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Illustration by David Simonds

The debate about the social responsibilities of companies is heating up again

IF YOU believe what they say about themselves, big companies have never been better citizens. In the past decade, “corporate social responsibility” (CSR) has become the norm in the boardrooms of companies in rich countries, and increasingly in developing economies too. Most big firms now pledge to follow policies that define best practice in everything from the diversity of their workforces to human rights and the environment. Criticism of CSR has come mostly from those on the free-market right, who intone Milton Friedman's argument that the only “social responsibility of business is to increase its profits” and fret that business leaders have capitulated to political correctness. But in a new twist to the debate, a powerful critique of CSR has just been published by a leading left-wing thinker.

In his new book, “Supercapitalism”, Robert Reich denounces CSR as a dangerous diversion that is undermining democracy, not least in his native America. Mr Reich, an economist who served as labour secretary under Bill Clinton and now teaches at the University of California, Berkeley, admits to a Damascene conversion, having for many years “preached that social responsibility and profits converge over the long term”. He now believes that companies “cannot be socially responsible, at least not to any significant extent”, and that CSR activists are being diverted from the more realistic and important task of getting governments to solve social problems. Debating whether Wal-Mart or Google is good or evil misses the point, he says, which is that governments are responsible for setting rules that ensure that competing, profit-maximising firms do not act against the interests of society.

One after another, Mr Reich trashes the supposed triumphs of CSR. Socially responsible firms are more profitable? Nonsense. Certainly, companies sometimes find ways to cut costs that coincide with what CSR activists want: Wal-Mart adopts cheaper “green” packaging, say, or Starbucks gives part-time employees health insurance, which reduces staff turnover. But “to credit these corporations with being ‘socially responsible' is to stretch the term to mean anything a company might do to increase profits if, in doing so, it also happens to have some beneficent impact on the rest of society,” writes Mr Reich.

Worse, firms are using CSR to fool the public into believing that problems are being addressed, he argues, thereby preventing more meaningful political reform. As for politicians, they enjoy scoring points by publicly shaming companies that misbehave—price-gouging oil firms, say—while failing to make real changes to the regulations that make such misbehaviour possible, something Mr Reich blames on the growing clout of corporate lobbyists.

What will CSR advocates make of this? Few will dispute that government has a crucial role to play in setting the rules of the game. Many will also share Mr Reich's concern about the corrosive political power of corporate money. But Mr Reich has it “exactly backwards”, says John Ruggie of Harvard University. If citizens and politicians were prepared to do the right thing, he says, “there would be less need to rely on CSR in the first place.”

Thoughtful advocates of CSR also concede that companies are unlikely to do things that are against their self-interest. The real task is to get them to act in their enlightened long-term self-interest, rather than narrowly and in the short term. Mr Reich dismisses this as mere “smart management” rather than social responsibility. But done well, CSR can motivate employees and strengthen brands, while also providing benefits to society. Understanding and responding to the social context in which firms operate is increasingly a source of new products and services, observes Jane Nelson of the Prince of Wales International Business Leaders Forum. Telling firms they need not act responsibly might cause them to under-invest in these opportunities, and to focus excessively on short-term profits.

Intriguingly, Mr Reich looks back fondly to what he calls the “not quite golden age” in America after the second world war when firms really were socially responsible. Business leaders believed they had a duty to ensure that the benefits of economic growth were distributed equitably, in contrast to their modern counterparts, argues Mr Reich. What changed? Back then, big American firms enjoyed the luxury of oligopoly, he says, which gave them the ability to be socially responsible. Today's “supercapitalism” is based on fierce global competition in which firms can no longer afford such largesse.

Lenny Mendonca of McKinsey takes a different view of the post-war period. After the war business leaders realised it was in their enlightened self-interest to rebuild the global economy and reinvent the social contract, he says, and there is a similar opportunity today, given problems ranging from climate change to inadequate education, where firms' long-term self-interest may mean that they have an even greater incentive to find solutions than governments do. Certainly, in America, business leaders are advocating government action on education, climate change and health-care reform that is neither zero-sum nor short-termist, and which, indeed, may not differ much from Mr Reich's own preferences.

Though his book hits many targets, both bosses and CSR activists are likely to dismiss it as fundamentally unworldly and to agree with Simon Zadek, the boss of AccountAbility, a CSR lobby group. “The ‘whether in principle' conversation about CSR is over,” he says. “What remains is ‘What, specifically, and how?'”