

## **Joseph E. Stiglitz's address to panel on Defending Human Rights (revised)**

Geneva, December 3, 2013

It is a real pleasure for me to participate in this panel. I hope to bring to bear an economist's perspective on these issues.

Perhaps the single most important idea in economics is Adam Smith's invisible hand, that the pursuit of self-interest would lead, as if by an invisible hand, to the well-being of society. If this were true, it would mean that business leaders would have to ask only one question: what should I do to increase my bottom line? All other concerns would fall into place as a result of the wisdom of the market. Elevated to a creed, the idea has even more drastic implications: as long as I make a profit, I am still doing God's work — even if I abuse workers' basic rights or despoil the environment in the process.

Much of my own research over the past half century has been devoted to understanding why it is that Adam Smith's invisible hand so often seems invisible. (My conclusion, in a nutshell, is that it's invisible because it's not there.) I have sought to understand the conditions in which the pursuit of self-interest does not lead to the well-being of society; to identify the circumstances in which business leaders must also ask themselves hard questions about moral values, including upholding basic human rights, as reflected for instance in the Universal Declaration of Human Rights. This declaration guarantees every human being the right to work, under just conditions; to equal pay for equal work; to just remuneration adequate to ensure dignity; to a standard of living adequate for the health and well-being of himself and of his family. Businesses have a responsibility to help uphold these rights.

Recent years have provided a rich catalogue of abuses: from cigarette companies, purveyors of products that we know cause death and disease, making their products ever more attractive and addictive; to banks engaged in predatory and discriminatory lending practices, abusive credit card practices, market manipulation—every day seemingly a new abuse gets discovered; to businesses taking advantage of undocumented workers; to businesses realizing that in the imbalances of today's market place, one can pay workers far less than a livable wage, and that worker benefits can be further undercut by fighting collective bargaining and by fighting against a decent minimum wage. Our environment has been despoiled by companies that have shortchanged investments in safety—and at the same time they have put the lives of the workers that have been put at risk. These are actions that have been undertaken not just by a few rogue businesses, but by some of the world's largest and leading businesses, as they have pursued the goal of profit and value maximization.

Some of these transgressors have even tried to defend their actions by referring back to Smith, arguing that only through stock market value maximization will economic efficiency be reached. But again, research over the past four decades has shown that the idea that stock market value maximization would achieve efficiency—or a well-performing economy and society—has been shown to be a chimera. What each business does affects its workers, the community in which it

operates, and, in one way or another, society more broadly. There is no intellectual basis for shareholder capitalism—let alone the more predominant managerial capitalism. Other stakeholders' interests need to be considered.

Let me say a few words about the broader damage done by some of these transgressions. An economy, a society, cannot function without trust. Nowhere is this truer in the financial sector, which used to pride itself as based on trust. But when the head of one of America's leading banks, in defending his bank's actions in selling short securities that it had constructed to fail, without disclosing what it had done to its customers, said, in effect, that anyone who trusted his institution was a fool—caveat emptor—he may have been right; but he was at the same time undermining one of the fundamental pillars of our society.

Those in the business community often stress the importance of certain economic rights—for instance property rights, including intellectual property rights, and in some cases, even the rights of capital to move freely in and out of a country. But in emphasizing these economic rights, they often given short shrift to other economic rights, including the fundamental rights reflected in the Universal Declaration.

They have failed to understand that the exercise of seeming rights by one party may result in the deprivation of rights to another. In each of the instances I described a few minutes ago, basic human rights including that most basic right, the right to live, were infringed by businesses as they invoked their own "rights".

With these economic rights also come responsibilities, but some in the business world would like the former without the latter. Owners of property need to make sure that their property is not used as a toxic waste dump, endangering the ground water supply, and the lives of those who tap into it. But in too many cases, they have been derelict in these responsibilities.

One of the responsibilities of businesses is to pay taxes. But globalization has opened up vast new opportunities for tax avoidance. There are major information technology companies whose profitability relies on them claiming the sole rights — through intellectual property rights — to the private profits from inventions that have roots in publicly funded research. The world's largest information technology companies would arguably not even exist were it not for public investments in basic and applied research that led to the creation of the Internet, and the Web browser. Unfortunately, in many cases, these businesses' true innovations have been in the field of tax avoidance.

We should be clear that the kind of managerial and shareholder capitalism that I have been describing has not been delivering for large parts of the world's population. I spend a great deal of time talking about inequality in my own country, the United States, where the median income today is lower than it was almost a quarter century ago. Most have not shared in the growth that occurred. But similar and worse imbalances exist in an increasing number of countries, and at a global scale as well. It has been estimated that from 1988 to 2008, a time of great growth in many developing countries, the world's top 1 percent saw their incomes increase by 60 percent, while those in the bottom 5 percent had no change in their income.

Globally, the top 1 percent takes home about 15 percent of total income. And even as middle classes (and their incomes) have also grown in many societies over this period, increases in prosperity for vast numbers of the human population have not matched the potential of our remarkable advances in technology. And gains have not been achieved in a way that is sustainable – for the environment or for societies.

If we are to have an economy that functions well, and in which most citizens now and in the future benefit from progress, businesses must go beyond a narrow focus on shareholder value; and even more so, managers must go beyond what increases their incomes and the value of their stock options.

How do these ideas translate into precepts for business policy? I want to put forward three ideas. The first is a simple idea, a variant of the Hippocratic Oath that every doctor undertakes: Do no harm. In many of the instances I described earlier, businesses were doing harm. The actions of bankers, mostly in a few capitals of finance, led to a global economic downturn. When drug companies use claims on intellectual property rights, especially under some of the bilateral trade agreements, to deny access to life-saving generic medicines, there is real harm: thousands will die unnecessarily.

Doing no harm is not, however, enough. Corporations are a particularly effective form of collective action—people working toward a common end, producing goods and services that others need and want. The whole is more than the sum of the parts; and the power of these organizations can be harnessed for broader social objectives. Too often, businesses think of installing energy-efficient light bulbs as an act of corporate responsibility. It is, but there is so much more that businesses can do, especially when they take a rights approach.

Indeed, this distinction between passively or bare-minimum respect for human rights, and a more active approach, is enshrined in the UN's Guiding Principles for Business and Human Rights, which admonishes businesses to "Seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts." I hope that in today's discussions we will be able to elaborate on the outcome of this perspective, but the logic is clear: instead of just installing energy-efficient light bulbs, a business can show how a redesign of its entire building can lead to better environmental impacts. We can extend that logic to many other rights-protecting measures.

Workers spend large fractions of their lives on the job. It may be in the self-interest of businesses to treat their workers well (a theory known as the efficiency wage theory); but even if that were not the case, basic human decency and a respect for the dignity of others suggests that businesses ought to do what they can to ensure that the workplace is as safe and pleasant as possible.

Thirdly, some businesses have taken the view that it is not their job to determine what is right or wrong; that is the responsibility of government. Their job is to maximize profits, given the laws and regulations. But there is a certain disingenuousness in this position. For many

businesses have taken an active role in setting the laws and regulations. Too often, they have advocated laws and regulations that have given short shrift to the rights of workers and consumers and the protection of the environment. To my mind, an essential aspect of corporate responsibility is not only not opposing laws that enhance the protection of human rights, but also publicly supporting such legislation.

Today, it is fashionable to talk about the importance of accountability. Those who believe in incentives naturally understand that without good systems of accountability, there can't be appropriate incentive structures. But unfortunately, the collective action that is central to corporations undermines individual responsibility. It has been repeatedly noted how none of those in charge of the big banks that brought the world's economy to the brink of ruin have been held accountable for their misdeeds. How can it be that no one is responsible? Especially when there have been misdeeds of the magnitude of those that have occurred in recent years?

In many countries, especially, but not only, poor and developing countries, there is a nexus between government and wealthy businesses. This nexus makes it difficult if not impossible to prosecute abuses, whether it is of basic human rights or despoiling the environment. That is why prosecutions for violations of basic rights need to be the responsibility of the broader international community. We've recognized this in other contexts. The international community established the International Criminal Court, in part out of recognition that some countries wouldn't take appropriate actions. So too in the sphere which we are discussing today. We need international cross-border enforcement, including through broader and strengthened laws, giving broad legal rights to bring actions, which can hold companies that violate human rights accountable in their home countries. Soft law—the establishment of norms of the kind reflected in the Guiding Principles on Business and Human Rights—are critical; but they will not suffice. We need to move towards a binding international agreement enshrining these norms.

Before concluding, I want to make one more observation. Some advocates of corporate responsibility argue that it is in businesses' self-interest to be responsible. They note that companies with better records of corporate responsibility have, on average performed better. The evidence supports that conclusion. Perhaps it's because businesses that are more attentive to their broader societal obligations are, in many other ways, better businesses as well. They may be more attentive to what is going on in the market place as well. But corporate responsibility, and especially so when it touches on human rights, should not just be a matter of self-interest. Perceptions of self-interest can change. In that sense, self-interest, in the narrowly defined sense, is a weak reed on which to rely. (There is, of course, a broader sense of self-interest—sometimes referred to as self-interest rightly understood, which goes beyond narrowly defined "selfish" self-interest to a concern for society more generally. It is this broader sense which Smith himself meant, though this broader conception has sadly been ignored by his latter day followers.)

The reason that businesses should embrace corporate responsibility is not selfish self-interest, but because it is the right thing to do.

Let me congratulate the UN for the important work that it has been doing in advancing corporate responsibility, and the Human Rights Council for convening this meeting, focusing on the responsibility of businesses for advancing human rights.

Economic theory has explained why we cannot rely on the pursuit of self-interest; and the experiences of recent years have reinforced that conclusion. What is needed is stronger norms, clearer understandings of what is acceptable—and what is not—and stronger laws and regulations to ensure that those that do not behave in ways that are consistent with these norms are held accountable.