

# Social Responsibility and economics: an historical perspective

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Pisa, 3rd of May, 2017

# What is sustainable, responsible and impact investing?

Sustainable, responsible and impact investing (SRI) is an investment discipline that considers environmental, social and corporate governance (ESG) criteria to generate long-term competitive financial returns and positive societal impact.

**SRI Assets in the United States:** According to the US SIF Foundation's 2016 [\*Report on Sustainable and Responsible Investing Trends in the United States\*](#), as of year-end 2015, more than one out of every five dollars under professional management in the United States—**\$8.72 trillion or more**—was invested according to SRI strategies.

# Motivations

- There are several motivations for sustainable, responsible and impact investing, including personal values and goals, institutional mission, and the demands of clients, shareholders or plan participants.
- Sustainable investors aim for strong financial performance, but also believe that these investments should be used to contribute to advancements in social, environmental and governance practices.
- They may actively seek out investments—such as community development loan funds or clean tech portfolios—that are likely to provide important societal or environmental benefits.
- This trend is at odds with “mainstream” economic theory.
- In this work we present the origins of the economics science and discuss the current new trend.

# Economics and Social responsibility

- The theoretical debate of the XIX century led to the birth of the so-called pure economics: political economy is a real 'science' in the social field that enjoys the same status of the experimental sciences.
- Paradigmatic in this sense as it writes Walras in 1896: «Social science appears to be, at least in part, the mechanics of moral forces—that is to say, an abstract and deductive science as much as and more than is the mechanics of physical forces>>.

# Economics and Social responsibility

- **Pantaleoni** writes: “*The observation that selfishness or self-interest is one of the most frequent and general causes of human actions, has been done consistently over such a vast scale, and can so easily be repeated by anyone that it can be doubted whether there is one who contexts its accuracy and it cannot in any way denied that through it, de facto, the economy has a stronger basis than most of the other sciences can boast. Above all it is clear to everyone that trade or business or in general what men employ to achieve what is commonly meant by wealth, has no other reason*” (Pantaleoni 1889, pp. 17 ff).
- **Keynes** writes: “it’s true that our economic activities are subject to the influence of a variety of motives, which sometimes strengthen and sometimes counteract one another, (but) it is also true that in *economic affairs the desire for wealth exerts a more uniform and an indefinitely stronger influence* amongst men taken in the mass that any other immediate aim [...] It is legitimate and even indispensable to begin by tracing the result of this desire under the supposition that it operates without check” (Keynes 1904<sup>3</sup>, p. 119).

# Economics and Social responsibility

- This step was justified by the belief that the economics, liberated from elements considered 'outsiders' (ideological, ethical, metaphysical or political) was finally able, through the use of empirical observation, the logical-deductive method and the mathematical tool, to identify and formulate general economic laws, considered invariant with respect to the types of organization of the economy and society.

# Economics and Social responsibility

- Summarizing, we can say that since the late nineteenth century onwards, the well-being of individuals in economic science, albeit with many variations, has been measured in terms of utility (utilitarianism), or by the degree of satisfaction that the purchase and consumption of market goods produced in them.
- According to this view, individuals derive and seek their satisfaction from the relationship of pleasure or pain with things, not with people, while elements such as altruism, compassion, social connections disappear, although with some exceptions, from description of the social and economic behaviour

# Economics and Social responsibility

- Indeed, the utilitarian approach can do without a reference to external moral values as it shares with the classical Smithian vision (or the neoclassical interpretation of Smith's view) the substantial coincidence between individual interest and collective interest (think of the famous metaphor of the invisible hand).
- In fact, there are a few exceptions and qualifications to the above coincidence, especially among classical economists. As clarified by Amartya Sen, for example, "[o]ther parts of Smith's writings on economics and society, dealing with observations of misery, the need for sympathy, and the role of ethical considerations in human behaviour, particularly the use of behaviour norms, have become relatively neglected as these considerations have themselves become unfashionable in economics"



# Economics and Social responsibility

- According to Sen, “the nature of modern economics has been substantially impoverished by the distance that has grown between economics and ethics” (Sen 1987, p. 7). This was not the case in the classical approach: “The ethical questions are obviously taken more seriously by some than by others. For example, it has a greater hold on the writings of, say, Adam Smith, John Stuart Mill (despite what Bentley says), Karl Marx, or Francis Edgeworth, than on the contributions of, say, William Petty, Francois Quesnay, David Ricardo, Augustine Cournot, or Leon Walras, who were more concerned with the logistic and engineering problems within economics” (ibidem, p. 6).

# Economics and Social responsibility

- Indeed Smith himself was a moral philosopher, and along with other Scottish economists (Hutcheson, Ferguson) and the Italian Enlightenment proponents of the “civil economy” (such as Genovesi, Galiani, Verri and Beccaria) and of the “social economy” tradition (Gioia, Romagnosi, Corbani, Minghetti) “inherit from the tradition of virtue ethics an anthropology focused on relationality [...]. To individualism and selfishness the Scottish philosopher opposes his vision of man built around the categories of fellow-feeling and sympathy, that is the need that there is in the human person to identify with the other”.

# Economics and Social responsibility

- However, from the XIX century on, the reductionist interpretation of the classical approach has prevailed, so that economics and other social sciences would be completely separated from virtue and ethics.
- Rather, as stated by Duchini referring to the neoclassical line of thought, “the economy is not neutral for the moral, is itself capable of expressing a natural moral” of a mechanistic type.
- *"Selfishness is considered the only rational basis of individual economic and social conduct; the theoretical schemes deducted from selfish principle are together normative schemes. Science and art [ie positive and normative theories ] are fully merged, the positive analysis of the competitive economy process merges with the defence of free competition and the condemnation of all state intervention ". (Duchini (1972), p. 467).*

# Economics and Social responsibility

- Although the discussion on the need for a distinction between pure and applied economics has continued in subsequent years, giving rise to the debate between the proponents of laissez-faire and those of State intervention, the principle of 'neutrality' of economic science has not been basically questioned.

# New trends in economics and SR

- Among the research strands developed so far, some have moved away from the so-called mainstream approach and have embraced a less partial and more realistic vision of the economic agent, while remaining within the individualistic framework and admitting varying degrees of rationality or altruism.
- However, such proposals have not succeeded in devising models and theorems that would reshape the description of fundamental economic problems such as production, consumption and distribution. What these models and theorems lack is the descriptive and prescriptive power of their neoclassical predecessors.

# New trends in economics and SR

- We are thus only at the beginning of a possible line of evolution. However, the various “pioneers” have already made a start on drafting new interpretive hypotheses concerning economic behaviour.
- Among these, one may cite “behavioural economics”, which holds that the actions of economic agents are strongly influenced by psychological elements—identified through cognitive psychology—or are linked to the social, socio-economic and cultural context

# New trends in economics and SR

- Recent contributions in evolutionary game theory have shed light on the mechanisms of norms evolutions.
- In this stream of literature, Sacco and Zamagni (1996, 2001) focus on the conditions under which reciprocity and altruism may survive and even spread over as social norms (see Sacco et al. 2006 for a survey).
- More in general, experimental works of the last thirty years, reviewed by Engel (2010) and Güth and Kocher (2014) provide evidence that in most cases individuals do not behave as *hominis oeconomici*.
- Among the latter works, Butler (1992) argues that “Morality, then, appears to be a preference variable. It is embedded within a type of 'extended rationality' (as described by Zamagni, 1991) in which it is 'rational for each individual to do his part to maintain a mutually advantageous arrangement' (*ibid*, p. 5). If it costs us relatively little, most will do the co-operative, collectively rational thing” (p. 299).

# New trends in economics and SR

- It is important also to cite the outcomes of studies undertaken within the tradition started by Giuseppe Toniolo, which have additionally drawn inspiration from later contribution of Francesco Vito; this line of research has burgeoned, as for Italy, into Stefano Zamagni's school with its focus on the economy of the common good and civil economy.
- Both Toniolo and Zamagni call for the need of a new anthropologic foundation of social sciences far beyond the Millian utilitarian ethics and of a new sociopolitical organization of society based on the PS



# New trends in economics and SR

- Another interesting related strand of literature based on non-hedonistic anthropological view is “happiness economics” (see Becchetti).
- According to this strand of thought, the outcomes both of the self-regulated market and of welfare-based “nanny-State” intervention can result in an erosion of trust, specifically of the trust that is the only element capable of guaranteeing the efficient functioning of an economic system.
- Furthermore, the methodological egoism postulated by the discipline of economics can, in turn, modify “that cultural heritage” of gratuity and fraternity which is necessary for the functioning of exchanges, and such a development could then fuel “egoistic” and “conflict-driven” mechanisms.

# New trends in economics and SR

- More in general, it is the very paradigm of homo oeconomicus that has been put into question in recent years and, at the same time, much attention has been devoted to the need to go beyond GDP as a measurement of a society's well-being.
- Sachs documents that in the USA the race towards greater affluence and prosperity has taken place at the expense of an erosion of social capital, mental well-being and ethical behaviour (Sachs 2011).

# Conclusions

- Economic science has developed without need of SR (although in contrast with smithian and classical view).
- Apparently, it did not need any «ethical justification».
- This approach has produced several damages (from descriptive analysis to normative prescriptions).
- New trends in economics research and new development of common wisdom boost for a renewed interest in SR.