

### GLOBAL SOCIAL RESPONSIBILITY AND THE END OF NEO-LIBERAL FUNDAMENTALISM

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#### Abstract

The September 11, 2001 attacks in USA were followed by measures that herald major changes in the global business environment and an end to neo-liberal fundamentalism. The State, civil society and business were revealed as interactive and interdependent components of the social system which is strongly influenced by the values of its members. A large majority supports fairness in preference to neo-liberal economic objectives. Accordingly, corporate citizenship can expect to be under stronger pressure from domestic governments and the world community to support democratic practices, ecologically sustainable development, upgraded public health and education programs and effective attacks on corruption.

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# GLOBAL SOCIAL RESPONSIBILITY AND THE END OF NEO-LIBERAL FUNDAMENTALISM

## INTRODUCTION

The view that the global business environment can operate according to neoliberal fundamentalism was changed forever by the September 11, 2001 attacks on New York and Washington.

Neoliberalism proposes action in “accordance with material structural incentives” (Narine 1998). Fundamentalism is the “strict maintenance of ancient or fundamental ... doctrines” (the Australian Concise Oxford Dictionary 1992). Neoliberal fundamentalism is therefore action which advocates strict maintenance of the doctrine that actions should accord with material structural incentives, or economic self-interest.

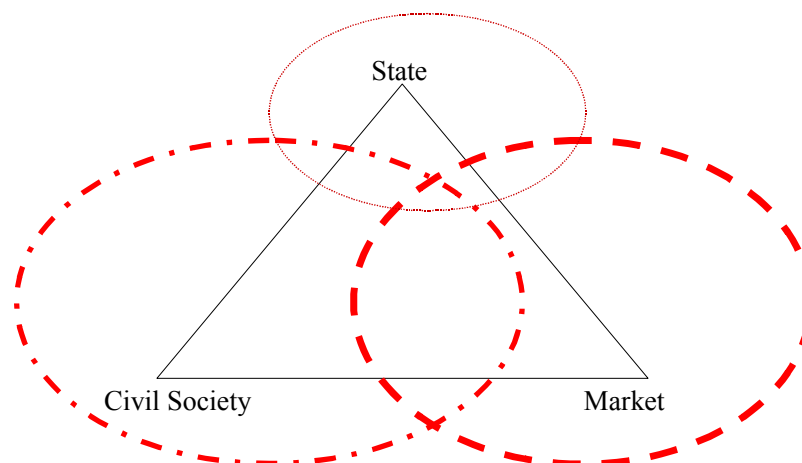
Those who carried out the attacks may have rationalised their reasons for doing so, but those reasons were not founded in the economic interests of the perpetrators. Similarly, whatever roles al Qaeda and Osamar bin Laden had, no evidence has emerged that they were motivated to advance their economic interests or any other material structural incentives. They appear to have been zealots inspired by fundamentalist interpretations of religious doctrine, although able to attract some sympathy from a wider audience within the same faith.

To understand the failure of neo-liberal theory to explain the behaviour of these people and their organisations, it is necessary to consider how society is actually structured and operates. These have major implications for corporate citizenship, as will be discussed.

## STRUCTURE OF SOCIETY

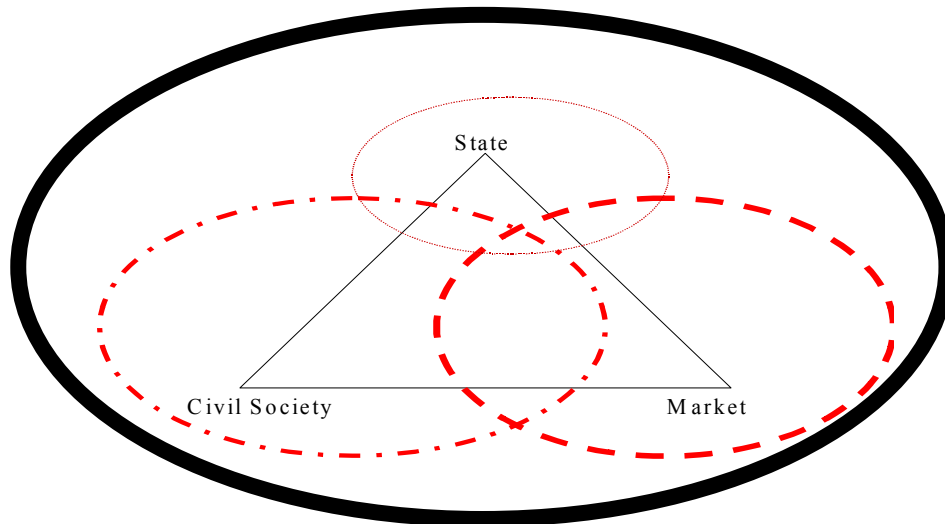
Societies consist of three fundamental components which, whilst having identifiable, distinctive features , overlap. An individual or an organisation such as a corporation may be involved in activities within two or even all three sectors. For example, a corporation may be engaged by the State in the provision of certain public services and may be actively working with a local community in social development.

**Figure1: Relationships between State, Market and Civil Society**



The community is thus organised through the operation of three sectors into a society which may be viewed as a **socio-political system** i.e., a sovereign society in which governance operates through Civil Society, the Market and the political institutions of the State. The sectors and individual and institutional agents are interdependent and interactive. The functioning of the system can only be understood by examination of these

**Figure 2: The socio-political system: State, Market and Civil Society**



The influence of the terrorist attacks in USA on September 11 2001 on the future of neo-liberalism is examined within this model.

The internal US response has shown an abandonment of neoliberal economic policy by government and an embrace of community by the rational individuals who once peopled New York. As Pollin (2001) put it

“The bombing calamity has finally made increased government spending politically respectable. On September 14, Congress committed \$US40 billion [\$81.2 billion] for disaster relief, reconstruction, increased transport security and countering terrorism....(as a ‘minimal downpayment’ in the words of the Senate Majority Leader.”

Money has swamped needs that may or may not have arisen from the attacks, new powers have been created and central government control has been asserted over deregulated airline functions. The withdrawal of the State from intervention in the market has been reversed. Broome has pointed out that cutting off the money trail used by terrorists runs contrary to the resistance to central government that has been so much a feature of US and particularly neo-liberal ideology (Broome, 2001; Will, 2001).

Externally, it is seen that it is fanaticism, not loyalty, driving terrorists. The sources of this fanaticism are not defined by religion or race, nor by the wealth of the home country. Almost all Moslems condemn terrorism, as do most Arabs and Afghans. Saudi Arabia has extra-ordinary riches, yet it has spawned a high proportion of the suspects.

Terrorism finds succour and festers where communities feel denied the fundamental democratic rights proclaimed by leading members of the coalition against terrorism. The countries of origin of the suspects have invariably been those in which political leadership is not contestable, dissenting views are ruthlessly suppressed and the ordinary people learn that there is only one way of reform – violence.

A realisation has emerged that a democratic culture, the rule of law, fairness and other features of good governance are the only long term solutions to the conditions which lend succour to terrorist activities. This

push is coming principally from Europe. The Foreign Minister of USA's strongest ally, the UK's Jack Straw,

“has declared that the US-led military action against Afghanistan must be proportionate and in line with international law. It should also be aimed at relieving the suffering of the people of Afghanistan and securing the stability of the region” (Reuters, 2001).

Prime Minister Blair said

“But what is the lesson of the financial markets, climate change, international terrorism, nuclear proliferation or world trade? It is that our self-interest and our mutual interests are today inextricably woven together.

....The issue is how we use the power of community to combine it with justice. If globalisation works only for the benefit of the few, then it will fail and will deserve to fail. But if we follow the principles that have served us so well at home - that power, wealth and opportunity must be in the hands of the many, not the few - if we make that our guiding light for the global economy, then it will be a force for good and an international movement that we should take pride in leading.

... this is a fight for freedom. And I want to make it a fight for justice too. Justice not only to punish the guilty. But justice to bring those same values of democracy and freedom to people round the world. And I mean: freedom, not only in the narrow sense of personal liberty but in the broader sense of each individual having the economic and social freedom to develop their potential to the full. That is what community means, founded on the equal worth of all. The starving, the wretched, the dispossessed, the ignorant, those living in want and squalor from the deserts of Northern Africa to the slums of Gaza, to the mountain ranges of Afghanistan: they too are our cause.” (Blair, 2001).

The head of the Organisation for Security and Cooperation in Europe (OSCE) committing it to “addressing the root causes, by making use of all necessary partnerships and co-operative action” (OSCE, 2001). These root causes do not rely on neoliberal fundamentalism. They are the antithesis of it.

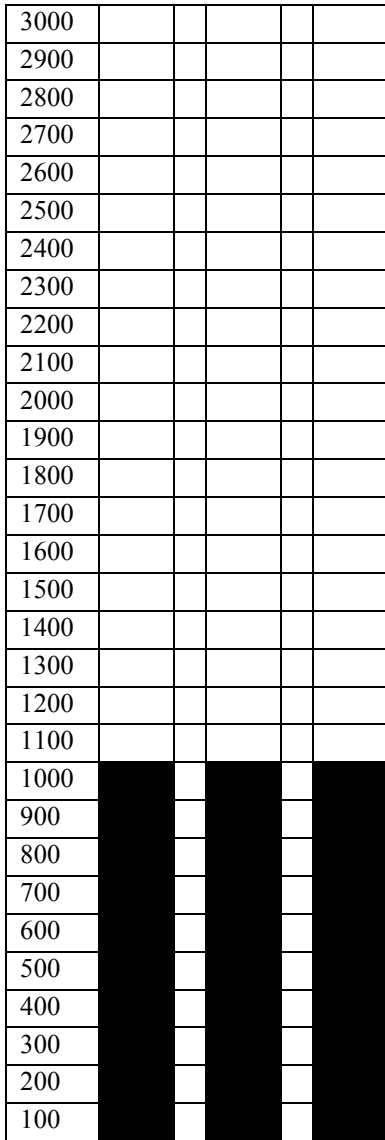
There are several key factors involved that have major implications for corporate citizenship.

Firstly, what are the people seeking? Seventy percent (70%) of the population would prefer the gap between the rich and the poor to get smaller rather than that overall wealth would grow as quickly as possible (Newspoll, 2000). That Australian figure is entirely consistent with the observations of Moulder and myself when we have asked adults across a wide range of national and cultural backgrounds to make a similar choice. Moulder (1987) has designed a role-play game intended for use as an introduction to Rawl's theory of justice. Moulder's design was adapted for use by distance education students. In Phase 1 of the game, students were faced with a choice between three different hypothetical societies. Each society had three social classes. Students were told that social classes are distinguished by factors other than wealth, for example gender, race or occupation. Per capita income was used as a surrogate for wealth. Society A had equal incomes for each of the three social classes, Society B a moderate spread of incomes and Society C wide differences between rich and poor (Figure 3.)

In 2000 and 2001 there were a total of 54 students studying the coursework unit Business and Government within the Master of Public Policy and Management at Monash University by distance education. They were almost exclusively mid-career men and women working in or with the public or not for profit sectors. As such, almost all were upper-middle income individuals in secure employment. Most were Australian born. Students were “asked to choose to be a member of a particular type of society, not knowing your Class which determines your status within that society. That status is as if by birthright.”

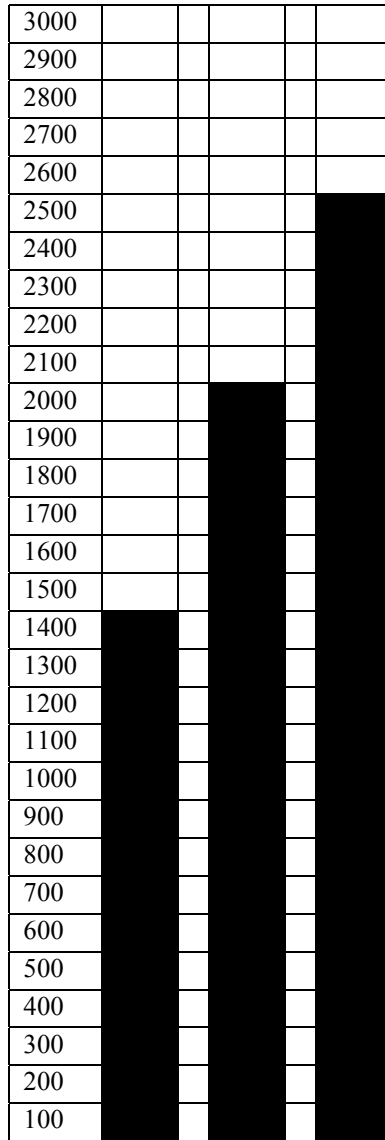
**Figure 3: Adapted from Moulder (1987, p340)**

**Society A**  
Income  
\$ per week



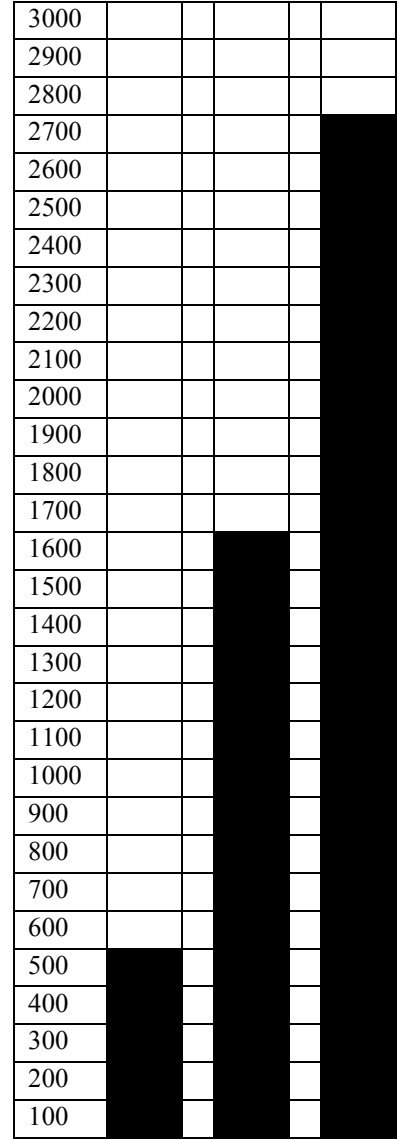
1      2      3  
Classes

**Society B**  
Income  
\$ per week



1      2      3  
Classes

**Society C**  
Income  
\$ per week



1      2      3  
Classes

Of the 54 students, only one (2%) chose Society A, 11 (20%) Society C and 41 (78%) Society B. Many of the Australians described this nation as most similar to the Society C, but did not choose that society. These proportions are similar to those estimated by Moulder for groups with whom he has played the game “live” i.e., with the individuals present. These games have been played by participants from a wide range of occupational, cultural, racial and national backgrounds over more than 10 years (Moulder, 2001). These findings are consistent with Rawls theory of justice and its principles,

“First: each person is to have an equal right to the most extensive basic liberty compatible with a similar liberty for others.

Second: social and economic inequalities are to be arranged so that they are both (a) reasonably expected to be to everyone’s advantage, and (b) attached to positions and offices open to all” (Rawls, 1971).

These findings contrast with neoliberal fundamentalism which is based on acceptance of obverse views. Those views were endorsed by only the 30% of Australians surveyed who preferred that overall wealth grow as quickly as possible rather than that the gap between the rich and the poor become smaller. An average of only 20% of the students preferred a society in which there were wide gaps between rich and poor. Neoliberal fundamentalism disregards any such effects.

This desire for equity within societies is mirrored in the cry of the poorer countries for equity in international trade. In the lead-up to the recent WTO meeting, it is reported that the Group of 77 “demanded the right to obtain affordable medicines, fundamental reforms to agricultural subsidy programs and a bigger say in designing international trade rules” (Times of India, 2001). After the meeting, the WTO claimed that Ministers from member governments had approved a “broad and balanced” work programme including negotiations on a range of subjects and other tasks for the coming years (WTO, 2001).

There are other factors which also often fail to reach the neoliberal agenda even though a broad understanding of self-interest might suggest that they should. These include ecologically sustainable development and environmental protection, improved education and curbing corruption.

## **SAFEGUARDING THE ENVIRONMENT**

There are those within both the developed world and the developing world who see issues like safeguarding the environment as a cover for protectionism (Times of India, 2001) or some other form of economic burden. This neoliberal fundamentalist view rejects both the intrinsic values that communities see in protecting the natural environment and the long term benefits of doing so. The perspective is shortsighted and devoid of long term analysis. A number of studies have now shown that environmental protection does not derogate from economic growth and indeed may have a positive correlation (Lim, 2001).

Cleaning up polluting industry and transport often results in greater technical efficiency, capture and re-use of wasted resources and reductions in health effects and other burdens estimated at up to 10% of GDP (Far Eastern Economic Review, 2001).

How do these advantages reconcile with corporate citizenship? They are entirely consistent with Davis’ view that “the short term costs of socially responsible behaviour are offset by long term gains” (2001, 3).

## **EDUCATION**

Blair spoke of “freedom ... in the broader sense of each individual having the economic and social freedom to develop their potential to the full” (Blair 2001). This sentiment reflects Sen’s conception of development as freedom (Sen, 2001). Sen argues that the most effective objectives for national development are those orientated to capacity building which enhances people’s abilities to fulfil their own lives and contribute to their society. Chief amongst these are democratic governance and improved levels of health and education.

Improved literacy and educational achievement do not produce rapid direct financial returns but the long term benefits to the community are undeniable. Such programs do not accord with neoliberal fundamentalism, yet the benefits to business from public investment in education are stunning.

Similarly, education is recognised as a key long-term factor in countering terrorism. Indeed, Rupert Murdoch believes that “the spread of knowledge across the globe (is) the only long-term answer to eradicating terrorism” (Evans, 2001). This is another rebuttal of neoliberal fundamentalism.

## **CURBING CORRUPTION**

There could be little more basic indication of responsible corporate citizenship than compliance with the rule of law. To take just one example from our region, corruption cost the Philippines government US\$47m last year, according to a World Bank report. “Traditionally, government contracts and appointments are used to buy votes and to reward campaign funding and loyalty,” the Report said (BBC 2001).

Sadly, the Philippines’ experience is all too common across the region in which many of our corporations operate. Corruption involves both the person offering the inducement and the person accepting the inducement. Whilst it ultimately involves individuals, those offering inducements commonly act on behalf of corporations. For the individual corporation, corruption may well be rational behaviour according to the tenets of neoliberal fundamentalism, at least when there seem to be low risks of detection, prosecution and penalty. Corporate citizenship is thus a central element affecting the level of corruption in a jurisdiction.

The Transparency International “Global Corruption Report 2001” (Transparency International, 2001) has very many nations in our region listed in the bottom half of its Corruption Perception Index for 91 countries. The findings are summarized in the Table; on a composite score, 10 is the best possible result. The table also lists countries that have legislated to adopt the OECD Convention domestically. This convention is intended to limit bribery by home country corporations in foreign jurisdictions, so that is less relevant to the control of corruption in the countries in which corrupt acts occur. In-country corruption is best dealt with by effective domestic laws and enforcement.

**Table: Corruption in Asia**

<b>Country rank</b>	<b>Country</b>	<b>2001 CPI score</b>	<b>OECD Convention ratified &amp; legislated</b>
3	New Zealand	9.4	X
5	Singapore	9.2	
11	Australia	8.5	X
14	Hong Kong	7.9	
21	Japan	7.1	X
27	Taiwan	5.9	
36	Malaysia	5.0	
41	South Korea	4.2	X
58	China	3.5	
62	Thailand	3.2	
66	Philippines	2.9	
72	India	2.7	
75	Vietnam	2.6	
80	Pakistan	2.3	
88	Indonesia	1.9	
91	Bangladesh	0.4	

Source: Global Corruption Report 2001 pp.198, 234-236

By recognizing the immense social and indirect costs of corruption, reforms which recognise the damage caused beyond the corporations which seek short term benefit have the potential to dramatically change

entrenched corporate cultures restricting progress in many countries. These reforms will provide a powerful incentive towards responsible corporate citizenship.

The example of corruption illustrates a broader trend already emerging from the response to the September 11 attacks. Neo-liberal fundamentalism introduces strong incentives for short-term decision-making. The US-led military response to the attacks is described as a long term war, whilst many in Europe and beyond foresee a much more sophisticated and profound program to assist the social and economic development, including democratization, of countries like Afghanistan.

## **CONCLUSION**

Collectively, these measures constitute a strong rebuttal of neoliberal fundamentalism. The world has a unique opportunity to support those committed to redressing the corruption of governance that allows frustration, anger and a sense of hopelessness to fester, leaving people with no-one to support but those who preach hatred and violence against their perceived oppressors.

Neoliberal fundamentalism that has driven so much public policy affecting business has suffered a dramatic reversal. That is not to suggest that there has been nothing to learn from neoliberal theory. It is to suggest that its fundamentalism is set to be supplanted by more balanced understandings of mankind, society and business. In this environment, corporate citizenship can expect to be under stronger pressure from domestic governments and the world community to support democratic practices, ecologically sustainable development, upgraded public health and education programs and effective attacks on corruption.

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