

“Contagious” small good firms: CSR and the rise of “social market enterprises”

Leonardo Becchetti
University of Rome II, Tor Vergata and Econometrica

1. Introduction and scope of the paper

In this paper we aim to show that the diffusion of corporate good practices may be significantly enhanced by the initiative of small contagious good firms acting as “social market enterprises” (fair traders, but also other emerging social market enterprises such as microfinance institutions, ethical banks, socially responsible corporations, etc.). To explain their role we consider the paradigmatic example of Fair Trade. Such case demonstrates that small organizations of importers which fix socially and environmental sustainability rules when importing food and textile products from marginalized producers in underdeveloped countries gain the favour of a non irrelevant share of socially responsible consumers. In this way they reveal to bigger market players (transnational firms) the willingness to pay for social and environmental sustainability of an important share of consumers. Such players start competing with fair traders by finding it optimal to imitate partially their behaviour. Fair trade producers therefore reveal themselves to be contagious good firms and contribute to make CSR a competitive factor in contemporary product markets.

Generalising this approach we may say that we are assisting to the rise of a new type of firms which we define “*social market enterprises*” (Borzaga et al. 2001). The characteristics of social market enterprises is that they overcome the traditional dichotomy between creation of economic value (with likely negative externalities) and redistributive or inclusive policies aimed to correct the distortions introduced in the moment in which economic value is created. A social market enterprise performs both activities as it is not merely a supplier of social services. Quite to the contrary, it competes on the market, creates economic value but in a socially and environmentally responsible way, since inclusion and social justice is the goal of its economic activity.

We finally show how the joint bottom up action of “concerned” consumers and small contagious firms (acting as market social enterprises) represents an advancement of the Christian Social Doctrine on various respects: i) it promotes a balanced idea of solidarity as it focuses on the principle of the responsibility of the receiver to which not just a donation but a chance of inclusion is provided; ii) it promotes individual responsibility as it focuses on individual life styles; ii) it is capable to provide effective tools to promote the basic CSD principles of subsidiarity and of the priority of labor over capital in the new framework of globalization. These specific characteristics have led to a direct recognition of its key role (for the first time in CSD) in the principle n.359 of the *Compendio della dottrina sociale della Chiesa*.

2. The international conditions which determined the rise of social market enterprises

An important question is why small contagious good firms are becoming today a new important feature of market economies.

In our opinion, the *res novae* which triggered this transformation are the ICT revolution. Such revolution accelerated the integration of domestic markets and the crisis of the old system of checks

and balances which was capable to reconcile economic prosperity with a socially acceptable distribution of income.

As we all know, the first phenomenon (the ICT revolution) was generated by the astounding wave of technological innovations in the fields of electronic and telecommunication (among them the pivotal one was probably the progressive increase of microprocessors' power) which led to a dramatic reduction in the cost and speed of transportation of everything weightless such as voice, music, data and images. To make just an example quoted by Jorgenson, which may help us to understand the entity of change, consider that we needed in 1979 around 800 dollars and seven hours to fly from Rome to New York. If air flights would have undergone the same reduction in prices and increase in speed as it has happened to the crucial innovation of the ICT age (microprocessor), we should fly on the same distance today in less than a second with less than a pence. This change had the effect of integrating labour product and financial markets all over the world, even though speed and costs of transportation of "heavy" productive factors (such as labour and material capital goods) were not abated in the same way. Hence, even though integration of domestic markets did not start at the beginning of the ICT revolution, since a progressive increase of international trade and reduction of tariff was still ongoing, the acceleration of integration after the ICT revolution was dramatic.

With a rapidly growing global integration the old system of checks and balances fell into pieces. This occurred because such system was based on the bargaining power of domestic institutions and domestic workers associations. Such bargaining power was dramatically weakened by the opportunities created by globalization, allowing corporations to move quite easily their legal and/or productive centers across country borders. To make some concrete examples, in the globalised scenario the possibility of delocalizing productive activities in countries in which labour costs are dramatically lower, inevitably weakens domestic trade unions. In the new framework any improvement of domestic workers social conditions may have the paradoxical effect of fostering delocalization, thereby reducing domestic job opportunities. In the same way, the capacity of domestic fiscal authorities to finance welfare policies is constrained by fiscal competition, with lower corporate taxation countries being able to attract, *coeteris paribus*, more foreign direct investment.

To sum up, the new scenario has significantly increased the relative power of transnational corporations with respect to domestic trade unions and institutions, with the effect that negative (environmental and social) externalities, which may be generated by transnationals in their profit maximizing activities, may not be anymore entirely offset by domestic taxation and regulation. The significant novelty in the globalised framework is that the socioeconomic system has been capable to generate an endogenous defense against this imbalance. Such endogenous defense is represented by the increasing awareness and concerns of a minority of socially responsible citizens. These citizens have promoted forms of bottom-up actions, ranging from traditional advocacy to innovative forms of "votes with their portfolios", which we call today socially responsible consumption and investment. The rise of "small contagious firms" played a fundamental role to give visibility to this bottom up pressure. Only the existence and the positive market shares of these types of firms selling products which incorporated social and environmental sustainability features could reveal to the rest of the market the apparent paradox of consumers and investors which were not behaving as in the standard stylized textbook representations: microfinance and socially responsible investment fund investors and fair trade product consumers are an open contradiction of the *homo oeconomicus* behaviour. Economic models in fact predict that individuals, solely driven by self interest, should always look for the lowest price (for a given quality standard) and for the highest risk adjusted return of their financial portfolios.

Small contagious firms started offering products in which a social value (promotion of inclusion of the poor, environmental and social sustainability of the productive process) was associated to the possibility of a higher price or a lower risk adjusted return. They surprisingly conquered consumers and investors, thereby revealing to bigger market players that economic choices are not only driven

by self interest but also by, as Sen suggested in his famous “rational fools” paper, by sympathy and commitment. Together with these two noble motivations, social responsibility was spurred also by the awareness that the increased global interdependence had transformed most local problems into global problems, whose lack of solution would harm everyone. To give some examples, deforestation in distant countries may affect climate change with potential negative consequences also on our countries. In the same way, the misery of large part of population in less developed countries, after the global integration of domestic labour markets, represents a significant threat for the defense of workers rights in more industrialized countries. From this point of view, globalization may be seen as having a providential aspect in making unfeasible the old equilibrium, in which social justice was ensured only in some countries of the world. The “fence” raised to defend social order in our countries against social chaos in less developed countries fell and it is now necessary to care about social protection in these distant countries if we want to improve workers rights in ours. This is why social responsibility is nowadays no more a matter of altruism but, more simply, a matter of enlightened and *longsighted self interest* against the *shortsighted self interest* which ignores the consequences on our life of problems coming from distant countries.

To sum up, what happened after the entry of small contagious firms in the market ? Profit maximizing corporations realized that incorporating social value in their products or in their activity was useful to attract new customers. After that moment corporate social responsibility become an important part of their competitive strategy.¹

Small contagious firms which became social market enterprises succeeded, with the help of concerned consumers, in the miracle of transforming solidarity, inclusion and social justice from values which were absent from the phase of creation of value and intervened only in the following step of the redistributive welfare policies, into competitive factors.

3. A concrete example of small contagious good firms: the case of fair trade

On October the 7th, 2000 the BBC announces that “Nestle has launched a fair trade instant coffee as it looks to tap into growing demand among consumers.” The BBC comments the news saying that “Ethical shopping is an increasing trend in the UK, as consumers pay more to ensure poor farmers get a better deal.” and reports the comment of Fiona Kendrick, Nestle's UK head of beverages, arguing that “Specifically in terms of coffee, fair trade is 3% of the instant market and has been growing at good double-digit growth and continues to grow.”

This piece of news tells us that the recent experience of the fair trade initiative seems to demonstrate how small good firms may be contagious in terms of CSR and affect the behaviour of even large multinationals.

3.1 Why fair trade importers are a small contagious good firm and a social market enterprise

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

¹

² In a recent survey the “2003 Corporate social responsibility monitor” finds that the amount of consumers looking at social responsibility in their choices jumped from 36 percent in 1999 to 62 percent in 2001 in Europe. In addition, more than one in five consumers reported having either rewarded or punished companies based on their perceived social performance and more than a quarter of share-owning Americans took into account ethical considerations when buying and

One of the most interesting pieces of evidence in this respect is the result coming from a question on the willingness to pay for the environment in the World Value Survey. The survey shows that around 17 percent of respondents would strongly agree (and around 48 would agree) to an increase in taxes when the latter are used to prevent environmental damage (Table 1). Even after correcting for the inevitable interview bias, typical of these kind of analyses, Auci et al. (2006) show that such willingness to pay exists, is significant and is mainly related to variables such as age, education, religious practice, proxies of civic values (tax morale, sense of belonging to a wider community) and domestic institutional quality. This increased awareness has generated a series of “grassroot” welfare initiatives which focus on socially responsible (or socially concerned) saving and consumption.

One of them is built up by zero profit importers, distributors and retailers (called *fair traders*)³ of food and artisan products which have been partially or wholly manufactured by poor rural communities in developing countries. To be labeled as such, fair trade products need to respect a series of social and environmental criteria.

The criteria are the following:

i) a “fair price”, which is fixed as a countercyclical mark-up on market price (in the example of coffee and cocoa in the last two decades, it tended to be around 100 percent higher when market prices were low and it maintained a 10 percent margin when market prices were at their peak). This criterion does not necessarily represent a violation of market principles for two reasons. First, buyers of primary products are usually highly concentrated and exploit their market power to conclude transactions at prices which are far below the value of primary producers’ marginal product.⁴ Second, fair trade products (exactly as “green” products) can be more properly considered as a kind of contingent good, that is, a bundle of traditional characteristics and SR features, and therefore cannot be compared with standard non SR products. From this point of view, the

selling stocks. The Social Investment Forum reports that in the US in 1999, there was more than \$2 trillion worth of assets invested in portfolios that used screens linked to the environment and social responsibility.

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

⁴ Support for the existence of monopsonistic labour markets for unskilled workers, not just in LDCs but also in developed countries, is provided by several authors (Manning, 2003; Card and Krueger, 2000). Manning (2003) argues that it is not necessary to think of the mining or mill town in the early days of the Industrial Revolution to conceive the existence of monopsony or of thin labour markets. Labour markets may be thin not just in presence of a single employer, but also when employers are few and collude, or in the presence of geographical distance and labour differentiation. The first two cases may well apply to producers in LDCs countries. Evidence of employers’ excess market power in LDCs countries is provided by several empirical papers (Terrell and El Hamidi, 2001; Camargo, 1984; Gonzaga et al., 1999; Carneiro, 2002; Lemos, 2004).

introduction of fair trade (hereafter also FT) products may be seen both as an efficient antitrust action and as a reduction of market incompleteness increasing welfare of consumers with social preferences (or inequity aversion) which did not have the opportunity of buying such products before;⁵ ii) availability of anticipated financing for primary product producers, which allows them to break the monopoly of local moneylenders. This type of intervention may reduce the impact of credit rationing which severely affects small uncollateralized producers; iii) price stabilization mechanisms which insulate risk averse primary product producers from the high volatility of commodity prices; iv) destination of part of the price surplus to the improvement of working conditions and to the removal of factors leading to child labour, not through a ban on products incorporating child labour, but through a monetary integration of their low household income;⁶ v) preferential inclusion in the fair trade distribution chain of projects reinvesting part of the surplus arising from the fair price in the provision of local public goods (health, education, job training); vi) attention to the environmental sustainability of productive processes; vii) transparency on how the price is determined in the different transactions occurring along the value chain; viii) creation of long run relationships between importers and producers and provision of “business angel” and export services to the latter (i.e. information about consumers tastes in foreign markets, non tariff trade barriers, import regulations, etc.) which are essential for building up producer capacity and technological skills which may eventually evolve toward changes in productive activities. With respect fair trade may be conceived as a temporary income-support and inclusion mechanism aimed to promote the transition to higher-return activities (Leclair 2002).

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

The European Fairtrade Labeling Organization, FLO, certified in 2003 315 organizations, representing almost 500 first level producer structures and around 1,500,000 families of farmers and workers from 40 countries (Moore 2004). FT products were sold by 2,700 dedicated outlets (called *world shops*) and by 43,000 supermarkets across Europe (7,000 in the US).

FT products have achieved significant market shares in specific segments such as the ground coffee market in the EU (2%), the banana market in Switzerland (15%) the roast and ground coffee market in the UK (7.2%) and the tea market in Germany (2.5%) (Moore, 2004, Cafedirect, 2003)

⁵ For the theoretical debate of the role and impact of Fair Trade at micro and aggregate level see also Becchetti and Solferino (2004), Hayes (2004) and Leclair (2002).

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

⁷ Intuitively, there are at least five reasons for such superiority: i) only fair trade purchases transform solidarity into a competitive factor and generate positive indirect effects on social responsibility of traditional producers (Becchetti and Solferino 2004a); ii) fair trade channels provide learning through export, price stabilization services and promote inclusion of unskilled, but potentially productive workers (producers) in international labour (product) markets; iii) charity does not necessarily reward productive people; iv) fair trade, differently from charity, provides a minimum wage measure needed to solve market failures in case of monopsonistic labour markets (or may reduce intermediation rents in the local transportation market); v) fair trade contributes with anticipated financing to reduce uncollateralised producers' credit constraints together with their dependence from monopolistic local moneylenders; vi) the FT bottom-up mechanism may be more efficient than government subsidies in targeting the poor; vii) joining consumption and social transfer reduces transaction costs of aid to the poor with respect to the traditional tax financed government aid scheme. More specifically, points iv) and v) show how FT may improve market competitiveness (in credit and labour markets), while charity does not.

4. Why the small good firm is contagious

A final “hidden” but fundamental effect of FT is its capacity of triggering imitation in social responsibility from traditional producers. Becchetti and Solferino (2004a and b) demonstrate, that the entry of a FT producer triggers SR imitation in the incumbent under reasonable parametric conditions on consumers social preferences, in static and dynamic horizontal differentiation doupolies in which competition is played on prices and social responsibility. SR imitation from the non SR incumbent is only partial, but higher in dynamic frameworks in which the incumbent goal is that of reducing the formation of socially responsible consumer habits (Becchetti-Solferino, 2004).

Consistently with predictions on FT indirect effects in the literature, the diffusion of forms of socially responsible consumption, such as fair trade, is accompanied by a wide range of imitation strategies enacted by traditional producers. Many more companies⁸ are starting advertising not only price and quality, but also their socially responsible actions.⁹ Social labeling and corporate responsibility is gradually becoming an important competitive feature in real and financial markets.

5. A reading of small contagious firms in the light of Christian Social Doctrine and the principle of sustainable happiness

In this final section we aim to show how the rise of small contagious firms, which we also define as “social market enterprises”, represents an innovative and promising approach which successfully tackles the challenge of pursuing social justice and incarnating the principles of Christian Social Doctrine in our globalised world. More specifically, we will argue how bottom-up pressure of social responsibility and social market enterprises do actualise the principles of the primacy of labour over capital and of subsidiarity, successfully responding to the social and environmental imbalances of the globalisation era. Considerations developed in this section will lead us to

⁸ On 2003 one of the world's biggest players in the coffee market, the US consumer good company Procter & Gamble, announced it would begin offering Fair Trade certified coffee through one of its specialty brands. Following Procter & Gamble's decision to start selling a Fair Trade coffee, also Kraft Foods, another coffee giant, committed itself to purchasing sustainably grown coffee. Furthermore, Kraft will buy 5m pounds of Rainforest Alliance certified coffee in the first year, according to an agreement between Kraft Foods and the Rainforest Alliance (EFTA Advocacy Newsletter n° 9). In Italy, the Fair Trade certification brand TransFair Italy certifies specific fair trade products sold by consumers good distribution companies and multinationals such as Coop, Carrefour, Sma, Pam, Gs, Conad (http://www.macfrut.com/ita/conv_2003/relazioni/162benvenuti_f2.pdf). On October the 7th, 2000 the BBC announces that “Nestle has launched a fair trade instant coffee as it looks to tap into growing demand among consumers.” The BBC comments the news saying that “Ethical shopping is an increasing trend in the UK, as consumers pay more to ensure poor farmers get a better deal.” and reports the comment of Fiona Kendrick, Nestle's UK head of beverages, arguing that “Specifically in terms of coffee, fair trade is 3% of the instant market and has been growing at good double-digit growth and continues to grow.”

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

conclude that the economics of social responsibility represents the new frontier of Christian Social Doctrine as an effective and new tool to pursue the goal of common good.

Our point is organised as follow. We start by making reference to the most significant documents of the Christian Social Doctrine which, in our opinion, pose the premises for the current development of the economics of social responsibility. We will finish with a quotation from the recently issued Compendium in which this cultural path reaches a fundamental **achievement** when the principle of socially responsible consumption is explicitly mentioned.

6.1 Primacy of labor over capital

One of the main problems of the current economic culture is that of neglecting the primacy of labour over capital. This inversion in the scale of values is the result of the fall of the old system of checks and balances existing before globalization (see section 2) and neglects the simple fact that one input (labour) is made by human beings, with their intrinsically superior dignity and with aspirations and desires to be fulfilled, while the second (capital) is represented by inanimate objects or financial instruments. It is obviously necessary to avoid the risk of being demagogic, by recognizing the constraints and the requirements of the economic system which necessarily calls for workers effort and sacrifice, consistently with what the same CSD defines as the “objective dimension” of labour (sacrifice which may be offered to God, through which we realize our sacerdotal dimension and participate to Christ sacrifice on the Cross). On the other hand, the objective dimension cannot completely crowd out the “subjective dimension” which tells us that labour is an activity through which the man realises himself, satisfying its creativity and entrepreneurship and participating to the “continuous creation” of God.

The balance between objective and subjective dimensions for workers in developed countries is threatened by the opportunity of firms to delocalise their production in countries with low or non existing labour protections. While it is reasonable to assume that labour standards must be adapted to local situations and cost of living, and is advisable that delocalisation is increasing job opportunities and demand for labour in developing countries, the information we receive from these countries tells us that cases of abuse are not infrequent. What is even worse, financial press does not even wonder or ascertain, when commenting positive performance of transnational corporations, whether higher returns to capital have been achieved, consistently with the respect of human rights and labour dignity.

CSD has always been aware of the risk intrinsic in the capitalist economy of violating the primacy of workers over capital.

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

What developed in previous sections tells us that the good contagious small companies have developed an effective tool for promoting labour dignity beyond traditional pure advocacy initiatives. By selling on the market products incorporating superior labour dignity, they have allowed consumers to vote with their portfolio for producer rights, triggering imitative initiatives of other market competitors.

Our analysis of fair trade as an example of social market enterprise therefore clearly shows how socially responsible consumption may successfully work to restore the primacy of labour by allowing concerned consumers to express their vote for an improvement of working conditions of marginalised producers, thereby creating an in direct incentive to the amelioration of working standards in the area. The importance of the fair trade initiative is that it is perfectly aware of the complexity of the North-South relationship: the promotion of the primacy of labour is not pursued with a protectionist initiative which defends rights of our workers at the expenses of workers in the South. The fundamental idea is that the gap of workers conditions between North and South must be bridged by voting for the rapid improvement of working conditions in the South.

6.2 Subsidiarity

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

This principle has a deep internal logic since the quality of social services (which is strictly related to the care for our neighbours or to the production of what we call relational goods) is significantly and positively affected by the proximity between provider and receivers and to the intrinsic motivation of the former. It is therefore highly likely that small vocational associations of the civil society will perform this task much better than large anonymous and bureaucratic government entities. The principle of subsidiarity is also an important support for ailing government budgets, since delegation of some social services to a more efficient local or volunteer organization may significantly reduce government expenditures (even though, as it is well known, there is a strong risk that the government will abuse of this possibility by allocating too few resources to the association in charge). A simple example of that is the creation of a guarantee fund for loans to non profit organizations financed by socially responsible investors and not by the government.

From what we said in the previous sections it should be clear that socially responsible consumption and the activity of social market enterprises are a significant example of subsidiarity where inclusion and social justice are effectively promoted by replacing state intervention with an effective vicarious action of non governmental organisation. With fair trade the support for inclusion of marginalized producers, incorporated in the price paid for the product, creates a direct relationship between consumers and producers via FT importers, which is more direct with respect to the complex chain which links taxpayers, to government (strategic ?) aid and, finally to marginalised producers.

6.4 Increased interdependence of domestic labour markets

Another interesting relationship between CSD and the activity of our example of contagious small firm (fair traders) is the awareness that the increased interdependence of domestic labour markets in different countries is changing the scenario and requires a revision of the strategy followed so far to pursue social justice. It is interesting to find in CSD documents the recognition of this change. The *Sollicitudo Rei Socialis* tells that “*Recognition that the "social question" has assumed a worldwide*

dimension does not at all mean that it has lost its incisiveness or its national and local importance. On the contrary, it means that the problems in industrial enterprises or in the workers' and union movements of a particular country or region are not to be considered as isolated cases with no connection. On the contrary they depend more and more on the influence of factors beyond regional boundaries and national frontiers” SRS 9 and, again, “In fact, if the social question has acquired a worldwide dimension, this is because the demand for justice can only be satisfied on that level.” SRS 10 or, finally “At the same time, in a world divided and beset by every type of conflict, the conviction is growing of a radical interdependence and consequently of the need for a solidarity which will take up interdependence and transfer it to the moral plane. Today perhaps more than in the past, people are realizing that they are linked together by a common destiny, which is to be constructed together, if catastrophe for all is to be avoided.” SRS 26

With socially responsible consumption, consumers in developed countries may act as “complementary trade unionist” for workers of the same countries by voting for products which incorporate higher workers welfare in the South and thereby actively promoting a virtuous upward reequilibrium of workers conditions.

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

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

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

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

6.6 The role of socially responsible consumption to promote social justice

Only in the most recent *Compendium of the CSD* the reflection of the church put together all these different strands and, in the light of the *res novae* represented by the deeply transformed globalised socioeconomic scenario, officially acknowledges the importance and the role of socially responsible consumption. On this point we read at n. 359

“L'utilizzo del proprio potere d'acquisto va esercitato nel contesto delle esigenze morali della giustizia e della solidarietà e di precise responsabilità sociale: non bisogna dimenticare “il dovere della carità, cioè il dovere di sovvenire con il proprio superfluo e talvolta anche col proprio necessario per dare ciò che è indispensabile alla vita del povero . Tale responsabilità conferisce ai

consumatori la possibilità d'indirizzare, grazie alla maggiore circolazione delle informazioni, il comportamento dei produttori, mediante la decisione – individuale o collettiva – di preferire i prodotti di alcune imprese anziché di altre, tenendo conto non solo dei prezzi e della qualità dei prodotti, ma anche dell'esistenza di corrette condizioni di lavoro nelle imprese, nonché del grado di tutela assicurato per l'ambiente naturale che lo circonda

(We must use our purchasing power consistently with moral requirements of justice and solidarity and social responsibility: we must not forget the obligation of charity, that is, providing what is indispensable for the life of the poor with one's own superfluous and, sometimes, with what is necessary. Owing to the wider flow of information, this responsibility gives consumers the chance of affecting producer behaviour, with individual or collective decisions to prefer products of some and not other firms, not just by looking at prices and product quality, but also at fair working conditions and the engagement in the preservation of the environment)

Compendio della dottrina sociale della Chiesa n. 359

Such a clear enunciation of the principles and of the potential of socially responsible consumption is the fulfillment of an intuition which was already envisaged by *Centesimus Annus* (58), which correctly and prophetically argues: *“It is not merely a matter of “giving from one's surplus”, but of helping entire peoples which are presently excluded or marginalized to enter into the sphere of economic and human development. For this to happen, it is not enough to draw on the surplus goods which in fact our world abundantly produces; it requires above all a change of life-styles, of models of production and consumption, and of the established structures of power which today govern societies. Nor is it a matter of eliminating instruments of social organization which have proved useful, but rather of orienting them according to an adequate notion of the common good in relation to the whole human family. “*

Summing up our analysis of all these implicit and explicit links between CSD and the new phenomenon of market social enterprises, we may conclude that the economics of social responsibility is a new promising frontier of CSD and an important tool we have to transform the earthly city in the perspective of recapitulation, in order *“to deal with human things so that to orientate them toward God”* (Lumen Gentium 31).

Conclusions

The end of the old system of checks and balances which guaranteed in the pre-globalisation era the coexistence of economic development and social cohesion gave rise to a deep transformation of our socioeconomic system. The global integration of labour, product and financial markets weakened the bargaining power of national institutions and domestic trade unions creating an excess power of large transnationals. The result has been an imbalance in the ranking of values (too much emphasis on “accidental” elements of human life such as shareholders wealth and consumer satisfaction and subordinated importance of more “substantial” elements such as job satisfaction and quality of relational and spiritual life) produced by the new economic culture, which is strikingly at odds with the pursuit of the common goal established by CSD.

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

This goal is pursued not just by giving values to the market but by “giving a market to values”.

In essence, what social market enterprises do is selling on the market new innovative products which incorporate values of social and environmental sustainability. With the support of concerned consumers and investors, social market enterprises gained in the recent years small but significant and growing market shares, thereby triggering imitative strategies of profit maximizing producers which started competing with them, in order to attract the emerging share of socially responsible consumers and investors. Social market enterprises therefore deserve large part of the merit of having transformed inclusion, solidarity and social justice, from peripheral principles which ruled the phase of distribution, without affecting the crucial moment of production, into new competitive factors on which competing firms play to survive and prosper in the market.

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

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

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

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

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

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

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

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

References

Adriani F. Becchetti L., 2005, Fair trade: a “third generation welfare” mechanism to make globalisation sustainable, CEIS Working Paper, n. 171

Agell, J., Lundborg P., “Survey Evidence on Wage Rigidity and Unemployment: Sweden in the 1990s”, forthcoming *Scandinavian Journal of Economics* (2002).

Akerlof G.A. (1982), “Labor contract as partial gift exchange”, *The Quarterly Journal of Economics*, XCVII 4

Anderson, S., 1987, Spatial competition and price leadership, *International Journal of Industrial Organization*, 5(4), pp. 369-98

Bahadur C., Mendoza R., 2002, Toward Free and Fair Trade: A Global Public Good Perspective, *Challenge*, 45, pp. 21-62

Basu, K. (1999) Child Labour, cause, consequence and cure, with remarks on interantional labour standards, *Journal of Economic literature*, vol. 37, pp. 1083-1119.

Basu, K. and P.H. Van, (1998), “The Economics of Child Labor” *American Economic Review* 88, 412-427

Becchetti L., Solferino N, 2003, On ethical product differentiation, CEIS working paper n 188.

Becchetti L., Solferino N, 2004, The dynamics of ethical product differentiation and the habit formation of socially responsible consumers, *Working Paper AICCON-Università di Bologna*

Bewley, Truman F., 1999, *Why Wages Don't Fall During A Recession*, (Cambridge, Mass.: Harvard University Press,.

Bhagwati J., 1996, Fair Trade and Harmonization: Prerequisites for Free Trade? Volume 1: Economic Analysis: Introduction, Cambridge and London: MIT Press.

Bird, K. & Hughes, D.: 1997, ‘Ethical consumerism: the case of “fairly-traded” coffee, *Business Ethics: a European Review*, 6, 3, pp.159-167

Borzaga C., Defourny J. (eds.), 2001, *Emergence of Social Enterprise*, Routledge, Londra.

Cairncross, F, 1997, *The death of distance*, Londra, Orion.

Camargo, J., 1984. Minimum Wage in Brazil Theory, Policy and Empirical Evidence. Pontificia Universidade Catolica Discussion Paper 67.

- Campbell, Carl M., and Kunal S. Kamalani, "The Reasons for Wage Rigidity: Evidence from a Survey of Firms," *The Quarterly Journal of Economics*, 3 (1997), 759 -89
- Card, D., Krueger, A. B., 2000, Minimum wages and employment. A case study of the fast food industry in West virginia and in Pennsylvania *American Economic Review*, 90(5), pp. 1397-1420
- Carneiro, F., 2002. Uma Resenha Empirica sobre os Efeitos do Salario Minimo no Mercado de Trabalho Brasileiro. In: *The Jobs Report*, The World Bank, Washington, forthcoming.
- Conley and Udry (2003) "Learning about a New Technology: Pineapple in Ghana" Paper n. 817 Yale – Economic Growth Center
- Demos & Pi / Coop, 2004, Osservatorio sul Capitale sociale Virtù e valori degli italiani, Indagine 2004
- D'aspremont, C., J.J.Gabsewicz , J.F., Thisse, 1979, On Hotelling's stability in competition, *Econometrica*, 47, 114-1150.
- DeBenedictis L., R. Helg, 2002, Globalizzazione, *Rivista di Politica Economica*, marzo-aprile,
- De Pelsmacker, P. Driesen L. Rayp G., 2003, Are fair trade labels good business ? ethics and coffee buying intentions. Workign paper University of Gent.
- Diamond, Peter A. and Jerry A. Hausman (1994). "Contingent Valuation: Is Some Number Better than No Number." *Journal of Economic Perspectives*, 8(4):45-64.
- El-Hamidi, F. Terrell, K., 2001, The Impact of Minimum Wages on Wage Inequality and Employment in the Formal and Informal Sector in Costa Rica Davidson Institute Working paper n.479
- European Fair Trade Association, 2001, EFTA Yearbook, www.eftafairtrade.org.
- Fehr E., Schmidt K. (1999), " A theory of fairness, competition and cooperation", *Quarterly Journal of Economics* 114: 817-868
- Fehr, E., K. M. Schmidt, 2002, \The Economics of Fairness and Reciprocity", in: M. Dewatripont et.al. (eds.) *Advances in Economic Theory*, Eight World Congress of the Econometric Society, Cambridge: Cambridge University Press, Vol. 1, 208-257.
- Fehr E., Falk A. Psychological Foundations of Incentives, in: *European Economic Review* 46 (2002), 687-724
- Gneezy U., Rustichini A. (2000), "Pay enough or don't pay at all ", *Quarterly Journal of Economics* 115: 791-810

- Hotelling, H., 1929, Stability in competition, *Economic Journal*, 39,41-57.
- Gonzaga, G., Machado, D., 2002. Rendimento e Precos. In Abreu, M. (Ed.) *Estatísticas do Século XX*, IBGE, Rio de Janeiro.
- Giddens, A., 2000, *Runaway world: how globalisation is reshaping our lives*, London, Routledge.
- Greene, W.H., 2000, *Econometric Analysis*, 4th ed. Upper Saddle River, NJ, Prentice-Hall
- Hayes, M., 2004, Strategic management implication of the ethical consumer
<http://www.fairtraderesearch.org>
- Leclair, M. S., 2002, Fighting the tide: Alternative trade organizations in the era of global free trade, *World Development* 30 (7): 1099–122
- Lemos S., 2004, The Effects of the Minimum Wage in the Formal and Informal Sectors in Brazil, University of Leicester and IZA Bonn Discussion Paper No. 1089
- Maddala, G.S., 1983, *Limited-dependent and qualitative variables in econometrics*. Cambridge: Cambridge University Press.
- Manning, A., 2003 "The Real Thin Theory: Monopsony in Modern Labour Markets", *Labour Economics*, 2003, 10, 105-134
- Maseland R & Vaal A De, 2002, How fair is fair trade?, *De Economist*. 150(3), pp. 251-272
- Mitchell, Robert C.; Richard T. Carson. 1989. "Using Surveys to Value Public Goods: The Contingent Valuation Method." *Resources for the Future*, Washington, D.C., Number of Pages: 463.
- Moore, G., 2004, The Fair Trade Movement: parameters, issues and future research, *Journal of Business Ethics*, 53, 73-86
- Robertson, R., 1992, *Globalisation*, Londra, Sage.
- Sen A., "Rational Fools: A Critique of the Behavioral Foundations of Economic Theory," *Philosophy and Public Affairs* vol. 6, no. 4 (Summer 1977), pp. 317–344. (W)
- Sobel, J., 2002, *Social Preferences and Reciprocity*, mimeo, University of California, San Diego.

Stiglitz J., 2002, Globalization and its discontents .,Publisher Information: New York and London: Norton Publication.

Suranovic S., 2002, International Labour and Environmental Standards Agreements: Is This Fair Trade?, The World Economy, 25(2), pp. 231-245

Waters, M., 2001, Globalisation, New York, Rutgers.

Whalley, J., 2005, Globalization and Values, CESifo Working paper series, CESifo

Women and Children: The Precarious Lives behind the Grains of Coffee, A Summary
<http://www.coverco.org/eng/media/WomenandChildren.pdf>

Zamagni, S., 2002, Complessità relazionale e comportamento economico, materiali per un nuovo paradigma della relazionalità, Il Mulino, Bologna.