Study and Understand Corporate Social Responsibility

Congress should study the confusion created in the market by mixing the welfare (wealth redistribution) elements of politics with the innovative (wealth creation) aspects of the market. The current financial crisis stems in large part from this entanglement of private profit goals with political guarantees and subsidies. Congress should examine the problems inherent in a "mixed economy" and seek ways to ensure that the relative responsibilities of all parties are clearly delineated, that the boundary lines between the private and the political spheres are understood and honored.

To this end, Congress should critically appraise corporate social responsibility (CSR). Too often, CSR blurs those distinctions, transforming wealth-creating firms into wealth-redistributing rent seekers. Congress should also reconsider government sponsored enterprises—nominally private firms which are given special privileges in return for advancing various welfare goals. An example of this are the financial guarantees granted to Freddie Mac and Fannie Mae in exchange for their extending home ownership opportunities to high credit-risk individuals. Fannie and Freddie were widely regarded as ideal examples of CSR.

The doctrine of CSR fails to recognize the ways in which the corporation already contributes to the values of our democracy. The corporation, as Economics Nobel Laureate Ronald Coase has noted, is one of the most successful institutional innovations in history, an extremely effective way of organizing large numbers of people and capital to produce a set of goods and services at affordable prices. Specialization is the key to its success. CSR, by imposing a whole array of "social" mandates on the firm, diverts focus from this wealth creation role to other non-profit relevant goals, and, thus, weakens the firm's ability to create wealth.

Moreover, CSR is non-democratic, shifting power from the many in the populace to the few in top corporate management. The wealth created by the corporation does not stay with the company; rather it flows out to shareholders, employees, customers, and suppliers. And that diffusion of wealth empowers far more people to advance their own diverse individual values. By compromising the corporation's wealth creating potential, CSR reduces the ability of individuals to advance their own individual goals. Instead, CSR allows top corporate managers—influenced by powerful political and ideological interests—to determine which values will be championed, and which ones ignored.

Few policy trends threaten world economic growth more than CSR.

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