternatives.

## Vegetarian/Vegan Diets

Given that the principal commercial product of factory farms consists of food for human consumption, it is often argued that consumers who are concerned about animal rights should adopt a vegetarian or vegan diet. A *vegetarian* diet is one that does not contain any meat or fish products, while a *vegan* diet is free of all animal products, including milk, eggs, and cheese. A 2012 Gallup Poll found that 5% of Americans identify as vegetarian and 2% as vegan.<sup>23</sup> This appeared to indicate a broad and continuing social trend, as only 1% of Americans had identified as vegetarian in 1971 and only 3% in 2009.<sup>24</sup> When asked why they are vegetarians, about half of survey respondents cite health reasons, and roughly the same percentage also cites animal welfare concerns. India is generally considered to be the country with the highest percentage of vegetarians, with various studies putting the percentage of Indian vegetarians at 20 to 40 percent of the population; it also appears that Indians who do eat meat do so infrequently compared to citizens of other countries. In Europe, the highest percentage of vegetarians is found in Italy, at 10 percent, while in France the percentage is only 1.5 percent. It appears that women tend to adopt vegetarianism more often than men, with studies in the United States, the United Kingdom and Israel reporting that 60 percent or more of vegetarians were female.

## Vegetarian/Vegan Clothing

Given that a relatively small percentage of Americans identifies as vegetarian, and that roughly half of these cite health concerns as their primary motivation, it should not be surprising that vegetarian or vegan clothing remains a marginal, niche category. Despite this, there is some evidence that the category is growing. For example, fashion designer Stella McCartney has developed a thriving, global brand that produces clothing, shoes, and handbags without any use of leather or fur. However, she does use wool and silk products. MooShoes, a New York retailer, markets a full line of vegan clothing, including shoes, shirts, bags, wallets and belts; these products are sourced from a number of independent producers, including such recognized brand names as Brooks and Doc Martens.

## Cruelty-Free Products

Cruelty-free products are those that are not tested on animals and do not include animal ingredients. Methods of cruelty-free production rely on alternative testing methods, such as computer-based simulations. Another method is to develop new products only from ingredients referenced in a large European database of 20,000 compounds that have already been tested as safe. Another method is to test products on reconstructed human skin samples made from donated skin from cosmetic surgeries. Leading cruelty-free cosmetics brands include Aveda, M.A.C., Bobbi Brown, and Urban Decay.

## Humane Farming and Meat Consumption

Given that relatively few consumers are vegetarian or vegan, while many others who are sensitive to animal rights nonetheless find it difficult to give up the consumption of meat, the alternative of humane farming is significant. Humane farming refers to animal husbandry that respects codes of conduct so that animals are raised and slaughtered in a way to minimize suffering. For example, the popular Whole Foods supermarket chain has adopted the Animal Welfare Rating Standards developed by the Global Animal

Partnership in order to source meat products from humane producers. According to these standards, animals must be given space to move around, have access to outdoor areas, must be permitted natural behavior such as wallowing for pigs or pecking for chickens, and must spend their entire lives on a single farm. Another humane farming group, Humane Farm Animal Care, provides a certification to farmers and producers who comply with similar standards, and who abide by the American Meat Institute Standards for slaughtering. Such standards provide, for example, that animals must be stunned in a way that eliminates pain prior to slaughtering.

## Topic for Debate: Fashion and Animal Rights

This chapter's debate is based on a difficult decision to be made by EcoFash, Inc., a rapidly growing fictional clothing company based in Brooklyn, New York.

EcoFash began in 1998 as a line of organic cotton T-shirts featuring slogans with progressive statements, and has grown to include jeans, backpacks, sweatshirts, and baseball caps. All of the materials used are organic natural fabrics or recycled polyester. The company has thirty-two employees and is billing over \$20 million annually in sales. Recently, an infusion of capital from a new investor has permitted the company to begin planning an expansion of its product line to include shoes, jackets, and handbags.

Brenda Cordaro, the founder and principal owner of the company, is a confirmed vegetarian (and supporter of animal rights organizations like PETA) and would like to consider making the new lines vegan—meaning, free of leather, fur, wool, or silk materials. However, she has encountered vigorous opposition from her chief designer, Tessa Novak, who is horrified at the thought of having to use fake leather and imitation-silk polyester, which she finds quite ugly. Tessa's objection to a vegan approach has received strong support from the company's financial director, who believes the company will not be able to maximize profits if it only tries to attract customers who are willing to accept synthetic products in place of leather and wool.

On the other hand, Brenda is supported by the company director of public relations and marketing, who believes that a vegan approach will allow the company to distinguish itself from other "hipster" brands.

Brenda therefore decides to request her staff to prepare the strongest arguments on both sides for a presentation to her board of directors and the new investors.

You have been asked to develop the strongest reasons for supporting one of the following two possible responses:

### Affirmative

EcoFash, Inc., should adopt a vegan-only policy.

### Possible Arguments

- The vegan option is in keeping with the company's ethical founding principles.
- It would allow the company to support animal rights.
- It would allow the company to distinguish itself from competitors.

## Negative

EcoFash, Inc., should not adopt a vegan-only policy

### Possible Arguments

- A vegan option would restrict design creativity.
- A vegan option would lead to unattractive or expensive products.
- A vegan option would reduce the size of the potential market for the brand in the future.

## Reading

### 12.1. Facts on Fur Farming

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Accessed October 12, 2013. <http://www.wearefur.com/our-trade/ethics/>.

#### **Animal Welfare Is at the Heart of Fur Farming**

Animals are farmed for many reasons: for meat, dairy, leather, wool, sheepskin, cashmere, silk, and fur. It is the responsibility of those who farm animals to ensure that the animals in their care are treated humanely. This responsibility is taken very seriously by fur farmers.

Eighty-five percent of fur sold internationally is farmed. Fur animals have been selectively bred for over 100 years and are not the same as their wild counterparts. Not only are there laws, regulations, and industry codes of practice and farm certification programmes that govern animal welfare on fur farms, but an animal’s health shows in its fur first—so it is in everyone’s interest to look after animals well.... Animal welfare is at the heart of fur farming and in every jurisdiction there are laws or regulations governing animal welfare. Farmers themselves encourage governments to implement animal welfare regulations which are based on scientific research and in the major fur farming countries farmers work with veterinary scientists to create voluntary standards and certification programmes—for example the Welfur programme in the EU....

Fur farming is an important part of local agricultural economies. Fur farms are particularly suited for remote northern climates where arable land is at a premium and a great many fur farms support families and communities in rural areas where the climate and environment make it difficult to farm many species....

#### **Animal Welfare**

...Animals have always provided us with food and clothing—from the earliest arrival of Homo sapiens we have hunted animals. The earliest settlements were made possible through farming of livestock and crops, and various animal species have been farmed over thousands of generations....

In modern times, numerous life-saving medical advances have been made possible only through being able to test procedures and drugs on animals. Many people derive a huge amount of comfort and affection from keeping pets....

*A Note on Animal Rights:*

Animal rights supporters believe that animals have the same legal and moral rights as human beings and that therefore humans cannot keep, use or manage animals, for any purpose, including medical research, farming/farmed animals, meat, milk and eggs (including organic), hunting and fishing, leather and fur (including snakeskin, crocodile, etc.), wool, cashmere, pashmina, angora, silk, zoos/circuses/animal shelters/pets and horse-drawn carriages/ploughs, etc....

The IFTF and its members believe that people have a democratic right to make their own decisions about what to do for a legitimate living, what to eat, and what to wear; people should not have to live in a world where a major lifestyle choice is removed altogether.

### **Farming Regulations**

Fur farming is well regulated and operates within the highest standards of care.

In the European Union, Council Directive 98/58 sets down rules covering the welfare of all farmed animals, including fur-farmed animals. Directive 93/119 deals with the slaughter and killing of fur and other farmed animals. Additionally, the Council of Europe adopted a Recommendation, revised in 1999, designed to ensure the health and welfare of farmed fur animals....

In North America, fur farmers also follow strict Codes of Practice and conform to provincial, state, or national animal welfare and other regulations. Regular veterinary checks are carried out in accordance with industry guidelines, provincial, state, or national requirements....

Conditions on farms are thoroughly checked and advice on improvements given when required. Many farm associations also have voluntary certification programmes in place.

### **Hunters and Trappers**

Wild fur-bearing animals have been always been hunted or trapped by man. The ability to hunt animals as well as forage for food is a defining characteristic of *Homo sapiens*. Using fur from hunted animals as protection from the elements is an equally ancient characteristic. Man's earliest tools were created for hunting and skinning animals.

Today, wild fur-bearing animals are hunted or trapped for a variety of reasons including population management, pest control, and the protection of natural habitats, in addition for food and fur. The trade in wild fur is a good example of the "sustainable use" principle of conservation—fundamental to the work of the World Wide Fund for Nature (WWF), International Union for Conservation and Nature (IUCN), and the United Nations Environment Programme. The International Fur Trade Federation (IFTF) and the Fur Institute of Canada are voting members of the IUCN....

...The sale of this precious commodity provides an important source of income for communities living in remote and economically marginal areas and for indigenous peoples such as the Cree community of North America, Inuit of Canada and Greenland, or the Sami of Northern Finland and Russia. Hunting and trapping for these communities is a way of life and continuing to trade fur is part of their rich heritage.

...No endangered species are used in the wild fur trade; the fur trade was a very early supporter of the Convention on the International Trade in Endangered Species (CITES) and promotes the implementation of this vital trade agreement by governments.

...The fur trade comprises hunting communities and many small farms and family businesses, craftsmen and women, manufacturers, dressing companies, co-operatively owned or publicly floated auction houses, designers, and retailers. It is a small but global industry. Worldwide retail turnover in 2008 was just over US \$13 billion.

The fur trade provides jobs and cash income in remote, hard to farm areas such as the deserts of Namibia, the ice floes and fjords of the Arctic Circle, the great wilderness of North America as well as being ideal for the small, family run farming economies of Eastern Europe and the Baltic States....

## 12.2. Inside the Fur Industry: Factory Farms

“Inside the Fur Industry: Factory Farms.” PETA. Accessed October 23, 2013. <http://www.peta.org/issues/Animals-Used-for-Clothing/inside-the-fur-industry-factory-farms.aspx>

## 12.3. Handbag Line Freedom of Animals Serves Up a Cruelty-Free Alternative to Céline

Hoff, Victoria. “Handbag Line Freedom of Animals Serves Up a Cruelty-Free Alternative to Céline.” *Elle*. October 8, 2013. <http://www.elle.com/news/fashion-accessories/freedom-of-animals-eco-friendly-handbags>.

Creating fashion that is kind to the environment is no easy feat. Labels like Stella McCartney and Matt & Nat have already paved the way for vegan accessories, and Freedom of Animals follows suit, adding to the cruelty-free conversation with a line of luxury bags.

The label was founded in 2012 by stylist Morgan Bogle and her photographer boyfriend Scott MacDonough—and trust us, these well-crafted carriers could easily pass for high-quality leather. The couple’s journey to green fashion design began just a year and a half ago. “We got to the point where we felt that all our volunteering with animals—taking dogs in and working at wildlife sanctuaries—wasn’t enough,” Bogle told us. As they brainstormed ways to be more vocal about their passion, they realized fashion was a great platform—and it didn’t hurt that their day jobs gave them a leg up in understanding the industry.

Citing McCartney, Céline, and The Row as design inspiration, the duo decided to tackle accessories, since animal skin is generally the go-to material for bags and shoes. But they upped the ante even more when they agreed to also stand by a one hundred percent sustainable MO. Not only is the faux-leather composed of recycled plastic and organic cotton, the accessories are colored with vegetable-based dyes. Still, it’s clear that the couple remains as devoted to style as they do to ethics—take an exclusive look at a backpack from the label’s upcoming resort collection, below, and we think you’ll agree.

Bogle told us more about the brand’s mission, her favorite eco-chic boutiques, and what it’s like for her and MacDonough to count Anne Hathaway, Kerry Washington, and Sarah Jessica Parker as brand fans.

*Have you always had a soft spot for animals?*

I was raised vegetarian and have always been super conscious of being ethical in every part of my life, so the passion for cruelty-free came from a very early age.

*Faux leather can look tacky or unrealistic. How do you manage to achieve such amazing texture?*

We spent a long time sourcing our materials and are so grateful to have found the most luxurious fabrications around! This was an area that we could not compromise, and we have been highly critical of the texture and touch of each element. Not only are they luxurious, but they pass US durability testing to give them a long shelf life.

## Synthesis Questions

1. Does reading this chapter make you less likely to buy leather and fur products, or not? Why or why not?
2. Does reading this chapter make you more likely to go vegetarian in your food consumption (if you are not already), or not? Why or why not?
3. Do you feel that consumption of meat and use of leather and fur are “natural” and therefore acceptable? Why or why not?
4. Does an “ethical” company owe any duty to animals, or are ethical duties only owed to humans?

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## Appendix A

# Nuclear Energy Is Our Best Alternative for Clean Affordable Energy

by Emily Campchero

*[These sample student papers are provided only as examples of successful student research: they are not meant to prescribe any standard paper format and the content of each paper represents purely the author's view.]*

“Our doubts are traitors, and make us lose the good we oft might win, by fearing to attempt”. —William Shakespeare

## Nuclear Energy Is Our Best Alternative for Clean Affordable Energy

Though it may surprise many environmentalists, nuclear power is environmentally friendly, or “green.” Society needs clean, cost-effective energy for a number of reasons: global warming, economic development, pollution reduction, etc. There is a popular perception that this means moving toward solar, wind, and other forms of renewable energy. However, a more in-depth analysis reveals that those alternatives are not yet practical. For the foreseeable future, nuclear must remain one of the top producers of energy in the United States. In this paper, I will address several of the misconceptions that prevent people from appreciating the benefits of nuclear energy in the context of our current economy.

## Nuclear Power Is Safe

One of the biggest obstacles with moving toward nuclear power is that people are afraid of it. Accidents and disasters scare people. News reports that sensationalize events, rather than explaining them, heighten anxieties.

## Chernobyl

In 1986, there was a nuclear accident at the Chernobyl nuclear power plant in the Ukraine. This was the result of a flawed reactor design that was operated with inadequately trained personnel. It was a direct result of the Cold War isolation and the resulting lack of any safety culture. This caused a steam explosion and fire. There were thirty deaths over three months. No one offsite suffered from radiation exposure—all fatalities occurred with plant operators and firemen—but there was a large increase in childhood thyroid cancers, which is said to be attributed to the intake of radioactive iodine fallout. The Chernobyl accident is different from any other nuclear power plant accident because there were radiation-related fatalities. There were no signs of radiation exposure in the general public. The design of this nuclear reactor was extremely poor; the combination of the hot fuel with the cooling water led to fuel fragmentation along with rapid steam production and an increase in pressure, thereby destroying the reactor. This caused an explosion. This accident caused the largest uncontrolled radioactive release ever recorded for any civilian operation.

## Three Mile Island

On March 28, 1979, the Three Mile Island nuclear power plant experienced a cooling malfunction that caused part of the core to melt in the number two reactor. This destroyed the reactor. Although some radioactive gas was released, there was not enough to cause local residents to experience any dose above background levels. There were no injuries or adverse health effects from the Three Mile Island accident. Despite no fatalities or injuries, no new nuclear power plants have been built in the United States since 1979 because of the problem at Three Mile Island. The Three Mile Island accident was the most serious in US commercial nuclear power plant history; this is because it brought on huge changes in the emergency response planning, nuclear operator training, human factors engineering, radiation protection, and many other areas of nuclear power plant operations. This accident also made the United States Nuclear Regulatory Commission to tighten and heighten its regulatory oversight. Also, it changed the standards that nuclear power plants must meet, set by the Institute for Nuclear Power Operations. Training, operations, and event reporting rules become extremely strict and essential. Overall, this accident had a massive effect on enhancing the safety of nuclear plants.

## Fukushima

More recently, the Fukushima disaster in Japan on March 3, 2011, has affected peoples' views on nuclear energy. There was an offshore earthquake. In addition to the tremors, a fifty-foot tsunami was created. The tsunami hit the Fukushima nuclear power plant (in addition to other parts of Japan), disabling the power supply and the cooling of three reactors. All three cores melted within three days. The power plant was not designed to withstand that severe a tsunami, which caused severe problems at the power plant. After two weeks, the reactors were stable. The other prominent issue with this accident was preventing the release of radioactive materials. There have been no deaths or cases of radiation sickness. There were two fatalities on the day of the tsunami, on site, and while tragic, it was due to the tsunami, not the power plant; this represents few casualties compared to other energy disasters.

## Long-Term Health Effects

The other main question about nuclear power is: What about the long-term health effects from radiation? The following is part of the conclusion from a report of a survey by researchers at the US National Cancer Institute.

If conventional estimates of the cancer risks attributable to radiation are accepted, exposures from the monitored emissions from nuclear facilities in the United States, typically less than 3 millirem per year, to the maximally exposed individual, were too small to result in detectable harm. Such levels are, in fact, much smaller than the population exposures from natural background radiation, which amount to about 100 millirem per year, excluding lung doses from radon (Jablon, Hrubec, and Boice 1991).

When looking at the highest and worst possible levels of radiation people could receive in Fukushima, 22 rem, 194 excess cancers would be created out of the 22,000 people. Clearly this is not a good thing, but you also need to remember that the 22 rem was the highest dose recorded before evacuation; and the largest amount of radiation came from iodine, which has a half-life of eight days (Muller 2012).

## Nuclear Waste Disposal

Nuclear fuel, when it is depleted, must be replaced with new uranium. This occurs during a refueling outage. The depleted fuel rods still produce decay heat. The decay heat is removed by storing the fuel rods in cooling pools. When the residual decay heat is low enough, the fuel rods can be removed from the cooling pools and packaged for long-term storage. This long-term storage isolates the fuel rods from people and the environment, until the fuel decays and no longer poses a radiation hazard.

Nuclear waste disposal is already included in the cost of nuclear energy.

## America's Fear of Nuclear Energy

For years, American citizens have been so afraid of nuclear power. When America first discovered the possibilities, people were thrilled, until they began to link it with the A-bomb, and only with the A-bomb. For over fifty years, people have let its destructiveness eclipse its power for good. They have associated nuclear power with deaths of innocent people and the power to wipe out entire cities. What they do not realize is that nuclear energy can power an entire city and save the lives of innocent people. We have learned from the past, made leaps and bounds in our technology, and have an improved and extraordinary understanding of how nuclear power works. Now it is time for everyone in the United States of America to understand, believe, and support that.

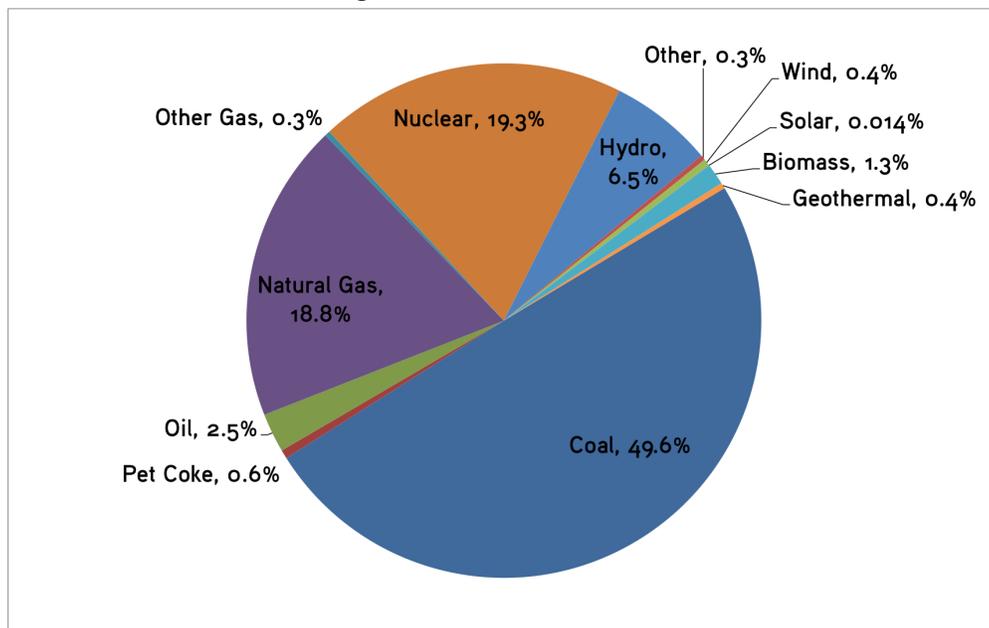
Most films depict nuclear energy as a dangerous and volatile energy source. One of the most popular films this year, *The Dark Knight Rises* was no exception. The entire story revolved around a nuclear source of energy that could power the entire city of Gotham. The only problem was that, if this power were to get in the wrong hands, it would become a giant nuclear bomb, thereby destroying the city of Gotham. Almost annually, a film comes out about a fictional nuclear apocalypse. With all of this negative publicity, why would anyone support nuclear energy? For years, pop culture has been exploiting the idea of nuclear power and brainwashing people to be terrified of something they know nothing about. One of the main films that started this crisis was *The China Syndrome*, which came out in March 1979, only twelve days before the nuclear accident on Three Mile Island. The

film's distortion of nuclear power coupled with the Three Mile Island accident added to the hysteria about potential nuclear accidents. We need to create a new image in this country's mind about how advantageous nuclear power can really be for us. If the media and films portrayed nuclear power in a realistic way, people would be educated about this energy source and begin to look at nuclear power as a solution to our energy crisis. We need to stop letting fictional popular media influence our opinions on nuclear power. It is time for America to know the truth.

## Energy Sources

Electricity is an integral part of our daily lives. (It is taken for granted, until a hurricane disrupts it for a lengthy period.) Normally, various power plants generate electricity, which is transmitted and distributed to users, e.g., homes, schools, businesses, and factories. This paper discusses the problem of selecting the preferred energy source for growth in electrical generation.

So with a plethora of choices, how do we know which one is the best? Which will save us the most money? Which will save the earth? These are all serious questions that need to be answered when we are looking toward the future.



Source: U.S. EIA, year 2005 data.

Figure 1. The main sources of energy for generating electricity.

## Hydroelectric Power

Hydro may be considered the first renewable energy source. That is why the prime hydropower sites have already been developed. Hydroelectric power, using the potential energy of rivers, now supplies 17.5 percent of the world's electricity (99 percent in Norway, 57 percent in Canada, 55 percent in Switzerland, 40 percent in Sweden, and 7 percent in the United States). It is not a major option for the future in developed countries, because most potential major sites in these countries are either being exploited already or are unavailable

for other reasons such as environmental considerations. Growth to 2030 is expected mostly in China and Latin America (“Hydroelectric Power” 2005).

## Solar Power and Wind Power

Wind and solar are relatively new renewable energy sources.

Solar power usually is considered to be direct generation of electricity from sunlight. (Solar power is also used for heating, but that is not part of this discussion.)

Photovoltaic (PV) cells are the building blocks of all PV systems because they are the devices that convert sunlight to electricity. Commonly known as solar cells, individual PV cells are electricity-producing devices made of semiconductor materials. PV cells come in many sizes and shapes, from smaller than a postage stamp to several inches across. They are often connected together to form PV modules that may be up to several feet long and a few feet wide. Modules, in turn, can be combined and connected to form PV arrays of different sizes and power output. When light shines on a PV cell, it may be reflected, absorbed, or pass right through. But only the absorbed light generates electricity.

Wind energy technologies use the energy in wind for generating electricity. Most wind energy technologies can be used as stand-alone applications, connected to a utility power grid, or even combined with a photovoltaic system. For utility-scale sources of wind energy, a large number of turbines are usually built close together to form a wind farm that provides grid power (“Renewable Energy Technology Basics” 2012).

Both solar and wind energy are considered sustainable, meaning that they provide electricity without harming the environment. They are possible sources of providing electrical energy growth.

Although there are many positive aspects of solar and wind energy, there are also many disadvantages that need to be considered.

## Subsidies and Cost

One disadvantage of solar power and wind power is their high cost. Even though there is no charge for sunshine or wind, neither solar nor wind energy is cost competitive. Some argue that these are new technologies that require investments, or subsidies, to foster their development. What people do not realize is that even by subsidizing these energy sources, they are still not cost competitive. The government is using taxpayer’s money to promote an energy source that is a financial failure. The United States is not the only country having to face the facts that these subsidies do not make solar and wind energy cost competitive, as countries like Germany and China are learning this as well.

China dominates the solar panel market. The cost of generating solar power has dramatically decreased over the past few years, but it is still triple the price of coal-generated power in China. Even dominating the solar panel market does not compensate for an unprofitable power panel. The solar companies are losing money and going out of business. No matter how you spin it, there is no way to make alternative energy that is triple the cost a practical choice.

Germany, the country in the European Union with the most productive economy, has been switching from nuclear power to solar and wind energy; it has been far from successful. The German government, like others, has also been heavily subsidizing solar and wind energy. The subsidies do not compensate for the sunshine average in Germany being less than that in Chicago. Energy costs now represent the biggest liability for Germany as

a place to do business, especially in light of the marked increase in the number of blackouts and voltage fluctuations in the grid.

### Green for Whom?

Solar and wind energy are considered to be extremely beneficial to people and the environment. That may not be a universal viewpoint. The Mexican government continues to install wind farms in the narrow waist of Mexico, known as the Isthmus of Tehuantepec, where winds from the Pacific meet winds from the Gulf of Mexico. The people who live there do not always agree that the wind farms are either an economic benefit or an environmental benefit. The indigenous people are not receiving the jobs and revenues that they were promised. Farmers and fishermen view the wind farms as harming their environment. The fishermen noticed that the research for the wind farms resulted in a mass die-off of fish. The vibrations from the wind turbines are affecting the livestock and fish, and the blades are chopping up birds. What is “green” for Mexico as a whole is not necessarily “green” for local communities.

### Safety

The process of manufacturing PV cells from silicon relies on silane, a dangerous pyrophoric gas. As manufacturers produce silicon solar cells, the use of silane continues. Of course, silane is hardly the only environmental hazard involved in solar cell production. Others include toxic by-products from polysilicon manufacture dumped indiscriminately in China, and recovering cadmium—a known human carcinogen that is a primary ingredient in some thin—film solar cells—from mining slimes. Still, only silane (SiH<sub>4</sub>) has been linked directly to any deaths as a result of the solar industry.

Keep in mind that some of the components of PV cells are toxic materials. When the cells are intact, the materials are encapsulated. However, if there is a fire, the toxic materials may pose a significant hazard to anyone in the area.

PV cells are installed on rooftops. This is elevated work, which has its safety concerns. A primary safety concern with wind turbines is their height as well. Installation and maintenance require elevated work. Note that many turbines are at elevations of 300 feet (100 meters). Obviously high winds and rotating machinery are not a safe combination. Figure 2 shows the fatalities associated with wind energy.

Summary of Deaths in Wind Energy	
20-Jul-12	
Number of deaths in construction (installation or Removal)	41
Number of deaths in O&M	18
Number of deaths of the public	8
Number of deaths in manufacturing	2
Number of deaths in training	6
Suicides	1
Total	76

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Figure 2

Solar energy accounts for 0.01 percent of our nation's energy. Wind energy accounts for 0.44 percent (see Figure 1). These energy sources are not likely to be significant in the near future. Solar and wind energy are not cost effective. As mentioned, they are not as environmentally friendly as considered by their proponents. There are also safety hazards that cannot be ignored. They provide a tiny fraction of needed energy, and only when the wind is blowing or the sun is shining brightly. They are possible energy sources for the long-term, but are only applicable for a few locations, at present.

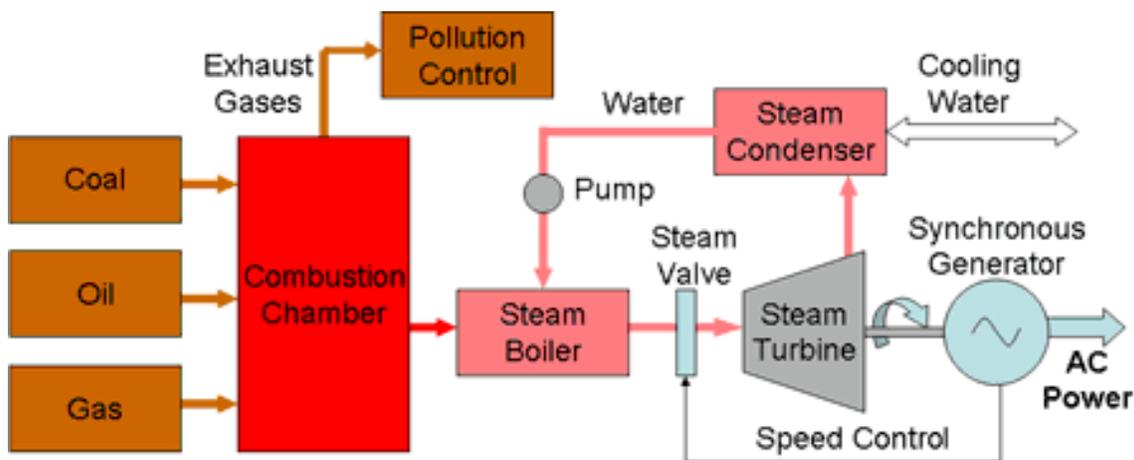
Coal energy accounts for 50 percent, natural gas 19 percent, and nuclear power 19 percent, of our nation's power (see to Figure 1). This focuses our energy source selection among coal, nuclear, and natural gas, as they are the largest sources.

## Coal, Gas, and Nuclear

### Generation Background

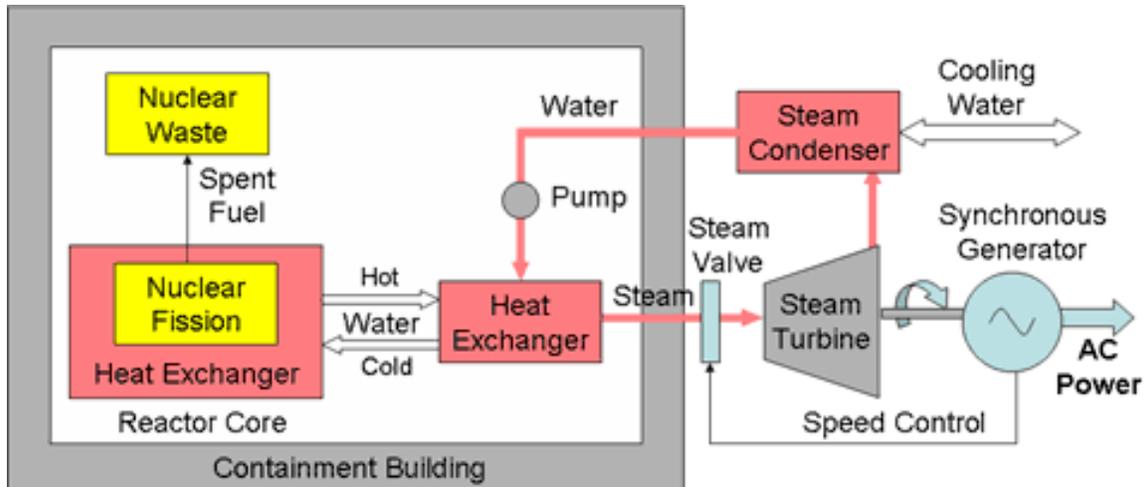
The main method of generating electricity is from heat. A source of heat is used to raise the temperature of water to turn it into steam, which transfers its energy to a turbine. The rotation of the turbine, which is physically connected to a generator, generates electricity.

Figures 3 and 4 illustrate the common features and the differences among fossil fuel, and nuclear, power. (The steam boiler and the heat exchanger both transform the heat into steam.) The main differences are the combustion chamber, exhaust gases, and pollution control necessary for fossil fuels, compared with the reactor core, containment building, and nuclear waste necessary for nuclear fuel.



**Fossil Fuel Powered Steam Turbine Electricity Generation**

Figure 3



Pressurised Water Reactor (Two Stage Heat Transfer)

### Electricity Generation by Nuclear Power

Figure 4

The nuclear energy discussed here is released by nuclear fission, which is the splitting of the nucleus of an atom. A power-producing nuclear reactor is “critical” the fission reaction is self-sustaining. That is, the chain reaction will continue and produce heat. As the uranium fuel is consumed, control rods need to be adjusted to keep the reactor critical. (The control rods are adjusted, in the other direction, to shut down the reactor.) The equation  $E = mc^2$  describes the amount of energy released from nuclear fission. (Energy = mass multiplied by the speed of light squared)

With fossil fuel, once the combustion is turned off, there is little residual heat to deal with. With nuclear power, even when the reactor is shut down (turned off), there is residual decay heat to remove. New reactor designs incorporate improved methods of decay heat removal, which minimizes the concern.

Fossil fuel generation involves exhaust gases and pollution control. Nuclear generation has neither exhaust gases nor pollution control, but does have nuclear waste disposal.

### The Cost

Ideally, a power plant should be operating as close to 100 percent as possible at all times. The higher the percentage, the better the power plant. If a power plant is running at a low percentage, it is not being productive. When looking at Figure 5, it is clear that nuclear fuel has the highest average capacity percentage at 89 percent. The capacity factor for coal is 61 percent, and gas steam turbines only run at an average of 13 percent.

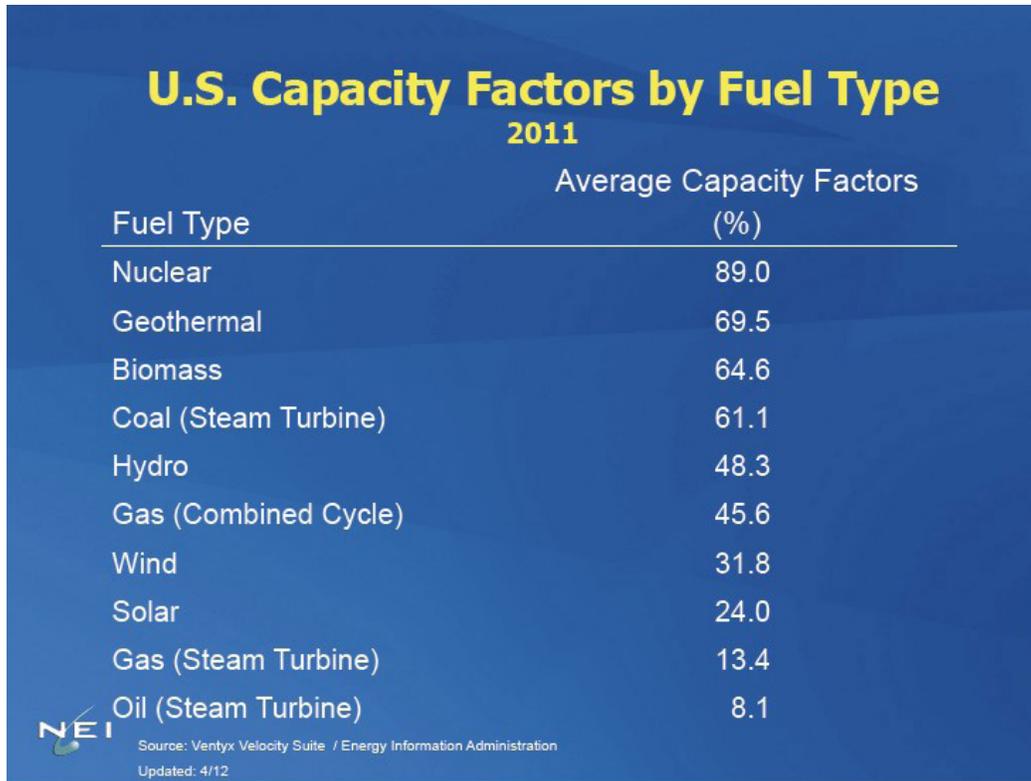


Figure 5

Figure 6 illustrates the energy content of coal, natural gas, and Uranium 235 (nuclear fuel). The much higher thermal energy content of Uranium 235, compared with coal and natural gas, is apparent. This energy content translates into needing tiny quantities of Uranium 235 compared to coal and natural gas. A single uranium fuel pellet contains as much energy as 17,000 cubic feet of natural gas, 1,780 pounds of coal, or 149 gallons of oil.

Energy Sources:

Key	Fossil Fuel	Nuclear Fuel	Thermal
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Generation Process	Fuel	Thermal Energy (Calorific Content) kWh/Kg
Thermal	Brown coal (lignite)	2.8
	Coking (black) coal	8.3
	Natural gas (North Sea)	10.8
	Oil]	12.5
	Diesel	12.9
	Petrol (gasoline)	13.0
	Liquefied petroleum gas (LPG), a mixture of propane and butane	13.8
	Uranium 235	22,800,000.0

Figure 6. *Calorific Energy Content of Fuels and Chemicals: The energy content of various materials usually, but not always, refers to the calorific or thermal energy that can be extracted from the material, usually by burning it and using the heat in some way to generate electricity.*

First, let's compare the production cost by fuel type. As of 2011, nuclear energy is 2.19 cents per kWh, coal is 3.23 cents per kWh, and natural gas is 4.51 cents per kWh. The 2.19 cents per kWh includes the costs of operating and maintaining the plant, purchasing nuclear fuel, and paying for the management of used fuel. (Oil is 21.56 cents per kWh.) Figure 7 shows the production cost from 1995–2011. One major thing to notice is that the actual fuel cost for nuclear power is very low compared to the other fuels.

**U.S. Electricity Production Costs and Components**  
1995 - 2011, In 2011 cents per kilowatt-hour



Year	Total Production Costs				Operations & Maintenance Costs				Fuel Costs			
	Coal	Gas	Nuclear	Petroleum	Coal	Gas	Nuclear	Petroleum	Coal	Gas	Nuclear	Petroleum
1995	2.69	3.91	2.80	6.10	0.64	0.74	1.96	1.74	2.05	3.16	0.84	4.36
1996	2.53	4.76	2.52	6.23	0.56	0.73	1.76	1.43	1.97	4.03	0.76	4.80
1997	2.44	4.84	2.68	5.54	0.54	0.70	1.94	1.17	1.89	4.13	0.74	4.37
1998	2.39	4.21	2.52	3.93	0.58	0.63	1.79	0.76	1.81	3.58	0.73	3.17
1999	2.30	4.57	2.32	4.70	0.55	0.54	1.65	1.06	1.75	4.03	0.67	3.64
2000	2.25	7.60	2.22	6.80	0.54	0.60	1.59	0.84	1.71	7.01	0.63	5.96
2001	2.31	7.64	2.14	6.26	0.57	0.67	1.55	0.85	1.74	6.98	0.59	5.41
2002	2.28	4.86	2.10	6.01	0.58	0.65	1.55	0.97	1.71	4.21	0.55	5.04
2003	2.25	6.68	2.07	7.16	0.57	0.69	1.51	1.12	1.68	6.00	0.56	6.03
2004	2.34	6.69	2.02	6.79	0.60	0.57	1.47	1.00	1.74	6.12	0.55	5.79
2005	2.54	8.37	1.95	9.33	0.60	0.55	1.44	1.00	1.94	7.83	0.51	8.33
2006	2.64	7.23	1.98	10.69	0.62	0.56	1.47	1.41	2.02	6.66	0.51	9.28
2007	2.69	6.97	2.00	11.24	0.63	0.55	1.48	1.50	2.06	6.42	0.52	9.74
2008	2.94	8.20	2.04	18.25	0.63	0.58	1.52	1.97	2.30	7.62	0.52	16.29
2009	3.11	5.23	2.02	13.48	0.71	0.63	1.44	2.76	2.40	4.60	0.57	10.72
2010	3.18	5.05	2.20	16.75	0.72	0.58	1.53	2.21	2.45	4.48	0.67	14.54
2011	3.23	4.51	2.19	21.56	0.71	0.53	1.51	2.23	2.52	3.98	0.68	19.33

Production Costs = Operations and Maintenance Costs + Fuel Costs. Production costs do not include indirect costs and are based on FERC Form 1 filings submitted by regulated utilities. Production costs are modeled for utilities that are not regulated.  
Source: Ventyx Velocity Suite  
Updated: 5/12

Figure 7

Figure 8 shows the total production costs from Figure 7 in a graphical format. The relative costs and cost trends are apparent.

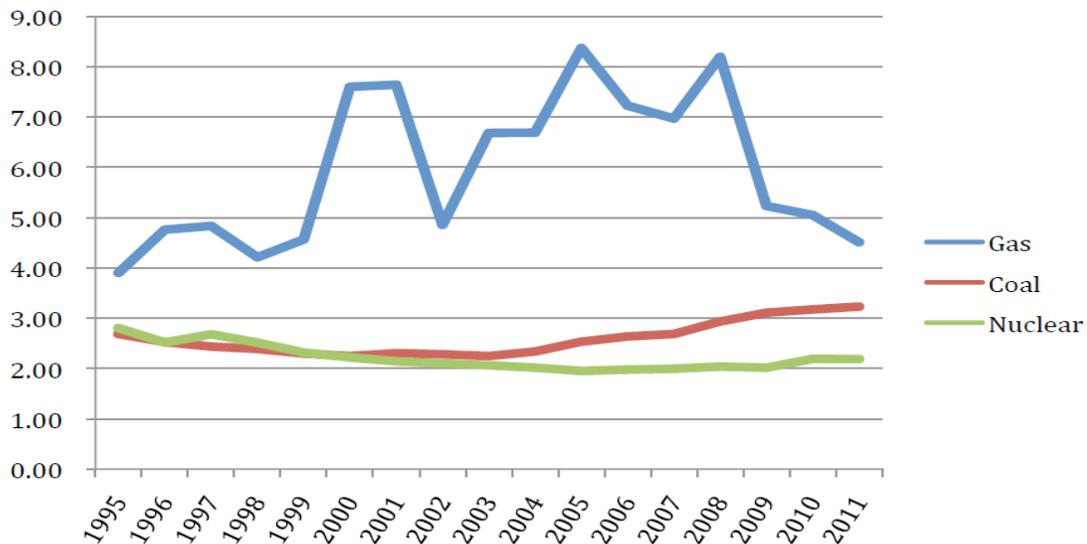


Figure 8. U.S. Electricity Total Production Costs 1995–2011, in 2011 Cents per kWh

For years, nuclear energy has had a lower overall production cost than coal and natural gas. In most cases, the majority of spending is on the fuel itself, and the operations and maintenance costs are relatively low. In Figure 9, you can see that coal and gas power are both spending most of their money on fuel. Nuclear is the opposite. The fuel is cheap and the majority of the money goes to operations and maintenance, meaning more people have jobs.

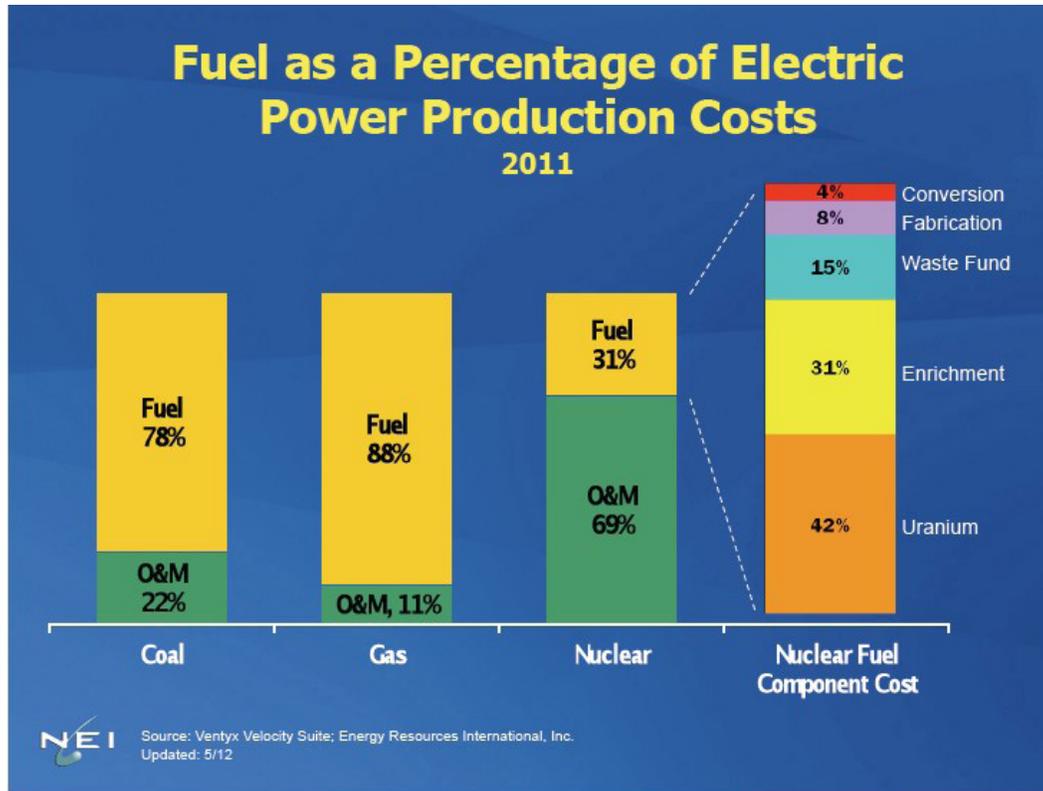


Figure 9

Compared to coal, natural gas, and renewable energy sources, nuclear-generated electricity has tremendous price stability because only 31 percent of production costs are fuel costs. Fuel accounts for 80 to 90 percent of the cost of electricity produced by fossil fuel-fired generation, making electricity from fossil fuels highly susceptible to fluctuations in coal and gas prices.

Figure 10 is from a Finnish study from 2000, which quantified fuel price sensitivity to electricity costs. This illustrates that the trend for rising fuel costs, as it impacts the rise in electricity costs, favors nuclear fuel over gas and coal. The cost comparisons favor nuclear power for the preferred energy source for growth in electrical generation.

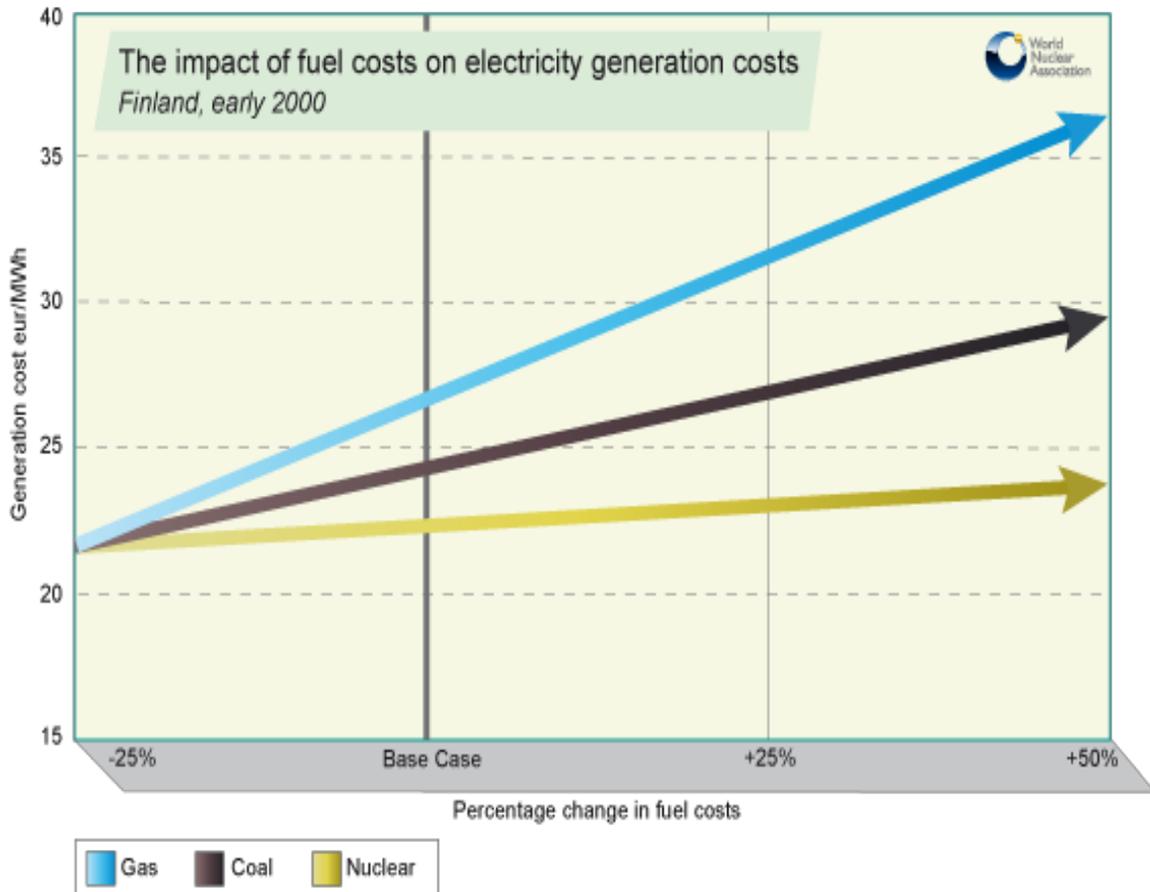


Figure 10

### Economic Effects

In addition to direct cost comparisons, there are other economic impacts. The average American nuclear power plant generates \$470 million annually in sales of goods and services in the local community, as well as \$40 million in total labor income. A Nuclear Energy Institute analysis shows that every dollar spent by the average nuclear plant results in the creation of \$1.04 in the local community, \$1.18 in the state economy, and \$1.87 in the US economy. A nuclear power plant also generates approximately \$16 million in state and local tax revenue, and about \$67 million in federal tax payments annually.

In addition to direct cost comparisons, there are workforce income impacts. Figure 11 compares the number of jobs, average salaries, and workforce income among different energy sources.

Technology <sup>3</sup>	Jobs/MWe	Average Size (MWe)	Direct Local Jobs	Average Salary (\$/hour)	Workforce Income (\$ Million/year)
Nuclear	0.50	1,000	504	\$31	\$32.49
Coal	0.19	1,000	187	\$28	\$10.99
Gas Combined Cycle	0.05	630	34	\$28	\$2.02

Figure 11

Figure 11 shows that nuclear power plants create more than twice as many jobs, at higher salaries, than coal power plants. The comparison between a nuclear power plant and a natural gas plant is even more striking.

### Safety

Safety is not always considered in an objective manner. People can consider nuclear power unsafe from a lack of knowledge, rather than from actual comparisons. For example, approximately 30,000 people die in traffic accidents, each year, but people do not consider automobile travel unsafe. Each year, there are no fatalities from generating electricity from nuclear power, but many consider nuclear power unsafe.

Figure 12 shows the industrial safety trend for the US nuclear industry. Note, this shows accident rates, not fatalities.

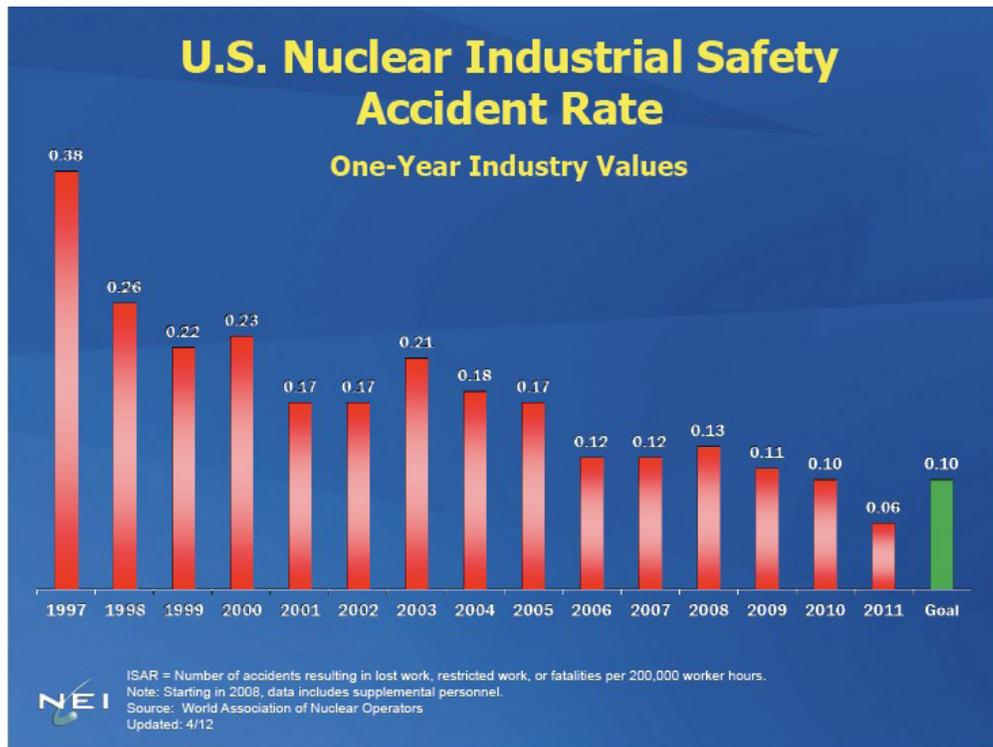


Figure 12

Figure 13 shows the fatalities associated with the oil and gas extraction industry.

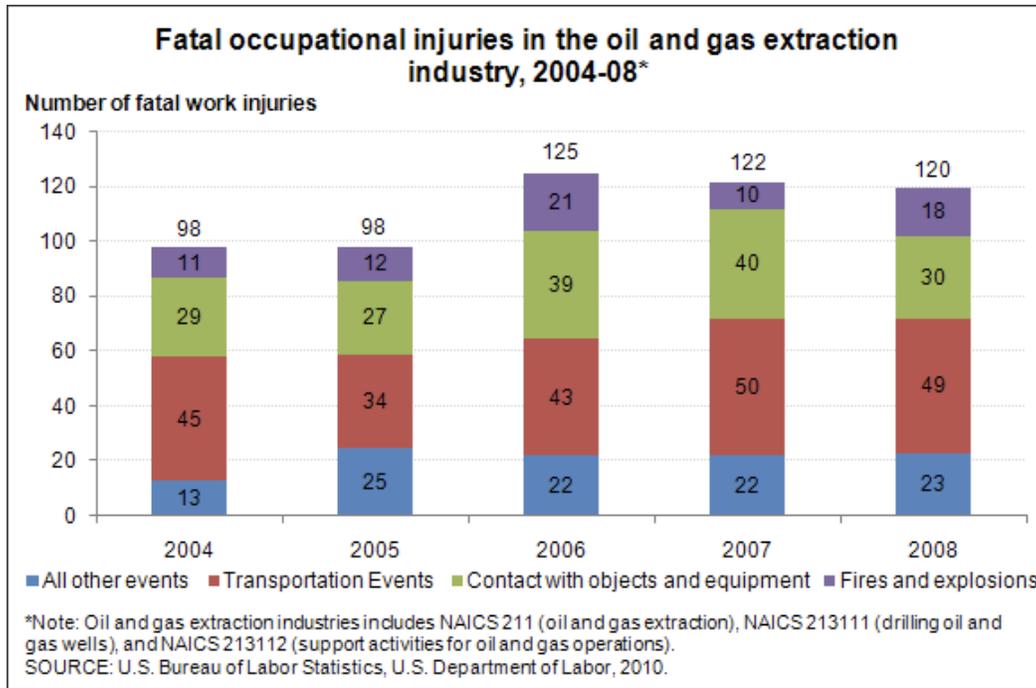


Figure 13

Figure 14 shows the fatalities associated with coal mining and the oil and gas extraction industry.



Figure 14

These charts clearly show that there are many dangers when working in the coal and natural gas industries.

There have been two nuclear disasters in the last three decades. There are preposterous amounts of coalmine explosions, oil spills, and pipeline explosions every year. Just to name a few, there was the Sabina's Mexico coalmine explosion on May 3, 2011. Fourteen miners were killed and one was injured. Just five years before that, sixty-five miners were killed in

a mine explosion in Mexico. On October 29, 2011, twenty-nine miners were killed from a gas explosion at the Xialiuchong Coal Mine in China. On March 20, 2011, forty-three miners were killed by three methane gas explosions in Pakistan. On September 12, 2011, at least seventy-five people were killed when a fuel pipeline exploded in Nairobi. These are just a few examples of disasters last year in the coal, oil, and natural gas energy industries. When looking at the numbers of fatal injuries in these industries, it is almost unfathomable.

## The Environment

Another important aspect in the fuel comparison is the impact on the environment. Some forms of energy generation are less harmful than others. Figure 15 shows the emissions of sulfur dioxide, nitrogen oxides, and carbon dioxide avoided by the nuclear industry from 1995–2008. Other emissions from coal power plants include fly ash, mercury, arsenic, and particulates. These emissions are considered the cause of acid rain. Nuclear power avoids those emissions.

<b>Emissions Avoided by the U.S. Nuclear Industry 1995 - 2011</b>			
<b>Year</b>	<b>Sulfur Dioxide (Million Short Tons)</b>	<b>Nitrogen Oxides (Million Short Tons)</b>	<b>Carbon Dioxide (Million Metric Tons)</b>
1995	4.19	2.03	670.60
1996	4.16	1.89	645.30
1997	3.97	1.76	602.40
1998	4.08	1.76	646.40
1999	4.13	1.73	685.30
2000	3.60	1.54	677.20
2001	3.41	1.43	664.00
2002	3.38	1.39	694.80
2003	3.36	1.24	679.80
2004	3.43	1.12	696.60
2005	3.32	1.05	681.92
2006	3.12	0.99	681.18
2007	3.04	0.98	692.71
2008	2.65	0.91	688.72
2009	1.99	0.56	647.22
2010	1.60	0.56	642.09
2011	1.41	0.54	613.40
<b>Total</b>	<b>54.83</b>	<b>21.49</b>	<b>11,309.65</b>

Source: Emissions avoided by nuclear power are calculated using regional fossil fuel emissions rates from the Environmental Protection Agency and plant generation data from the Energy Information Administration.  
Updated: 5/12

Figure 15

Coal mining is quite extensive compared with uranium mining. This is due to the relatively low energy content of coal compared with uranium, which translates to needing much higher volumes of coal. The deforestation of the environment for mining coal is a significant environmental impact.

## The Solution

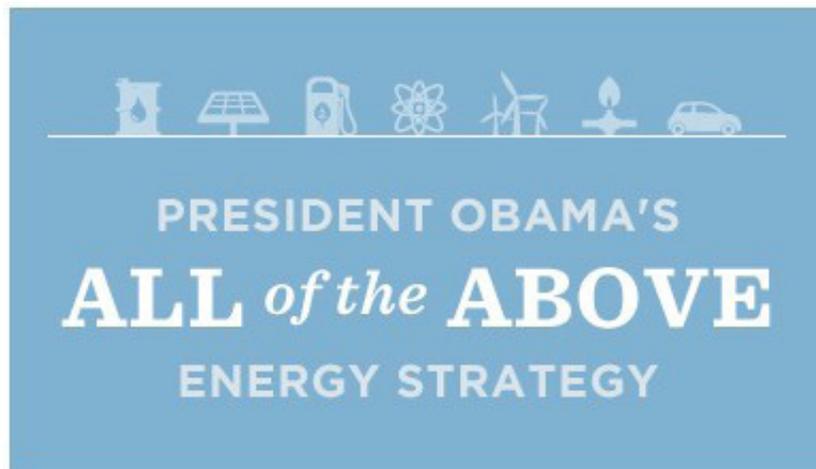
Nuclear energy is our energy source selection among coal, nuclear, and natural gas. It is significantly cheaper, it protects our people and it saves the earth.

Why are many people skeptical about nuclear power? Some do not realize the cost comparisons. Most consumers desire lower utility bills. That desire would encourage them to favor nuclear power. Many people do not know the actual record of accidents and fatali-

ties among coal, natural gas, and nuclear power. The environmental issue is also clouded by subjective considerations. Few environmentalists promote nuclear power as a benign source of generating electricity. They (rightly) complain about atmospheric emissions from other power sources, but then somehow neglect to mention nuclear power as a possible solution.

We know better. We deserve better. If we are the stewards of this earth, it is our responsibility to do better. Nuclear power needs to have the light of truth shine on it if we are to move forward. It is time to bring this truth and allow intelligent judgments and comparisons to be made. If not for ourselves, than for our children's future.

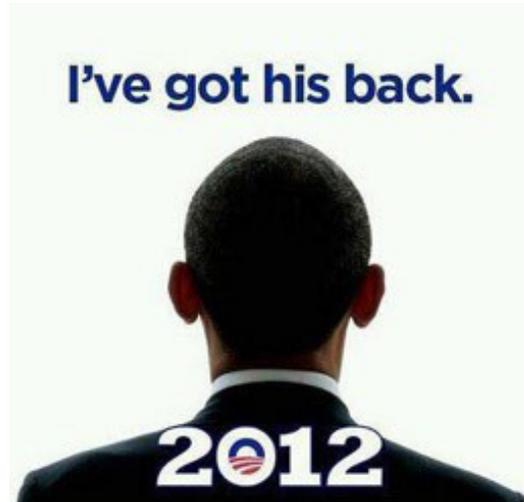
## President Obama on Nuclear Energy



Over the past four years, President Obama has been a very outspoken advocate for nuclear energy. Beginning in 2008 with his inaugural speech, President Obama has been making massive strides for the nuclear energy industry in the United States. After formally accepting his re-election, people need to know where he stands on energy, as it is one of our countries biggest issues. "President Obama has a real strategy to take control of our energy future and finally reduce our dependence on foreign oil—an-all-of-the- above approach to developing all of our energy resources. President Obama and his Administration are supporting the construction of the first new nuclear power plant in decades, which will provide clean electricity for nearly 1.4 million Americans.

Over the past three years, the Obama Administration has invested in grants at more than 70 universities for research and development of nuclear technologies to improve reactor design and safety ("All of the Above" 2012).

After the Fukushima accident, President Obama continued to support nuclear energy. During an interview with KOAT in Albuquerque, New Mexico, when asked about the Fukushima accident, President Obama stated, "We've got to budget for it. I've already instructed our nuclear regulatory agency to make sure that we take lessons learned from what's happening in Japan and that we are constantly upgrading how we approach our nuclear safety in this country."



The Obama-appointed Nuclear Regulatory Commission (NRC) has approved four new nuclear reactors this year. President Obama has increased the amount of federal money for nuclear power plant construction by \$36 billion, which brings the total funds to \$54.5 billion. President Obama has proposed implementing a Clean Energy Standard, which defines clean energy as including nuclear power (Rennicks 2012).

If you are a supporter of President Obama and saving the earth, it would only make sense that you would support nuclear power. America needs to show that they support the man they re-elected as the President of the United States of America; they need to show that they trust in his decisions and that they've got his back.

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## Appendix B

# Friend, Foe, or Frock: Animal Rights in Fashion

by Briana N. Laemel

*[These sample student papers are provided only as examples of successful student research: they are not meant to prescribe any standard paper format and the content of each paper represents purely the author's view.]*

### Animal Rights in Context

On the rare occasion that individuals choose to think about animal rights, they often do so in terms of the food industry. What should come to mind are the cruelty, corruption, and lack of credibility of slaughter houses, factory farms, and small-time butchers alike. But all too often the public turns a blind eye to the wrongdoing of meat and poultry producers. In the mind of a society where animals equal food, it is hunger and greed—not logical, rational thought or compassion—that drives motives, jades opinions, and encourages ignorance, all of which contribute to the idea that animals are food (or foe), but certainly not our friend.

Not our friend, but what about our frock?<sup>1</sup> In today's society, where appearance is first and foremost, it should not be any wonder that such little concern is given to animal rights in terms of the fashion industry. Fur, leather, wool, and silk are used in excess, and all pose an immediate threat to the animals, who—in essence—are unwillingly forced to supply textile manufacturers, mass-producers, designers, and the like with their bodies and secretions. The abuse inflicted on and the deprivation felt by these innocent animals is horrific, especially when (much like the food industry) there are many ethical, socially responsible alternatives. Yet, despite these endless options that are now presented to those in the fashion industry, many continue in their excessive, animal-clad ways.

Regulations could easily correct such issues of animal rights in fashion; however, very few, if any, have yet to be enforced. Those that have been enacted are often misleading, and yield very little power against industry practices that have been in place for centuries. This paper will discuss such practices, the mediocre measures taken to subdue them, and ultimately the reality of animal rights in fashion.

## Animal Rights as an Issue of Corporate Social Responsibility

In terms of corporate social responsibility, the issue of animal rights, namely in fashion, is often overlooked. Seemingly more important issues, such as labor rights in the workplace, regularly take precedent, as such are noted to be of a more pressing matter. However, despite this common misconception, issues of animal rights are just as much a part of corporate social responsibility as anything else.

Consider the common phrase “actions speak louder than words.” Often, the phrase is used in a positive manner to give recognition to those acting upon their ideas. Yet when it comes to those abusing animals for the sake of fashion, this phrase holds true in the most pejorative sense. Proponents of fur, leather, wool, and silk often speak little of their role in evading issues of animal rights. Hardly any note where the skins and subsequent textiles came from; even less note by which means that textile was derived. Consider that each year, “millions of animals are killed for the clothing industry,” and that regardless of if “the clothes come from Chinese fur farms, Indian slaughterhouses, or the Australian outback, an immeasurable amount of suffering goes into every fur-trimmed jacket, leather belt, and wool sweater”.<sup>2</sup> Facts like these are universally unknown, despite being universally influenced, and thus the ignorance of the consumer is not to blame, but rather those working tirelessly to conceal their actions.

Ultimately, animal rights in fashion becomes an issue of corporate social responsibility because of a notable disconnect, epitomized by the notion that what those encouraging the use of animals for fashion purposes tell us about their doing so hardly compares to what actually occurs in this vicious cycle on a daily basis. By improving upon corporate social responsibility as it pertains to animal rights, the truths, the tales, and the transitions of such a pertinent issue will certainly become clear, as will the need for radical reform.

## The Facts (and Fictions) about Fur Farming

### Fur Farming Defined

By definition, fur farming is “the practice of breeding or raising certain types of animals for their fur.”<sup>3</sup> These animals, who have never known a life in the wild, are bred on-site, where they “spend their entire lives confined to cramped, filthy wire cages.”<sup>4</sup> At present, there are no regulations for fur farms, and thus owners hold ultimate power over the confined animals, and are certainly unfazed by the apparent discomfort and deteriorating health of those animals. Animals raised on fur farms—namely mink, fox, and rabbit—are caged in open sheds that provide little protection from the elements.<sup>5</sup> As a result, the animals often fall victim to pests and disease, brought on by an inability to continuously adapt to seasonal climate change. Because fur farms are often so overcrowded with animals, pests and disease spread quickly, and contagious cases such as viral enteritis and pneumonia are regular occurrences, in addition to the fleas, ticks, and lice seeking refuge on the pelts.<sup>6</sup> Often, the

pests and diseases go untreated. Animals are then left to die, infested both internally and externally.

Yet the “natural” death of animals on fur farms is hardly something owners pity. Those killed by disease, or the stress induced by that disease, eliminate one task to be performed by said fur farmer—and thus money can be saved. But for those who survive, a similar fate awaits. Animals spared for their fur are often subject to a death that is both cruel and unusual. Because furriers, much like many other manufacturers, seek to reduce cost and increase profit, they invoke the cheapest (which is often the cruelest) killing methods known to man. Suffocation, anal and vaginal electrocution, gassing, and poisoning are just a few of the legally practiced methods. Despite their apparent harshness, these specific methods remain legal. In many cases, it has been argued that the above-mentioned methods kill the pelt bearing animals quickly, instantaneously even, and thus reduce potential suffering. However, a recent PETA investigation of a Chinese fur farm found that many animals were still alive and struggling after electrocution or gassing; some were noted to have hearts beating for five to ten minutes after they had been skinned. Skinned alive in many instances, these animals are left to die amidst the unbearable pain of their pelts having been removed entirely.<sup>7</sup> Unfortunately for these innocent animals, furriers are unmoved by the cruelty attached to their work. But *why* is this so? How could that *be* so? For furriers, only one thing matters: the condition of the pelt upon removal. A fur farmer’s method of choice, though predominately a factor of cost, thus is also impacted by the potential damage that method may inflict not on the animal, but on the animal’s pelt. Skinning animals alive is often practiced to encourage the pelt’s overall contour and fur retention.

After all is said and done, it is quite clear that the inner workings of fur farms are anything but ethical—and certainly not socially responsible. However, individuals continue to encourage the manufacturing, production, and eventual use of fur for garments of both high and low fashion, which leaves the question: Is ignorance really bliss, or is the truth about fur farming something so many individuals miss?

## Fur Farming Exposure and Concealment

Through the work of organizations like PETA, the cruelties of fur farming are gaining recognition in the public eye. Yet while organizations work to expose the realities about animal rights in fashion, many counter organizations seek to conceal them. Such an organization has arisen under the *Fur is Green* campaign. The Fur is Green campaign claims that “fur is a natural, renewable and sustainable resource,” meaning that because furriers “only use part of what nature produces each year without depleting wildlife populations or [damaging] the natural habitats that sustain them,” ecological balance is maintained.<sup>8</sup> But these recent claims that fur is environmentally friendly are quite unfounded, and it is clear that the fur industry is not fooling anyone. According to Joshua Katcher, renowned ethical fashion expert, “factory farming is factory farming. When you place a concentrated number of wild animals in an area that hasn’t evolved to deal with that concentration of waste—environmental disaster is inevitable.”<sup>9</sup> Other such organizations claim that, while fur farming may be misguided, fur used from wild caught animals—known as free-range fur—is more ethical because the animals have lived their lives free and natural in the wild.<sup>10</sup> However, upon capture, these animals suffer a fate similar to that of their fur farmed counterparts.

Thus, while countless organizations seek to prove not only the viability, but also the ethical nature of fur use in fashion—going so far as to claim fur as being “green”—not one has succeeded at doing so. What these counterorganizations have succeeded at doing,

however, it highlighting the disconnect between the actions of furriers and the words of those furriers.

## The Lessons (and Lies) About Leather Manufacturing

### Leather and Animals

Much like fur, which can be taken from countless animals, leather can be made from cows, pigs, goats, sheep, alligators, ostriches, kangaroos, and—in some instances, where animal rights are particularly neglected—even dogs and cats.<sup>11</sup> These animals are slaughtered, but only after they have lived in a life of horror on a gruesome factory farm.

Much like factory farms that house cows and the like for food production, factory farms for fashion purposes are extremely crowded. The animals who reside in these farms are deprived of necessities and often fall victim to abuses so cruel it becomes hard to believe that any human being could be capable of such acts. Castration, branding, tail-docking, and dehorning are done regularly, without painkillers. Many of these animals, upon slaughter, have their throats slit so quickly that the killer does not succeed at rendering the animal unconscious. As a result, many of the animals killed for their leather are skinned and dismembered while still conscious.<sup>12</sup> Tens of millions of cows are killed in this manner each year, despite regulations trying to lessen the cruelty of slaughter, although “the federal Humane Slaughter Act stipulates that cows should be stunned by a mechanical blow to the head and rendered unconscious before they are strung up.”<sup>13</sup> However, as has been the case throughout, because time is of the essence, the high speed of the assembly lines often results in improper stunning.<sup>14</sup> Improper stunning, as with improper throat slitting, is an entirely unethical practice that leaves millions of cows in terror and to suffer unbearably as they are skinned.

In terms of fashion, while much of the leather used is derived as a byproduct of cows used for beef and milk, waste management and issues of sustainability should not surpass the welfare of the animals at stake. As PETA notes, “buying leather directly contributes to factory farms and slaughterhouses because skin is the most economically important byproduct of the meat industry.”<sup>15</sup>

### Leather, Animals, and the Environment

Economical it may be, but environmental is it not. Despite the fact that using leather as a byproduct of factory farming reduces waste, the slaughter of animals and the subsequent manufacturing of their leather is hellish, specifically in terms of the fashion industry’s effect on the environment.

As in any case of mass production, natural resources are required at unfathomable amounts. Raising animals for food and leather “requires huge amounts of feed, pastureland, water, and fossil fuels,” all of which could be used for practices more ethical and environmentally sound, namely feed, which could be used to solve hunger in many third-world countries.<sup>16</sup> In addition to these natural resources, leather manufacturing specifically requires unbelievable amounts of energy and chemicals. These chemicals often end up in

US waterways, in addition to the animals' excrement, and thus possess a toxic threat to both human beings and other living animals.<sup>17</sup> The Environmental Protection Agency has gone as far to consider the chemicals used in leather manufacturing hazardous, and yet still practices persist. Many countries known for their leather industries are out of governmental reach, and because issues of animal rights are, to a great extent, less important abroad, the abuse continues.

Although animal rights organizations have also worked to expose the cruelties of leather manufacturing, the skin is still used for fashion purposes. Producers, manufacturers, designers, and retailers alike turn their backs on the animals that should be seen as their compatriots. Rather, these animals are seen as merely a means to an end—an end that only benefits those “who profit from the misery and suffering of others” with seemingly less valuable lives than themselves.<sup>18</sup>

## The Questions (and Misconceptions) About Wool and Silk

### Wool

To the standard shopper or fashion enthusiast, wool appears to be a perfectly ethical natural fiber, one free from the issue of animal rights. Often, this is assumed because the sheep providing the fiber are not slaughtered for their skin, as are those providing leather hides and fur pelts. However, while these animals may not face the same gruesome end as their friends of fashion, it is not acceptable to assume that those wool-bearing beings live wonderfully ethical lives.

Much like leather and fur, wool is an incredibly sought-after textile. Because of this, there is an incredibly strong market for the fleece and skin of sheep. As a result, these animals “are treated as nothing more than wool-producing machines,”<sup>19</sup> and shearers are not shamed for generating those machines. Shearers, although they do not kill their victims as do furriers or leather manufactures, are not shy from being equally as evil. Profit is, of course, their top priority, one that far surpasses the concern for their wool-bearing animals' welfare. Shearing sheds are one of the worst places in the world for cruelty to animals, despite the common misconception that shearing is in fact healthful for these animals. Because shearers are often paid by volume, and not by hour, fast work is encouraged; regard for the well-being of these sheep being sheared is not even so much discouraged as it is ignored entirely.<sup>20</sup> Sheep that survive the shearing process—many die from cuts and wounds caused by fast work—are left with no remaining fleece. These animals often become ill without enough wool to protect them from temperature extremes because they have no insulation against both cold and heat.<sup>21</sup>

But cruelty during the process of wool production goes beyond easily avoidable shearing accidents and weather-induced illness. The cruelest, and one of the most common, practices of sheep shearing is known as mulesing, a process by which “huge chunks of skin and flesh are cut from the animals' backside, often without any painkillers.”<sup>22</sup> This practice is done most often to sheep raised as merinos, who are bred specifically to have wrinkly skin, an attribute that encourages more wool per animal.<sup>23</sup> Breeding merinos in this way creates what would actually be considered an unnatural overload of wool, were there any standards

to protect sheep from shearing. This excess of wool “causes many sheep to collapse and even die of heat exhaustion during hot months, and the wrinkles collect urine and moisture. Attracted to the moisture, flies lay eggs in the folds of skin, and the hatched maggots can eat the sheep alive.”<sup>24</sup> Fearful that these pests may lessen the wool’s quality upon shearing and spinning, mulesing was developed as a way to free not the sheep, but the wool, of maggots. Mulesing “is a crude attempt to create smoother skin that won’t collect moisture;” however, “the exposed, bloody wounds often become infected,”<sup>25</sup> often by the maggots this practice was supposed to ward off. Many sheep who have undergone this particular mutilation suffer; many more die. Mutilation in the form of mulesing is thus not only cruel, but ineffective, and many other practices could easily discourage pest infestations in a humane manner. Through diet regulation, spray washing, or simply breeding types of sheep without excess wool, sheep can be spared.<sup>26</sup> Noting this, many companies have taken progressive steps to reduce their wool consumption, pledging to move away from mulesed wool.

Thus, as is clear, “no amount of fluff can hide the fact that anyone who buys wool supports a cruel and bloody industry.”<sup>27</sup> While wool has long been seen as natural fiber of ethical standards, this misconception is illustrative of the fashion industry’s ability to encourage a disconnect between the actions of shearers and the words of those shearers.

## Silk

In terms of animal rights, silk is perhaps of the least concern to the average consumer. However, as the issue of animal rights in fashion covers the entire realm of animal fibers, it is important to address those problems associated with silk harvesting.

Conventional silk is made by boiling the intact cocoons of silk worms. In mass-production, silk is often made from domesticated silkworms, raised on farms much like the animals used for fur, leather, and wool.<sup>28</sup> The silkworms—in caterpillar stage—are fed mulberry leaves until they are ready to spin cocoons. Silk is secreted as a liquid from two glands in the caterpillar’s head, and it is the silk that forms the worm’s cocoon.<sup>29</sup> When the silkworm has passed through this stage of development, the cocoon is placed in boiling water, thereby beginning a process which eases the extraction of silk thread, and thereby killing the silkworm.<sup>30</sup>

As if being boiled to death is not cruel enough, silk worms often lead lives that are unconventional. They are exploited for their secretions, and thus kept in a strictly controlled environment to ensure that their silk is of the highest quality. For those fortunate enough to break free of their cocoon before boiling, a similarly unfortunate life awaits. Because silk caterpillars are bred to maximize silk production, the moths that emerge from their cocoons do so with countless defects. Many cannot fly because their bodies are too big compared to their wings; many cannot eat because their mouths are underdeveloped. Proponents of silk use claim that worms bred for harvesting live perfectly suitable lives, as insects cannot feel pain. However, experts disagree over to what extent an insect can feel pain, and highlight that because an insect’s nervous system is different from a mammal’s, it is difficult to gauge an insect’s feelings (namely because worms cannot show their distress in ways that humans easily recognize).<sup>31</sup> Nonetheless, the mere presence of a nervous system should be enough to solidify claims of silk worm suffering, as signals from stimuli still elicit a response to those stimuli.<sup>32</sup> Thus, despite public belief, silk caterpillars suffer immeasurably as they are either unethically boiled alive or born as moths with seemingly intentional defects.

Yet the suffering of a silk caterpillar is not the only immeasurable aspect of silk production. What also appears to me immeasurable is just how extensive the use of silk moths is.

“The amount of useable silk from each cocoon is small,” and as a result, it takes hundreds of silkworms “to produce just one silk scarf or tie.”<sup>33</sup> Consider that approximately fifteen silkworms are killed to make one gram of silk thread. Consider, then, that it takes approximately 10,000 silk worms to make one sari, a fashion item commonly made from the finest of silk threads. If allowed to develop naturally, outside of a farm, and free of genetic breeding, silk worms would turn into defect-free moths, and silk could still be harvested. By collecting the cocoons those moths chewed out of, manufacturers would be able to unravel the silk strands and produce silk textiles in similar quantities. However, the strands of tussah silk (the official name for unfarmed silk) are much shorter, less lustrous, and thus less valuable. And as has been the pattern throughout the animal rights in fashion debate, quality of said animal fiber is of more importance than the animal’s quality of life.

## Ethical Fashion: The Development of Animal-Friendly Design

Over the years, issues of animal rights in fashion have become increasingly more prevalent. Long gone are the days of vegan hippies, who shunned fashion for being a cruel institution. Here to stay are the fashion-conscious vegans, in the age of ethical fashion.

Ethical fashion “is an umbrella term to describe ethical fashion design, production, retail, and purchasing. It covers a range of issues such as working conditions, exploitation, fair trade, sustainable production, the environment, and animal welfare.”<sup>34</sup> In essence, it encompasses all aspects of corporate social responsibility as it pertains to the fashion industry. Of the CSR issues pertaining to ethical fashion, animal rights—as has been the clear case—has been given the least amount of focus. Because the topic is so controversial, it seems to be given less attention in terms of social acceptance, but it gets plenty of attention in terms of innovation and development.

Ethical fashion has illustrated that there is no need to be cruel in order to stay warm and look cool. Cruelty-free fabrics and faux furs are available in stores everywhere, and PETA continues to work with designers and clothing retailers to encourage the strict use and sale of animal-friendly fabrics.

### Fur

Alternatives to fur include a wide range of faux options. Vests, jackets, hats, shawls, and muffs are now being designed with the welfare of animals in mind. These cruelty-free options are highly fashionable, and in many instances are entirely realistic. And with public figures (namely celebrities and pop-culture icons) denouncing the use of real fur, choosing to “go naked” is becoming more and more enticing.

### Leather

Alternatives to leather are becoming increasingly more innovative, including vegan microfiber, which claims to match leather in strength and durability, as well as alternative, sustainable, and renewable plant-based and man-made, non-animal materials such as ultrasuede, organic cotton, canvas, nylon, velvet, linen, cork, and eco-lining. Of course, these

alternatives will never match the exact look, feel, and wear of leather; however, in terms of performance, they match all qualities of leather in the most ethical of fashions.

## Wool

Alternatives to wool include acrylic, cotton, cotton flannel, polyester fleece, and synthetic shearling. Newer innovations, such as Tencel, are breathable, durable, and biodegradable, and serve as is one of the newest cruelty-free wool substitutes.<sup>35</sup> Another newer innovation, Polartec Wind Pro, is made primarily from recycled plastic soda bottles and boasts a wind resistance four times that of wool.<sup>36</sup>

## Silk

Alternatives to silk include some of the most interesting developments. The use of banana leaves and tree stalks to create a silky fiber has revolutionized the production of many silk-dependent items, such as the sari.<sup>37</sup>

## Vintage and Second Hand

Buying clothing, shoes, and other accessories from vintage boutiques or second-hand stores serves as an easy and affordable way to shop ethically. Although these items may be made with animal derivatives, the practice is sustainable as it encourages recycling and discourages waste. Buying vintage or second hand also limits the amount of support unethical producers, manufacturers, and designers are given, and doing so ultimately takes a stance for animal rights from a less militant view.

Thus, as PETA has noted on many occasions, “fashion should be fun, not fatal,” and choosing to buy fashion-forward products made of near-identical alternatives can encourage the adoption of this slogan-turned-lifestyle motto.<sup>38</sup>

# Developing Corporate Social Responsibility Standards for Animal Rights

## What Has Been Done

It is quite clear that the realities of animal rights in fashion are shielded by the glamour of the industry. Fur, leather, wool, and silk are not seen for what they truthfully are—the skins of living, breathing beings—but rather for what they can be—status-conveying, luxury fibers and textiles. In terms of corporate social responsibility, little attention has been given to such issues, encapsulated by the general issue of animal rights. While many acknowledge that the protection of animal welfare is important, many too consider the rights of human beings to be of first priority. Activist groups, such as PETA and the Humane Society of the United States, have worked for the protection of animal rights for years, and in doing so have generated a greater concern for the cause. However, in terms of legalized practice, there are few laws and acts that have impacted the fashion industry enough to inspire radical change.

## What Should Be Done

The decision to develop socially responsible standards in terms of animal rights is ultimately a choice to be made by each individual corporation. While it may be unrealistic to imagine a fashion industry entirely free of fur, leather, wool, and silk, it is realistic to encourage the development of an industry with higher standards for the ethical treatment of the animals that provide for it. But aside from developing higher standards, it is also necessary to develop a means of ensuring that these standards are upheld. In many instances, companies claiming to be cruelty-free have deceived consumers through mislabeling; many have gone a step further, reverting to their fur, leather, wool, or silk use despite vowing to do otherwise.

This past February, Urban Outfitters fell victim to such a case. Since 2009, Urban Outfitters has claimed to be fur-free. After coming under attack that same year, the retailer agreed to cease the stocking of fur merchandise, and has since made notable cruelty-free fashion lists such as “Fur-Free Retailers, Designers, and Brands,” as compiled by the Humane Society.<sup>39</sup> However, when a shopper grew suspicious of his purchase—“I have been analyzing fur and fashion for many years, and there is a significant visual difference between faux and real fur, and there is no way that the fur in this photo is faux. The way the fur falls open to reveal the skin beneath is obvious in the photos. The organic distribution of coloring is not machine-made. The hairs are not uniform. The oil-sheen of the hair is organic, not synthetic”—he ran a series of tests that confirmed his questioning.<sup>40</sup> Upon receiving countless letters of complaint, Urban Outfitters removed the item from their inventory and released a public apology, noting that “unfortunately, the information we’d initially gathered led us to believe that the collar trim was indeed faux fur. After further investigation, we were able to confirm your assertion that the trim in question was in fact real fur.”<sup>41</sup> Regulating animal rights specifically in terms of fashion could help to reduce the number of instances such as the Urban Outfitters case. And recently, it is these cases that have inspired new ideas about reform.

## What Is Being Done

Most recently, the US Senate voted unanimously, “approving an important bipartisan bill to protect consumers and animals.”<sup>42</sup> The law, known as the Truth in Fur Labeling Act, passed the House of Representatives in July 2010 and was signed by President Obama later that same year. The act “will bring much-needed accuracy and disclosure to fur products,” as long as those committed to animal rights in terms of corporate social responsibility ensure that it is upheld.<sup>43</sup> Yet even with new laws coming into effect, standards already in place need to be improved. Guidelines for the protection of animal rights are limited, and governmental motions like the Animal Welfare Act only require that minimum standards of care and treatment be provided.<sup>44</sup> But consider how the public would feel about these minimum standards if they applied to laborers in the workforce. Despite public opinion, there is little difference between the well-being of a human being and the well-being of an animal; after all, both have emotions, feel pain, and can be manipulated by another. Thus, in terms of corporate social responsibility, it is time to level the playing field, for to solve the issue of animal rights it is necessary to accept the philosophical view that considers animals to have rights similar to or the same as human beings.<sup>45</sup>

## In Conclusion

Although the fashion industry has come to equate animals with foes (even frocks) and not friends, the two do not necessarily need to remain mutually exclusive. In a different sense, animals can be both friend and faux—and with this, animal rights and the fashion industry can coexist in an ethical, compassionate, exclusive, and luxurious way.

## Endnotes

1. Originally, a *frock* was a loose, long garment with wide, full [sleeves](#), such as the [habit](#) of a [monk](#) or [priest](#), commonly belted. Today, the term is a common phrase for a dress or gown (often worn by a girl or woman).
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17. *Ibid.*
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25. Ibid.
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## Appendix C

# Monsanto Company and Its Effect on Farmers by Akiko Kitamura

*[These sample student papers are provided only as examples of successful student research: they are not meant to prescribe any standard paper format and the content of each paper represents purely the author's view.]*

## Introduction

There have been numerous public controversies regarding the impact of genetic engineering on the safety of genetically modified (GM) food and the ethics. Monsanto, a leading producer of genetically engineered seeds, has been at the center of the criticisms on agribusiness and GM crops. This paper focuses on one of these controversies: Monsanto's GMO practices and its effect on farmers. In particular, the high suicide rate among GM crop farmers in India due to its production has attracted a great deal of attention in the press. Is there in fact a negative effect of Monsanto on farmers? When genetic engineering is mentioned, many people have immediate negative reactions. However, we must address the point of view that holds that genetic engineering actually improves the nutrition, facilitates efficient production and helps the Third World countries to develop. Today, genetic engineering is advantageous in various fields such as medicine, manufacturing, and agriculture. While it is surrounded by controversy, many scientific studies have found various results and the evidence of beneficial effect of Monsanto on farmers worldwide.

The first time media reported on the issue of farmer suicides in India was in 1995.<sup>1</sup> Several years later, anti-GM activists started making claims about the harmful effect of GM seeds on farmers. Vandana Shiva, an Indian physicist turned environmental activist, blamed transgenic seeds for the suicides more than 200,000 Indian farmers over the past decade.<sup>2</sup> However, it was in 2002, seven years after the Indian farmer suicide report, that Monsanto began selling GM cotton seeds in India.<sup>3</sup> In addition, the dispute between Monsanto and farmers in the United States has sometimes raised lawsuits, with 145 court cases filed since 1997. The issue is that Monsanto imposes a patent agreement on farmers, requiring them to purchase new seed varieties for every season, but some farmers do not

honor this agreement.<sup>4</sup> However, Monsanto has to be paid for its inventions and its continuous research and development. The research is done for its customers, who are farmers.

## Genetic Engineering

Technically, genetic engineering modifies the genetic structure of cells and moves genes across species boundaries to produce new organisms. These techniques involve the highly sophisticated manipulation of genetic material and other biologically important chemicals. Because genes determine an organism's traits, moving genes from one organism to another transfers those traits. Genetic engineering can create new combinations of genes, in other words, new combinations of traits. This technology is impossible in nature and, therefore, such an artificial technology is fundamentally different from traditional plant and animal breeding. While natural reproductive mechanisms limit the number of new combinations, genetic engineering does not have restrictions, and it is possible to produce purple cows if purple genes are available in nature, such as from a sea urchin or an iris. Therefore, genetic engineering enables scientists to create gene combinations that would never be found in nature.<sup>5</sup>

Another point to note is that the controversy over the link between the possible risk of cancer and GM food remains to be addressed, and researchers at France's University of Caen uncovered that rats fed on Monsanto's NK603 maize and/or exposed to its glyphosate were more likely to grow tumors and multiple bodily deformities. However, the European Food Safety Authority (EFSA) found that the researchers' study has "insufficient scientific quality to be considered as valid for risk assessment."<sup>6</sup> Despite many critics and researchers attempting to reveal the harm of genetic engineering, including the blame on Monsanto's harm to farmers, not all studies are accountable. Such reports embed people with fears and negative thoughts on genetic engineering, but the truth may be different.

## Agriculture and GM Crops

Genetically engineered crops first came on the market in 1996 as modified to tolerate the herbicide glyphosate (HT crops) or to produce their own insecticide (Bt crops).<sup>7</sup> In the agriculture industry, genetically modified seeds are widely used for crops such as cotton, maize, soybeans, and rice. According to the International Service for the Acquisition of Agri-biotech Applications (ISAAA), there are more than 14 million farmers in 25 countries cultivating GM crops.<sup>8</sup> And the production is significantly increasing as two billion acres of transgenic crops were planted in the same year. Monsanto introduced a new biotech crop, glyphosate-resistant sugar beets, and variety of GM crops continues to be adopted in China and India. Even in Europe, which is strongly against GMOs, 7 of 27 countries cultivated the only transgenic crop approved there. Also, the area planted with transgenic crops rose by 10 percent during the year, and the estimated value is about \$750 million.<sup>9</sup> Small farmers can substantially benefit since the gain from GM seeds is usually much more than the cost of the seeds. Also, Bt (*Bacillus thuringiensis*) cotton has become a major GM seed in India because it disrupts the life cycle of the bollworm and thereby highly increases the productivity.<sup>10</sup> Today, India is one of the largest manufacturers of the apparel and textile industry,

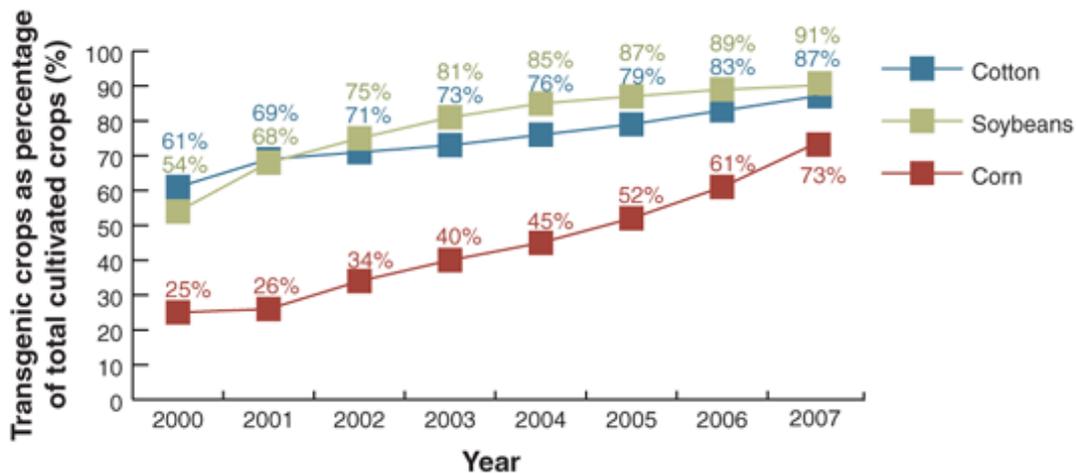
and Bt cotton has largely contributed on the country’s significant economic development in the last decade.

Theoretically, it would require less pesticide than conventional crops to use such GM seeds. But a recent study found that, although GE crops worked this way in the first few years, farmers eventually increased the use of pesticide due to the emergence of new weeds.<sup>11</sup> Small farmers can substantially benefit since the gain from GM seeds is usually much more than the cost of the seeds. Also, Bt Cotton has become a major GM seed in India because disrupting bollworm insects highly increases the productivity. (The Pros and Cons of Genetically Modified Seeds)

Furthermore, research done by the Swiss National Research Programme investigated the environmental, economic, and social impacts of GM crops. According to Federal Ministry of Education and Research, the aim of this program was to investigate the potential of genetically engineering plants for Swiss agriculture; only a few people buy GM products and only a few farmers grow today. In this European country with a large anti-GM group, the industry’s economic benefits are very small and the coexistence costs too high. However, the researchers expect an increase of acceptance of GM crops when new GM crops with such herbicide and disease resistance traits become commercially available. Notably, the report asserts, “risk assessments should be based on the specific characteristics of the plant variety, rather than on the breeding method used to produce it. The environmental, social and economic impacts of a GM plant can only be determined through a direct comparison with conventionally bred plants.”<sup>12</sup>

Genetically modified foods are a very effective solution to one of the most concerning issues—world hunger—and they enable farmers in Third World countries to grow more crops more quickly and for less cost. In addition, there is a correlation with global warming since climate change is a threat to food supply and limits growing crops.<sup>13</sup> But subtle positive effects are that the use of pesticides can keep the plants healthy and prevent damage to the environment, and less fertilizer can be used, and thereby keeping farming cost low.

The vast majority of corn, soybeans and cotton planted in the United States are transgenic varieties.



(Nature Biotechnology)  
Figure 1.

## Monsanto

Monsanto is a leading company of genetically engineered seeds. This public company's headquarters are in St. Louis, Missouri, and it was founded in 1901, more than 100 years ago. The company holds 404 operating facilities in 66 countries, and there are 20,767 employees worldwide. In 2011, its net income was \$1.6 trillion and its net sales were \$11.8 trillion, which are a 13 percent and 47 percent increase from 2010, respectively. Their mission is to produce more, conserve more, and improve lives, and they are committed to sustainable agriculture. The company states that it is their purpose to work alongside farmers to grow as much food as they have in the past by selling seeds with traits developed through biotechnology, and crop protection chemicals. It was ranked in the top 10 of the World's Most Innovative Companies by *Forbes* magazine, as well as honored with various other awards.

The company addresses its corporate social responsibility activities by fighting hunger, supporting human rights and education, and so on. In terms of commitment to sustainable agriculture, it states, "Looking forward, we are exploring opportunities to support continuous improvement in crop yields through our efforts in breeding, agronomics, and biotechnology. We are also exploring better health and nutrition through our vegetable business."<sup>14</sup> The report also notes that, as the population continues to increase, so does the demand for valuable resources; therefore, Monsanto works on providing better seeds, protecting natural resources, fighting hunger, improving nutrition, and providing economic benefits to everyone involved.<sup>15</sup> Based on the data compiled by ISAAA and PG Economics, Monsanto is one of the contributors to having 2.1 million resource-poor farmers adopting biotech crops for the first time in the 2008–2010 seasons, and these farmers achieved US\$3 billion in additional net income thanks to this technology adoption. In addition, there were three to seven times the level of economic benefits across rural communities.<sup>16</sup>

## GM Seeds and Farmer Suicide in India

Many Indian farmers commit suicide by drinking fatal amount of pesticides. After the media report of tragic phenomenon of Indian farmers' suicides in 1995, the story began when anti-GM activists like Vandana Shiva blamed GM crop for this phenomenon. The media has put the blame mostly on corporate agriculture and Monsanto, and outrageous GM seed prices made small farmers suffer from debts.<sup>17</sup> Shiva says, "On paper, genetic engineering is made to look very good, but on the ground it's a tragedy. . . . Otherwise, we wouldn't have farmer suicides concentrated in the Bt cotton belt." The fact is that 200,000 Indian farmers have committed suicide over the past decade. However, since the arrival of Bt seeds in 2002, the price of cotton seeds raised from 7 to 1,700 rupees a bag. So Monsanto, the world's largest seed company, disagrees as the suicide trend began well before its cotton seeds were introduced to the market. Shiva also argues that because of the self-regulatory system of labeling in India, Monsanto sells GM seeds on fraudulent claims of 1,500 kilograms a year when farmers harvest 300 to 400 kilograms a year on average. Additionally, although Bt cotton was promoted as resistant to the bollworm, it actually created new pests, and farmers were using 13 times more pesticides than they were using prior to introduction of Bt cotton. "Bio-piracy . . . where you take stuff from the Third World, claim it to be an invention of a US company, and then sell it back for a profit, and forbid the original contributors from having free access," and Multinational Corporations are taking control of

the Indian market.<sup>18</sup> Moreover, a 2011 report published by the Center for Human Rights and Global Justice (CHRGJ) claimed the sale of expensive genetically modified seeds to rural Indian farmers was a key factor contributing to the growing suicide crisis.<sup>19</sup>

Monsanto and other producers of GM crops insist that their crops require fewer chemicals, as plants are engineered to prevent crop pests. Nevertheless, the study done by Washington State University Professor Charles Benbrook found that the usage of herbicides in GM crops—cotton, soybeans, and maize—has increased over the last decade in the United States. His study found that the herbicide-tolerant crops did not have problems but recently, so-called superweeds have become resistant to glyphosate weed killer, Roundup, produced by Monsanto. Therefore, farmers started to use increasing amount of Roundup and some more additional herbicides to fend off the tough weeds. Benbrook adds that many farmers reliant on GM crops are raising the volume of herbicide needed each year by about twenty-five percent. Estimations are that production of herbicides was increased by 239 million kilograms between 1996 and 2011 for the use of GM crops. This study undermined the claims of GM crop producers that fewer chemicals are needed in production.<sup>20</sup>

Nevertheless, according to Raju Das, a developmental studies professor at York University, “the issue of farmer suicides is not just entirely a farmer issue, or rural issue, or a village issue—it is a much more broader political-economic problem”<sup>21</sup> In 2008, the study focusing on this issue was reported by the International Food Policy Research Institute (IFPRI). The report also writes, “Most reports tend to reflect the polarized views on Bt cotton itself, without providing a comprehensive understanding of the actual situation that led to the observed resurgence of farmer suicides in India and therefore the potential role (or absence thereof) of Bt cotton in this picture.”<sup>22</sup>

In the data found, it is evident that the high number of suicides occurred much before the introduction of Bt cotton<sup>23</sup> and the suicides appear to have slowed down since the introduction of Bt cotton in 2002.<sup>24</sup> Moreover, farmer suicides have been reported in developed countries such as Australia, the United States, and Great Britain and involve diverse crops, most of which are not Bt cotton. The report says:

It is not only inaccurate but simply wrong to blame the use of Bt cotton as the primary cause of farmer suicides in India...The reality is much more complex, when one considers the conditions surrounding the use of Bt cotton, the resulting effects, and the socioeconomic constraints that have likely pushed farmers in particular regions to commit suicide during some years. There is no single explanation or even consistent explanations across reported cases. However, one leading factor seems to connect several causes particularly related to agriculture: the heavy indebtedness of farm households, particularly in the suicide-prone states.<sup>25</sup>

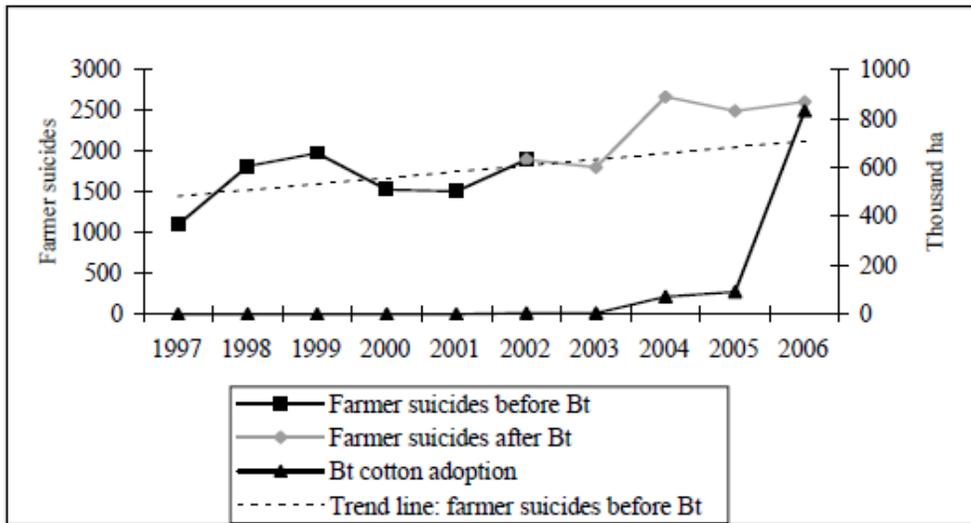
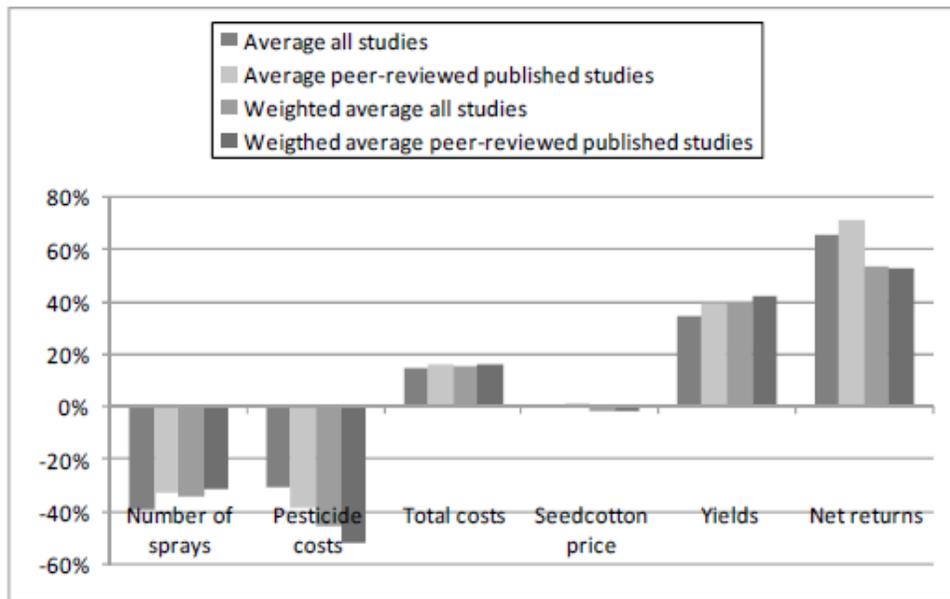


Figure 2. Farmer suicides and Bt cotton area in Andhra Pradesh, 1997-2006



(Gruere, Mehta-Bhatt, Sengupta, 19)

Figure 3. Average economic effects of Bt cotton compared to non-Bt cotton in India, 2002/03-2004/05

## Patent Law and Farmer Lawsuits

Monsanto enforces patents on the seeds they researched and developed, and gives requirements and guidelines to farmers for use of their products. But some farmers are not happy about this agreement.<sup>26</sup> The farmer’s position is understandable for the reasons that seeds naturally grow and increase in amount, but the seeds are the products of the company and business has to be paid for its product to survive. Nonetheless, patent law gives companies a right to exclude others from using the invention that sometimes requires

a high cost for the research and development, and the rights encourage further invention and promote development. According to Monsanto, about 145 lawsuits were filed between 1997 and 2000 in the United States, an average of approximately 11 per year for 13 years among more than 250,000 American farmers using Monsanto seeds. The company invests more than \$2.6 million per day in research and development and claims that it would not be possible without the protection of the patent. Furthermore, Monsanto says it would be unfair to the farmers that honor their agreements, and most of the cases are filed from the reports from one farmer seeing another farmer's infringement, saving patented seeds.<sup>27</sup> In a recent Supreme Court case, a 75-year-old farmer, Mr. Bowman, got into trouble when he planted a second crop of soybeans in the same year. What he wanted was a cheap source of seed, and in 1999, he bought some ordinary soybeans from a small grain elevator where local farmers drop off their harvest. He was aware of the probability that these beans had Monsanto's Roundup Ready gene in them, but he also thought that Monsanto was not controlling these soybeans anymore, and got a different varieties of seeds, which hardly pose a threat to Monsanto's seed business.<sup>28</sup> Another defense is the concept that once a patented object is sold, the patent holder loses control over how it is used, and he was merely using the seed from the elevator and was not making seeds, as the nature of a seed is that it creates more copies. The previous courts awarded the company more than \$84,000 in 2007, and the Court of Appeals for the Federal Circuit said that Bowman had created newly infringing articles.<sup>29</sup> In May 2013, the case came to an end with the decision ordering Bowman to pay Monsanto \$84,000 for infringing on the company's patent. The justices ruled that "patent exhaustion does not permit a farmer to reproduce patented seeds through planting and harvesting without the patent holder's permission."<sup>30</sup> Accordingly, the public has been critical of this giant company for making a poor 75-year-old farmer pay \$84,000. As a human being, people may feel sympathy for this man. However, any person who abuses patent laws will be charged a penalty, and this consequence is genuinely a rational decision. Regrettably, Bowman made a mistake.

## Analysis

It would be difficult to conclude that the farmer suicide phenomenon in India is due to GM seeds, not only because of all the data shown in the study done by the International Food Policy Research Institute, but also because of the overall conditions in India, such as the culture, economy, and political system. Although the country has achieved a higher standard of living from its economic development, many people still remain poor and live in difficult conditions with a lack of infrastructure. Also, some suicidal farmers drink pesticide to kill themselves, but this has nothing to do with Monsanto and GM seeds. They have access to pesticide only because they are farmers, not because they are specifically GM crop farmers. Moreover, Monsanto sets seed prices that correspond with the market. Thus, critics should not blame Monsanto for the issue of the small percentage of farmers who have difficulty paying the company for the seeds. The reason for the suicides could be personal problems or economic problems, but perhaps Monsanto could adjust their prices if an increasing number of people suffer.

In regard to lawsuits against farmers, Monsanto could give better and clearer guidance about its patent rights, for example through the media, to increase the farmers' understanding. About eleven lawsuits against farmers per year is not a large number. This is

only 0.058 percent of the total number of Monsanto's customer farmers. Compared to Walmart, which has 500,000 lawsuits per year for issues such as wage law violations, inadequate health care, exploitation of workers, and the retailer's antiunion stance, Monsanto's suits seem small in number.<sup>31</sup> I think companies have to care for the customers, which in Monsanto's case are the farmers, and be good to the customers so that they can continue running the business most of the time. It is unlikely that the company keeps enforcing its agribusiness which has negative effects, if there are any. For this reason, however, it will be essential for Monsanto to invent a new seed that is effective against superweeds so that farmers can reduce the amount of pesticides, since the use of pesticide on these weeds is not as effective as it is on conventional weeds.

## Conclusion

Monsanto and genetic engineering have been the targets of numerous criticisms, but they have more benefits than some opponents may recognize. It would cause significant damage to people around the world, including farmers and people who are fed by GM crops, if biotechnology and Monsanto were denied, and the company stopped its incredible and hopeful research and inventions for the future. GM crops have better nutrition and help farmers to a great extent because they are economical and efficient to produce. Moreover, it is a solution to the food supply shortage caused by climate change and population increase. The facts about Monsanto involvement in farmer suicides and patent lawsuits against farmers seem overexaggerated, and a lot of incorrect information has spread to the public. However, any possible risks or issues should definitely be monitored by Monsanto because it is their responsibility to care for customers. However, these criticisms and controversies have probably been helpful to alert the company to constantly improve the technology and products. Investments and funds are necessary for further research, and logically Monsanto deserves to receive payment from farmers for the products, research, and development, which ultimately benefit the farmers.

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## Appendix D

# To What Extent Are Small-Scale Coffee Producers in Latin America the Primary Beneficiaries of Fair Trade?

by Larissa Zemke

*[These sample student papers are provided only as examples of successful student research: they are not meant to prescribe any standard paper format and the content of each paper represents purely the author's view.]*

This paper focuses on the socioeconomic impacts of fair trade on small-scale coffee producers in Latin America. The fair trade mechanism has shown some benefits to small-scale farmers on a micro-level and has been gaining firm grounds as a socially responsible initiative. This paper explores the extent to which small producers and cooperatives are primary beneficiaries of fair trade. Nevertheless, a critical approach to the fair trade mechanism and its implementation is also necessary, in order to evaluate and improve its effectiveness. The paper sets off by discussing the origin of the concept, goals, and positive impacts of fair trade. Subsequently, a discussion on the concept's weaknesses is obtained through an assessment of the socioeconomic impacts of sustainable livelihoods, poverty alleviation, capacity building, and empowerment on a local level in Latin America. The impacts analyzed focus on the following respective areas: human, social, financial, and physical capital of the small-holder coffee producers through assessing various case studies addressing the impacts of fair trade coffee in Latin America. I conclude with an analysis of the one-way link that fair trade constructs between the consumers in developed countries and producers in developing nations, through societal marketing, which promotes ethical consumerism.

## Introduction

Fair Trade<sup>1</sup> presents an alternative to traditional forms of international aid,<sup>2</sup> because the livelihoods of small-scale producers and communities, as well as the economic growth

of developing nations, are supported through trade, as they receive a “fair” price from developing nations for the goods they produce. The founders of the fair trade concept, Nico Roozen and Frans van der Hoff, were inspired by the statement of a Mexican coffee farmer: “We are not beggars, we only need a fair price for our coffee...We want to put an end to the centuries of exploitation that we have experienced...and [gain] the (market) power to change [our] destiny.”<sup>3</sup> This exploitation may be explained by the dependency theory, which states that the terms of trade between *center*, developed nations, and the *periphery*, developing nations, is unbalanced and unfair.<sup>4</sup> Immanuel Wallerstein’s center-periphery model<sup>5</sup>, may be applied to analyze this relationship, as the underdeveloped Latin American coffee smallholders, the *periphery*, are exporting the raw material of coffee to the developed, industrialized world, the *core*, and, the *market* acts as the means by which the *core* exploits the *periphery*.<sup>6</sup> Fair trade aims to mitigate this unfair power relationship through its sustainable initiatives.

In 1981, the Dutch foreign-aid activists founded the world’s first fair trade cooperative, the Union of Indigenous Communities in the Isthmus Region (UCIRI), in the Oaxaca region of Mexico, with the objective of fighting the root causes of persistent poverty among local coffee farmers. They adopted policies aimed at readjusting low coffee prices and reducing farmers’ heavy debts<sup>7</sup> in order to render them more competitive on the world market. The founders went on to establish the Max Havelaar label, which successfully elevated and stabilized coffee prices in Oaxaca, Mexico, by eliminating the middleman<sup>8</sup> and shortening the coffee production value chain. The small-scale farmers were able to receive a higher price: \$0.95 per kg of coffee instead of the previous rate of \$0.25.<sup>9</sup> Certification programs were founded in order to ensure that ideals and standards of fair Trade are implemented, which became joined under the umbrella group known as the Fair Trade Labeling Organizations International (FLO).<sup>10</sup>

The stakeholders in the fair trade coffee network include producer groups in developing nations, umbrella organizations, buyers in developed nations, roasters, retailers, and consumers.<sup>11</sup> The intended primary beneficiaries of the fair trade concept are small-scale producers in developing nations. The main issue that these producers face is the downward trend of coffee prices in the global market since there is an excess supply over demand for coffee. During the 1900s, the world’s coffee production has increased at an average annual rate of 3.6 percent, whereas demand has merely increased by 1.3 percent per year.<sup>12</sup> As a result, coffee smallholders have been unable to cover their production costs and improve their livelihoods.

FLO states that fair trade standards are designed to support the sustainable development of small-scale producers and agricultural workers in the poorest countries in the world.<sup>13</sup> Fair trade’s key objectives include ensuring that producers receive prices that cover their average costs of sustainable production; providing a fair trade premium<sup>14</sup>; investing in social, economic, and environmental development projects; enabling prefinancing for producers; facilitating long-term trading relationships; enhancing producer power over trading process; and setting clear minimum and progressive criteria to ensure that conditions of the production and trade of all fair trade certified products are socially, economically *fair* and environmentally responsible.<sup>15</sup>

The following section discusses the extent to which fair trade standards are effectively implemented in improving the lives of small-scale coffee producers in Latin America—the core—which supplies 78 percent of the world’s Fair Trade-certified coffee to consumers in developed nations—the periphery.<sup>16</sup>

## Smallholders and Fair Trade

In order to fully evaluate the socioeconomic impacts of fair trade coffee on small-scale producers, this section uses an “asset analysis” based on four assets, or types of capital<sup>17</sup>: social, human, financial, and physical capital.<sup>18</sup>

### Human Capital

The analysis on human capital focuses on capacity building, which enhances the small-scale coffee producers’ understanding, skills, and access to information, knowledge, and technical training to enable them to perform effectively to sustain and improve their livelihoods.<sup>19</sup>

The coffee cooperative union of Jinotega, Nicaragua, called Soppexcca, provides technical support to small-scale coffee farmers to achieve capacity building through workshops and direct personal assistance, which provides an opportunity for them to both adequately access the fair trade market and obtain a higher price for their coffee, and ensures that their coffee meets required quality standards.<sup>20</sup> Furthermore, the case study has shown that capacity building of the Jinotega smallholders resulted in an increase of their competitiveness on the fair trade market.

The development of sustainable and improved livelihoods also includes improvement in human capital, related to gender equity and the role of rural women in fair trade activities.<sup>21</sup> Improvements have been shown through the formation of Soppexcca’s *Café de las Mujeres* (“Women’s Coffee”), which has been encouraging an increase in women’s participation in fair trade coffee production and generating household income.

However, a case study, comparing TransFair USA (TF)<sup>22</sup> cooperative participants and non-participating farmers in three Latin American countries on the socioeconomic indicators of well-being, education and health outcomes,<sup>23</sup> shows varied results. The study’s path analysis does conclude that TF participation tends to have a positive influence on current participation in primary education.<sup>24</sup> It is difficult to assess the extent to which fair trade initiatives positively impact the human capital of Latin American smallholders since numerous factors’ effects must be considered, such individual households’ priorities and cultural traditions. Nevertheless, capacity building is crucial to encouraging sustainable development, as it is necessary for smallholders, members of cooperatives, to be able to operate and make unified decisions regarding how to invest their fair trade premium most efficiently. Capacity building fosters a fairer balance in power between the fair trade coffee roasters and retailers in developing nations—the periphery—and the smallholders in Latin America—the core.

### Social Capital

The evaluation of changes in the social capital of small-scale coffee farmers in Latin America examines the process of empowerment, the social recreation, levels of migration, and participation and decision making within the cooperative as well as within the community.<sup>25</sup> Soppexcca’s organizational objectives succeeded in opening up spaces for the empowerment of their members, encouraging Jinotega smallholders to take part in events and inducing them to feel that they are part of a system that belongs to them, and establishing closer relations with the general manager of the organization as well as between buyers and cooperative members.<sup>26</sup> The Soppexcca cooperative union has shown

an increase in the engagement of the smallholders in the cooperative's governance and decision-making, as it "consists of a general assembly and a board of directors made up of [small-scale] producer members."<sup>27</sup> Jinotega's small-scale coffee producers "became part of a fair trade system, not only in events organized by their cooperative, but also at the community level."<sup>28</sup> Their interactions with development included involvement in "health and peace committees, sports activities, parents' committees at school; and with national or international development NGOs operating in their regions."<sup>29</sup> Fair trade's empowerment objective stresses the importance of allowing smallholders to experience unity and have their voice count in order to encourage production efficiency and sustainable livelihoods. However, the efficiency of self-governance of smallholders is debatable. The president of Soppexcca has alluded to the problem of inefficiency of many cooperatives due to, "high levels of illiteracy...low educational levels, and the lack of knowledge about how to manage legal, commercial, organizational, and fair trade requirements,"<sup>30</sup> amongst the members and the board representatives. Furthermore, as a result of a lack of education, there is "a lack of knowledge about the international coffee market [and fair trade] and the low capacity to interpret its trend,"<sup>31</sup> which inevitably leads to weak international negotiation power in the supply chain and reduces efficiency of small-scale coffee producers.

A case study on the Guatemalan Loma Linda Community investigates the local dynamics of the social vision of fair trade<sup>32</sup> and addresses the significance of solidarity in contributing to sustainable livelihoods of smallholder coffee producers. The cooperative was founded in 1977 by a Spanish Catholic priest, Father Celestino, emphasizing "the significance of individual rights to livelihood and the importance of employment and access to land,"<sup>33</sup> which challenged the power legacy of local landlords since colonial times. Furthermore, it banned middlemen and prevented the sale of land and individual commercialization of products, which permitted producers to legitimize themselves as the organized embodiment of solidarity relations.<sup>34</sup> In the 1980s, the Loma Linda Community joined the Federation of Coffee Cooperatives of Guatemala (FEDECOCAGUA), which promoted fair trade practices and economies of scale. However, discontent amongst smallholders soon arose due to lack of circulation of information and transparency, and queries on how the fair trade premium funds were distributed to local cooperatives, as they did not seem to directly reach to local producers, resulting in discontent and political resentment against FEDECOCAGUA.<sup>35</sup> The study reveals the problems that fair trade faces in ensuring that the fair trade premium trickles down to reach the smallholders and improve their livelihoods, and how the, "paths to fair trade generate different texts<sup>36</sup> in a context in which people's life worlds become fractured to embody a diversity of solidarity and fair trade categories."<sup>37</sup>

Moreover, a case study conducted in rural region of Oaxaca, Mexico, in 2004, questions the sustainability of the fair trade–organic coffee mechanism in regard to the migration opportunities.<sup>38</sup> The study explains that the increased trend in migration of labor in the Cabeza del Rio community in search of greater opportunities abroad has caused "wages [to double] in five years...[while] the fixed price of fair trade coffee had not risen in over ten years."<sup>39</sup> This raises the question of how efficient the FLO and Fair Trade certifiers are in investigating and ensuring that the fair trade coffee price and premium amount paid to smallholders adequately meets the minimum living standards of smallholders and provides poverty alleviation.

## Financial Capital

An examination of the financial capital<sup>40</sup> reveals the contribution fair trade has had on raising the living standards of small-scale coffee producers in Latin America.<sup>41</sup> In theory, fair trade provides a stable coffee price and a premium to small-scale producers to effectuate poverty alleviation. Additionally, it encourages local smallholders to compete in production of quality coffee. However, it is important to investigate these claims more critically and question the extent to which the fair trade premium (USD\$0.010)<sup>42</sup> benefits and alleviates small-scale producers from poverty.

A study focusing on smallholders in Jinotega, Nicaragua, reveals that one disadvantage of trading with fair trade organizations is that they use the “open account payment” method, which does not offer immediate payment for each sack of coffee delivered.<sup>43</sup> This has shown to create the risk that some producers will breach contracts, especially when the international price of coffee is similar to the fair trade price agreed upon when the contract was signed, in order to receive their payment immediately.<sup>44</sup> This behavior also causes trade relationships between the smallholders and their cooperatives and the international buyers to suffer, and weakens the international negotiation power of the coffee smallholders.

Furthermore, the extent to which the fair trade price paid to smallholders is fair is debatable. Even though the smallholders in Jinotega, Nicaragua, are able to attain a higher price—“4.5 times [higher] than before they joined the fair trade system”<sup>45</sup>—for their coffee through Fair Trade certification, are they the primary beneficiary of the elevated fair trade price?

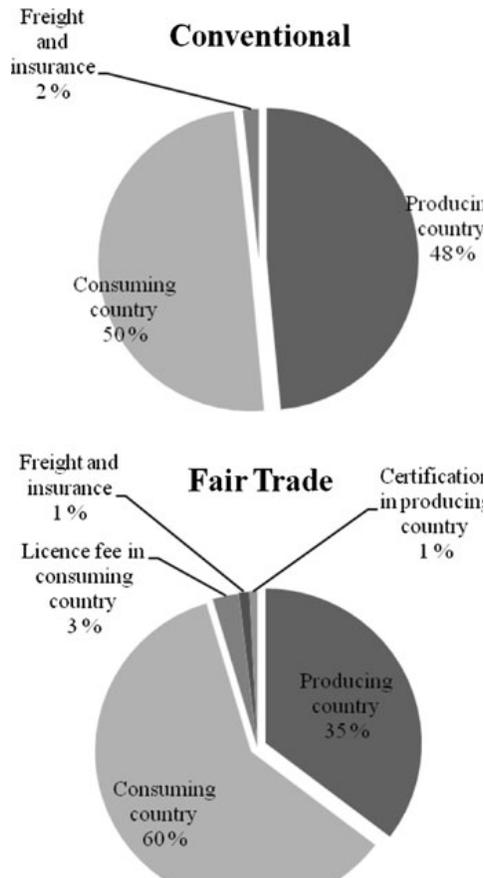


Table 1<sup>46</sup>

TABLE I

Shares of producing and consuming country of retail prices of coffee per package of coffee (0.5 kg of roasted coffee) in euros and as a percentage of retail prices in 2006.

	Conventional coffee	Fair Trade Coffee
Average retail price paid by consumers	2.40	3.71
Freight & Insurance	0.04 (2%)	0.04 (1%)
Fair Trade certification in producing countries	--	0.03 (1%)
Fair Trade license fee in Finland	--	0.10 (3%)
Share of producing country	1.15 (48%)	1.30 (35%)
Share of consuming country	1.21 (50%)	2.24 (60%)

Figure 1<sup>47</sup>

The following study investigates the fair trade coffee trade between Nicaraguan smallholders and Finnish consumers, by questioning how efficient fair trade is in redistributing wealth from consuming countries to producing ones.<sup>48</sup> This alludes to the coffee paradox theory that argues that the global coffee business is creating wealth in the consuming countries—the core—while smallholder farmers and laborers in developing nations—the periphery—are exploited and remain in poverty.<sup>49</sup> It is questionable whether fair trade mainly empowers roasters and retailers<sup>50</sup> rather than small-scale coffee producers. The study assesses what percentage of the final retail price paid by consumers in the developing nation, in this case Finland, actually goes to the small-scale coffee producers in Nicaragua. The Finnish customs statistics estimate that “the average price paid for all green coffee imported to Finland in 2006 [was €1.95 per kilogram and]...estimates a transportation and insurance cost of €0.07 per kilogram of green coffee.”<sup>51</sup> Additionally, the study estimates that approximately 1 percent of the retail price paid by Finnish consumers goes to international coffee trade stakeholders: export companies or trading houses. Table 1 and Figure 1 provide evidence that a higher portion, 60 percent, of the final retail price for fair trade coffee goes to consumer country than the producer country, which receives merely 35 percent. On the other hand, the purchase of conventional coffee resulted in 50 percent of the retail price going to the consumer country and 48 percent going to the producer country. The study explains that retailers’ reason for taking very low margins from their conventional coffee sales is to attract customers.<sup>52</sup> The Finnish retailers or roasters charged significantly higher margins for fair trade coffee than for conventional coffee, and thus a greater portion of the premiums paid by fair trade consumers, the ethical donations, remains in Finland, the consuming nation, rather than being transferred to the Nicaraguan coffee smallholders, as fair trade initiatives advocate.<sup>53</sup> As a result, it may be concluded that fair trade is inefficient in redistributing the wealth from the developed consuming nations—the periphery—to the developing nations—the core—as a greater portion of the fair trade retail price remains in the consuming nation. It is arguable to what extent this claim is valid, as the study does not mention whether the difference in purchasing power in Nicaragua and Finland is considered.

Furthermore, it is interesting to note that smallholder members of coffee cooperatives only sell a part of their coffee supply to fair trade markets, since the volatile coffee price may be periodically higher in mainstream markets than in cooperatives.<sup>54</sup> This was the case during the harvest season of 2005–2006 in Nicaragua during which the Exportadora Atlantic, SA, paid an average of USD\$0.83 per pound of coffee while the Fair Trade certi-

fied cooperative merely paid an average of USD\$0.06 more per pound of coffee. Yet, there were times when the export company offered a higher price.<sup>55</sup> It must also be taken into account that Fair Trade certified cooperatives also deduct a portion from the price sold to cover operational certification costs, which were 5.5 cents per pound of exported coffee in 2005–2006<sup>56</sup> and thus don't receive full the minimum fair trade price for all their produced coffee.

Moreover, the French critic Christian Jacquiau's controversial book, *Les coulisses du commerce équitable*, criticizes the effectiveness of fair trade and the Max Havelaar Foundation, questioning "how much of that money ends up in the pockets of farmers in developing countries."<sup>57</sup> Jacquiau states, "There are 54 inspectors around the world, working on a part-time freelance basis to check and control a million producers. These checks do not take place on the ground but in offices, hotel rooms, or even by fax."<sup>58</sup> He refutes Max Havelaar's claim that, "€50 million (SFr79 million) has been distributed among small farmers... [while] the organization claims to work with a million producers."<sup>59</sup> He states, "Here the dream falls apart. [Producers] therefore each receive just €50 a year—or €4 a month."<sup>60</sup> Jacquiau's claims have raised debates as to whether fair trade's higher prices and standards are effective in alleviating the poverty of the small-scale coffee producers and encouraging sustainable livelihoods.

## Physical Capital

Finally, the improvement of Latin American small-scale coffee producers' livelihood is further assessed by addressing their physical capital. Fair trade and other ethical certifications aim to facilitate exchange and protect health and safety<sup>61</sup> of workers; however, "developing countries might suffer from structural bottlenecks,"<sup>62</sup> to comply with these standards. These bottlenecks often involve lack of adequate infrastructure, processing technologies, and national regulatory bodies.<sup>63</sup>

The case study of Jinotega's smallholders and community demonstrates weaknesses in efficiently investing the premium funds to enhance the local infrastructure. Premium funds have shown to be used "for disjointed, ad hoc projects [that] may not have optimized the potential benefit of such funds."<sup>64</sup> Soppexcca's social project coordinator explains that this is because funds collected from the fair trade social premium are insufficient to consider larger community development work such as improving road infrastructure and water and electricity services.<sup>65</sup> In addition to an insufficient amount of funding, there is also a limited or even a lack of government support.<sup>66</sup> The lack of adequate physical services such as communication and electricity in most rural communities in Jinotega, Nicaragua, makes it difficult for smallholders high in the mountains and Soppexcca to communicate, through the radio or paper leaflets sent by bus.<sup>67</sup> The existence of inefficient modes of communication hinders transparency and open communication between the cooperative administrations and the small-scale coffee producers in order to ensure efficiency of fair trade premium-financed projects.

From these case studies, it can be deduced that the fair trade premium is good concept; however, more thorough investigation by FLO is required to ensure that the amount of fair trade premium paid to smallholders is sufficient to finance projects to develop the physical capital and infrastructure of the communities.

## Smallholders and Consumers

Having analyzed the link between Latin American smallholder coffee producers and fair trade retailers and roasters in light of the dependency theory, this section examines the link that fair trade constructs between the Latin American small-scale coffee producers and the consumers in developing nations. The weaknesses of the implementation of fair trade initiatives revealed in research results have raised the question whether fair trade is merely a societal marketing<sup>68</sup> strategy that promotes ethical/green consumption.<sup>69</sup> Fair trade seems to create a mode of connectivity to strengthen producer–consumer relationships<sup>70</sup> by offering consumers an opportunity to donate to charity at a distance.<sup>71</sup>

It is debatable whether Alternative Trading Organizations such as FLO are successful in altering power relationships between producers and consumers or whether they are merely another profit-making business that promotes consumerism.<sup>72</sup> The case study conducted on the fair trade coffee trade between Finland and Nicaragua provides supporting evidence to the coffee paradox theory's claim that the global coffee business is creating wealth in the consuming countries—the core—while smallholder farmers and laborers in developing nations—the periphery—are exploited and remain in poverty.<sup>73</sup> The study demonstrates that a greater percentage of the final retail coffee prices actually goes to the consuming nation instead of the producer nation. The artificial bond created between consumers and the small-scale coffee producers through societal marketing's visuals gains the sympathy of consumers and makes them believe they are being socially responsible citizens by purchasing ethical products to support the less fortunate smallholder producers.

The coffee commodity is demystified, “as the hidden layers of information are peeled away to reveal the social and environmental conditions of the commodity's production,”<sup>74</sup> with visual presentations of smallholders and their farms. Yet one must question to what extent the information provided is accurate. The examination of fair trade product packaging has revealed that fair trade seems to apply deceptive packaging to attract consumers, as there are subtle differences in fair trade labeling among the different certifiers, Institute for Marketecology (IMO) and FLO, that define whether the product is *Fair Trade Lite*<sup>75</sup> certified or *Whole Product*<sup>76</sup> certified. The IMO claims to distinguish the Whole Product from a Fair Trade Lite product by placing the IMO Fair Trade label for a whole product on the front of the certified product's packaging while the Fair Trade Lite label must be placed on the back. Nevertheless, the FLO labels the Fair Trade Lite and Whole Products in exactly the same manner, which provides ambiguity of the extent a product is fair trade. The fair trade product packaging of the Organic Very Dark Chocolate (71% Cacao) bar by Equal Exchange<sup>77</sup> demonstrated inconsistencies in labeling, since the back side states: “By weight 100% Fair Trade content” and “Fair Trade and Social certified by IMO.” This does not adhere to IMO's certification guideline that a Whole Product label must be placed on the front of the product packaging. This raises the doubt about how efficient the Fair Trade certifiers are in ensuring that products are labeled correctly and how they collaborate with fair trade advocates such as Equal Exchange. Additionally, a subtle difference exists between fair trade membership, which certifies a company's commitment to fair trade principles, and Fair Trade certification, which is “certification...of the supply chains of specific products.”<sup>78</sup> The distinction is one that consumers tend to overlook.

Fair trade consumption may be regarded as a means of encouraging altruistic<sup>79</sup> behavior, as the consumer is manipulated to believe that through a simple purchase of a fair trade product he or she is donating for a greater cause, or “shopping for a better world.”<sup>80</sup> Fair

trade products have become “ethical luxury” goods<sup>81</sup> that allow consumers to reflect their political, socially responsible values in society. Consequentially, ethical/green consumption seems to act as justification for our overconsumption.

Furthermore, it is interesting to note that fair trade’s link between smallholder producers in Latin America and consumers in the developed nations merely provides a one-way flow of information. Small-scale farmers often lack the knowledge about the consumers and the coffee market. A survey interviewing cooperative members on their understanding of fair trade demonstrated that merely three of fifty-three surveyed members regarded fair trade as a means of building relationships with foreign consumers or coffee roasters, and that they primarily viewed fair trade as a market transaction paying slightly higher prices than conventional coffee markets.<sup>82</sup> Ultimately, the strongest, most beneficial link provided by fair trade seems to be the bond created between the small-scale producers and the roasters, as cooperative membership has shown to encourage capacity building and provide information about international coffee market trends. Capacity building plays a crucial role in enabling small-scale producers to invest their fair trade premiums efficiently to improve their livelihoods and international negotiating power.

## Conclusion

This paper has revealed the benefits and weaknesses of the fair trade concept as a tool of international development. The in-depth analysis of the link that fair trade constructs between roasters and retailers in consuming nations and small-scale coffee producers in Latin America is compared to the link formed between the consumers in developed nations and the smallholders, through fair trade societal marketing. The research conducted has shown that, although the fair trade mechanism is a valid method of promoting sustainable development in developing countries, its implementation in developing nations and marketing should be more thoroughly refined. This would enhance its efficiency in promoting sustainable development and enhancing consumer credibility and support. We can conclude that the most beneficial link, provided by the fair trade mechanism, is the direct relationship link it creates between the small-scale producers and the roasters. Cooperative membership has shown improvements in the capacity of the smallholder’s human capital, which is vital to achieving sustainable development and improving the international negotiation power of the smallholders on the coffee market.

## Endnotes

1. There is an important difference between the terms *free trade* and *fair trade*. Free trade is defined as the general openness to exchange goods and information between and among nations with few-to-no barriers-to-trade, whereas fair trade refers to exchanges, the terms of which meet the demands of justice. (Jeffrey Eisenberg, “Free Trade vs. Fair Trade,” *Global Envision*, October 26, 2005, <http://www.globalenvision.org/library/15/834>)
2. Ibid., 453.
3. Ibid.
4. Ibid.

5. Wallerstein's model applies "a zero-sum game analysis of international trade... This model characterized the world system as a set of mechanisms which redistributes resources from the *periphery* to the *core*." (Mine Aysen Doyran, "Latin America," 2010: 8).
6. Ibid.
7. Jan Van der Kaaj, "Building a Sustainable Profitable Business: Fair Trade Coffee (A)," *International Institute for Management Development*, 2003, 2.
8. The "middleman" refers to local traders who monopolized the market. (Taken from Van der Kaaj, "Building a Sustainable Profitable Business (A)," 3.
9. Ibid.
10. Eric J. Arnould, Alejandro Plastina, and Dwayne Ball, "Does Fair Trade Deliver on Its Core Value Proposition? Effects on Income, Educational Attainment, and Health in Three Countries," *Journal of Public Policy & Marketing*, 28, no. 2 (2009): 187.
11. Sarah Lyon, "Evaluating Fair Trade Consumption: Politics, Defetishization and Producer Participation," *International Journal of Consumer Studies*, 30, no. 5 (2006): 453.
12. Jan Van der Kaaj, "Building a Sustainable Profitable Business: Fair Trade Coffee (C)," *International Institute for Management Development*, 2003, 6
13. "Aims of Fairtrade Standards, 2010," *Fair Trade Labeling Organizations International*, December 5, 2010, <http://www.fairtrade.net/aims-of-fairtrade-standards.html>.
14. "A Fairtrade Premium of US\$ 20 cents per pound is added to the purchase price and is used by producer organizations for social and economic investments at the community and organizational level" ("Benefits of fair trade for producers," <http://www.fairtrade.net/coffee.html>).
15. Ibid.
16. Of the 78 percent of Latin American fair trade coffee, Mexico, Peru, Guatemala, Colombia, and Nicaragua are the largest exporters. (Joni Valkila, Perti Haparanta, and Nina Niemi, "Empowering Coffee Traders? The Coffee Value Chain from Nicaraguan Fair Trade Farmers to Finnish Consumers," *Journal of Business Ethics*, 97 (2010): 257).
17. "In [classical economics](#), capital is one of three [factors of production](#), the others being [land](#) and [labour](#). Goods with the following features are capital: It can be used in the production of other goods (this is what makes it a factor of production). It is human-made, in contrast to "land," which refers to naturally occurring resources such as geographical locations and minerals. It is not used up immediately in the process of production, unlike raw materials or intermediate goods." (<http://www.wordiq.com>), accessed 2010
18. Karla Utting, "Assessing the Impact of Fair Trade Coffee: Towards an Integrative Framework." *Journal of Business Ethics*, 86 (2009): 129. <http://dx.doi.org/10.1007/s10551-008-9761-9>
19. Ibid., 136.
20. Ibid.
21. Ibid.
22. TF is "a third-party certifier [who] audits the supply chains of specific products from point of origin to point-of-sale against fair trade criteria..." ("Reference Guide to Fair Trade Certifiers and Membership Organizations," *For a Better World: Issues & Challenges in Fair Trade*, Issue 1, Fall 2010.)
23. Eric J. Arnould, Alejandro Plastina, and Dwayne Ball, "Does Fair Trade Deliver on Its Core Value Proposition? Effects on Income, Educational Attainment, and Health in Three Countries," *Journal of Public Policy & Marketing*, 28, no. 2 (2009): 186.
24. Ibid., 198.

25. Utting, "Assessing the Impact," 136.
26. Ibid., 137.
27. Ibid., 140.
28. Ibid., 137.
29. Ibid., 137.
30. Ibid., 140.
31. Ibid.
32. Alberto Arce, "Living in Times of Solidarity Fair Trade and the Fractured Life Worlds of Guatemalan Coffee Farmers," *Journal of International Development*, 21(2009): 1033.
33. Ibid., 1033–34.
34. Ibid., 1034.
35. Ibid.
36. "The term *text* 'refers not to script alone, but any articulation of intelligibility, that is to say, of being' (Michael Schatzki, *Site of the Social: A Philosophical Account of the Constitution of Social Life and Change*, Penn State Press, 2010, p.61.) Text is used here to encompass narratives, discourses, and speech-acts as languages of performance, weaving distinctions from differences in peoples' diverse interpretations that constitute the fabric of solidarity and fair trade. This refers to the etymological root of the three meaning of the term 'text': generate, hit, and prepare, orienting the performance of networks and socially expressing different kinds of solidarity and the tasks involved in the coordination of fair trade and its involvement within social life." (Arce, "Living in Times of Solidarity," 1037, note 9.)
37. Ibid., 1036-7.
38. Jessica Lewis and David Runsten, "Is Fair Trade–Organic Coffee Sustainable in the Face of Migration? Evidence from an Oaxacan Community," *Globalizations*, 5, no. 2 (2008): 275.
39. Ibid., 287.
40. Examining "financial capital" refers to the "financial resources used to support livelihood and [examine] how fair trade producers' financial assets have changed over time." (Utting, "Assessing the Impact," 138).
41. Ibid., 138.
42. "Coffee: Benefits of Fair Trade for Producers," *Fair Trade Labeling Organization*, 2010, <http://www.fairtrade.net/coffee.html>.
43. In this method, "buyers pay upon delivery of supply of coffee, which may take up to...four months". Utting, "Assessing the Impact," 139.
44. Utting, "Assessing the Impact," 139.
45. Ibid.
46. Ibid., 266.
47. Joni Valkila, Perti Haparanta, and Nina Niemi, "Empowering Coffee Traders? The Coffee Value Chain from Nicaraguan Fair Trade Farmers to Finnish Consumers," *Journal of Business Ethics*, 97 (2010): 266.
48. Ibid., 257.
49. Ibid., 259.
50. Ibid., 257.

51. Ibid., 265.
52. Ibid., 266.
53. Ibid.
54. Ibid., 263.
55. Ibid.
56. Ibid., 264.
57. Ian Hamel, "Fair Trade Firm Accused of Foul Play," *Swiss Info*, August 3, 2006, <http://www.swissinfo.ch/eng/fair-trade-firm-accused-of-foul-play/5351232>
58. Ibid.
59. Ibid.
60. Ibid.
61. Joseph E. Stiglitz and Andrew Charlton, *Fair Trade for All* (New York: Oxford University Press Inc., 2005), 211.
62. Ibid., 211.
63. Ibid., 212.
64. Utting, "Assessing the Impact," 138.
65. Ibid.
66. Ibid.
67. Ibid.
68. "Societal marketing emphasizes several aspects of responsible marketing, beyond simply focusing on the process of maximizing consumer purchasing. Societal marketing extends ahead of the company's needs and seeks to meet the customer's needs and societal needs. This allows for more sustainable success rather than short-term accomplishment." (J. R. Ericson, "About Societal Marketing," *eHow*, [http://www.ehow.com/about\\_4571318\\_societal-marketing.html](http://www.ehow.com/about_4571318_societal-marketing.html).) Accessed 2010.
69. Ethical consumerism or green consumption is defined as the consumption trend that reflects an increased concern and feeling of responsibility for society, which has led to remarkable growth in the global market for environment-friendly products. (Nina Mazar and Chen-Bo Zhong, "Do Green Products Make Us Better People?" *Psychological Science*, 21, no. 4 (August 27, 2009): 494-498.)
70. Lyon, "Evaluating Fair Trade Consumption," 457.
71. Ibid.
72. Arnould, Plastina, and Ball, "Does Fair Trade Deliver?" 199.
73. Ibid., 259.
74. Lyon, "Evaluating Fair Trade Consumption," 457.
75. A *Fair Trade Lite* product is a fair trade product that contains 20% minimum fair trade content, "made with single/some Fair trade ingredients." (Nasser Abufahra, "How Do you Know It's Really Fair Trade?" *For a Better World: Issues & Challenges in Fair Trade*, 1(Fall 2009): 6.)
76. There is a "50% [fair trade] content minimum for 'whole product' [Fair Trade] certification..." (Abufahra, "How Do you Know?" 6).
77. "Equal Exchange is a for-profit Fairtrade worker-owned, cooperative headquartered in [West Bridgewater, Massachusetts](#). Equal Exchange distributes [organic](#), gourmet [coffee](#), [tea](#), [sugar](#), [cocoa](#),

and [chocolate](#) bars produced by [farmer cooperatives](#) in [Latin America](#), [Africa](#), and [Asia](#). Founded in 1986, it is the oldest and largest Fair Trade coffee company in the United States.” “Equal Exchange: About Our Co-Op” *Equal Exchange, Inc.* Accessed 2010. <http://www.equalexchange.coop>

78. “Reference Guide to Fair Trade Certifiers,” 4.

79. Altruism is a helping behavior that is motivated by a selfless concern for the welfare of another person. (<https://www.psychologytoday.com/basics/altruism>).

80. Ibid.

81. Valkila, Haparanta, and Niemi. “Empowering Coffee Traders?” 259.

82. Lyon, “Evaluating Fair Trade Consumption,” 458.