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Government Social Responsibility

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NEW YORK – Nowadays, most companies go to great lengths to showcase their environmental, social, and governance (ESG) advocacy alongside their earnings. According to the 2019 *Fortune* 500 CEO Survey, 44% of business leaders believe that their "company should actively seek to solve major social problems as part of [its] core business strategy." That is four points higher than the previous year, which suggests that a growing body of CEOs are rejecting the Nobel laureate economist Milton Friedman's famous dictum that, "there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits."
The public also sees a larger role for corporate leaders to play in serving the greater good. According to the 2019 Edelman Trust Barometer, a majority of those polled believe CEOs can effect positive change with respect to gender gaps, prejudice and discrimination, training for the future of work, the environment, data privacy, and other social issues.

Yet, despite the emerging consensus on corporate social responsibility (CSR), one can question how realistic it is to demand that businesses play a central role in addressing economic, social, and environmental challenges. After all, whether corporations' CSR efforts prove effective will largely depend on governments' management of the long-term headwinds currently buffeting the world economy.

For example, advances in artificial intelligence, automation, and other technologies are threatening to create a jobless underclass. Rising inequality (particularly within developed economies), rapid demographic shifts, and migration crises are already fueling populism and locking in political paralysis. Moreover, the world is confronting natural-resource scarcities that will only worsen as demand from a burgeoning global population increases. Owing to urbanization, the demand for potable water, arable land, energy, and minerals is projected to outstrip supply over the next decades. And that doesn't even account for the effects of climate change, which could undercut the living standards of billions of people around the world.

Rather than focusing solely on corporations, then, we should also be asking when governments will reassert their proper role as providers of public goods and stewards of social progress. Corporations alone cannot address problems of such size and global scale. But even if they could, firms can fail or be acquired, and thus cannot substitute for the more permanent machinery of states. Multinationals are constantly consolidating and de-merging, and there is no reason to assume that a particular corporation (or even an entire sector) will still exist a generation – or even ten years – from now. By contrast, it is reasonable to expect that most government institutions will, and that they should take advantage of their continuity to offer solutions to long-term problems.

Nonetheless, corporations are increasingly pursuing reforms (and opportunities) in areas that have traditionally been the purview of governments, including education, skills training, health care, infrastructure, and climate action. And while CSR is an old concept, the level of demand for businesses to fill gaps left by debt-laden and cash-strapped governments is something new.
For example, more and more companies have begun to provide mental-health services and support for their employees, owing to a mental-health crisis that could cost the world an estimated $16 trillion by 2030. But while such contributions are undoubtedly constructive, corporations' entry into this area raises questions about trust and accountability. After all, shouldn't it be the government's job to see to the wellbeing of all citizens?

Given the scale of the climate crisis and other sustainability challenges, governments cannot simply delegate these roles, and the power that goes with them, to corporations. They must provide leadership and oversight, so that socially minded initiatives are not exploited by vested interests. By allowing corporations to administer functions previously associated with the state, elected politicians risk surrendering their own influence over society and abdicating their duties.

This is not to suggest that corporations should retreat or be shut out of social and development issues. But until governments resume fulfilling their proper remit, it is hard to have a constructive debate about where and when corporate involvement is appropriate or desirable.

In the fight against climate change, corporations have much to offer, provided that governments offer the necessary guidance. This past June, Philip Hammond, Britain's chancellor of the exchequer, pointed out that a new government commitment to achieve net-zero carbon emissions by 2050 would cost at least £1 trillion ($1.25 trillion). That hefty bill implies that spending on schools, hospitals, and police may have to be curbed.

But at a time when many governments face unsustainable debts, corporations could provide the private capital needed to alleviate some of the fiscal burden. What is needed is not just higher corporate tax rates, but measures to entice businesses to devote considerable resources to improving society. Still, if corporate action is to be effective, government must lead the way.

It has become increasingly clear that a *laissez-faire* approach, in which companies are expected to shape societal progress, will no longer do. Governments must reclaim the mantle of safeguarding social wellbeing and economic progress.

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