

Stewardship versus the Market: A Skeptical Perspective

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Abstract

This chapter aims to put the challenge of corporate stewardship in broader historical perspective, and in doing so, to call attention to the daunting nature of this challenge. Notwithstanding laudable efforts by some corporate leaders such as those discussed in several chapters of this volume, effective stewardship of social and natural resources is, I argue, impossible so long as our economy is based on market competition. Moreover, as social and environmental degradation accelerates, the illusion that we can engender genuine stewardship in a market-based economy becomes increasingly dangerous. To make effective stewardship a reality across a wide enough swath of enterprises, we will need to remake fundamentally our society so that economic decisions are no longer driven by market competition but instead by collective deliberation.

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*“Despite all this good work, we still must face a sobering fact. If every company on the planet were to adopt the best environmental practices of the “leading” companies—say, the Body Shop, Patagonia or 3M—the world would still be moving toward sure degradation and collapse. [...] Quite simply, our business practices are destroying life on earth. Given current corporate practices, not one wildlife preserve, wilderness or indigenous culture will survive the global market economy. We know that every natural system on the planet is disintegrating. The land, water, air and sea have been functionally transformed from life-supporting systems into repositories for waste. There is no polite way to say that business is destroying the world” (Paul Hawkins, *The Ecology of Commerce*, New York: Harper, 1993, Preface, p.3.)*

Introduction

Our species is degrading our natural resources far faster than they can be renewed, and in the most affluent economies such as the USA and Europe, the disproportion has reached critical thresholds. The depletion and abuse of our natural resources is accelerating, and the conduct of the business sector is a critical driver of that degradation. The degradation of our social resources—people and communities—is not much less disturbing, and the business sector’s role in that trend is not much less critical. While some regions and some groups have seen their social and economic conditions improve, it remains a monstrous scandal that so many people across so many regions of the world still suffer such needless economic deprivations and harms.

Against this backdrop, it is heartening to read accounts such as those offered in the preceding chapters, where we learn about corporate leaders who are attempting to exercise greater stewardship for natural and social resources. The Introduction to this volume defines stewardship as “the careful management of something that belongs to others, with the clear implication that stewards not only make proper current use of that which they hold in trust, they must leave it in better condition for use by future generations.” Several of the preceding chapters have shown how some businesses have improved their competitive positions by assuming greater stewardship responsibility. Some authors here, like a growing chorus of commentators, extrapolate from these successes to argue we can reverse the overall trends towards environmental and social degradation by creating a normative and regulatory context in which the competitive process itself drives firms towards stewardship.

The present chapter offers some reasons to doubt this optimistic perspective. My skepticism is informed by my reading of both the historical record and one of the great classics of historical sociology, *The Great Transformation*, by Karl Polanyi (Beacon Press, 2001, originally published in 1944). Polanyi’s argument was straightforward, and it seems even more compelling today than when he formulated it. The basic character of advanced economies then as now gives market competition a fundamental role in directing the allocation of resources, and in particular in directing investment in such a way as to either protect or harm people and nature. In such a market-based economy, however, enterprises are under pressure to ignore the consequences of their choices except insofar as they affect the firm’s own near-term costs, revenues, and profitability. Broader and longer-term consequences—including the consequences of the firm’s choices for people and nature—figure as “externalities” for the firm, and any firm that takes responsibility for (“internalizes”) such externalities risks taking on additional costs that are likely to handicap it in competition with its less virtuous rivals.

While creative firms can sometimes find “win-win” solutions that make such virtuous internalization profitable, there are many reasons to doubt that these win-win solutions are so abundant as to lead firms, spontaneously and across the whole economy, towards robust stewardship policies. To believe otherwise is

to assume that this vast array of profitable opportunities has somehow gone unnoticed by the great majority of our business leaders. A fairer assumption, surely, is that most of these leaders are reasonably diligent and creative in seeking out profitable opportunities, and that such win-win opportunities are simply not so abundant. This premise helps make sense of Paul Hawkin²'s assessment summarized in this chapter's epigraph.

If the market does not drive firms towards environmental and social stewardship, what forces could lead firms in sufficient numbers to behave more responsibly? In principle, government legislation and regulation and societal norms (in the form of employee, consumer, and community expectations, NGO pressure, etc.) could play this role. Indeed, these forces have pushed firms to internalize some externalities, if only because refusing to comply might risk the firm's market reputation or its license to operate. One might imagine that if such pressures were intensified, they could push firms further towards stewardship policies, especially if these outside forces find more allies among enlightened business leaders.

Were our social and environmental challenges less severe, such a scenario would be eminently plausible. But the evidence suggests that the scale and urgency of these challenges render this scenario highly unlikely. Consider what we will need to do to limit further degradation, to reverse the dynamics of climate change that we have unleashed, and to adapt to the many changes that have already begun to accelerate in the form of rising sea levels, changes in average temperatures, increases in weather variability, the depletion of fresh water resources, and the massive disruption of agriculture, industry, health and habitat that these portend. Any serious effort to deal with these challenges—serious enough to have a good chance of surmounting them—will likely provoke formidable counter-pressures. An analysis of the balance of forces between these pressures and counter-pressures leads me to a decidedly pessimistic prognosis. I am forced to conclude that these challenges can only be successfully surmounted if the prevailing economic structure is radically transformed.

Our “market-based” economy

The root issue, I argue, following Polanyi's lead, is our market-based economy. As places where people exchange a surplus of something they have produced for something else that they need or need want, *markets* existed for millennia. Here the market figures an adjunct to people's production for their own use. A *market-based economy*, however, is a much more recent invention, dating from 18th century England. Here the market moved from an adjunct to a central role, and the entire economic system shifted towards the ideal of a self-regulating system based on the supply and demand of commodities produced by means of other commodities (using the term “commodity” in its political-economy rather than colloquial sense—as something produced for sale rather than for direct use).

Before the market-based economy emerged, exchange was only a secondary, ancillary mechanism of economic coordination. The dominant mechanisms were reciprocity (in the form of gift exchange), house-holding (in self-sufficient household economies), and redistribution (in the form of tributes and taxes given to and redistributed by a clan or royal authority). Exchange was primarily between communities, rather than within them. Moreover, social and cultural norms powerfully shaped expectations about what types of exchange behavior were acceptable. For a market-based economy to emerge, economic activity—production and exchange—had to be “dis-embedded” from these normative and authoritative constraints—freed from the weight of moral, customary, and religious constraints, and thereby giving centrality to the untrammelled pursuit of individual pecuniary advantage. This was the “great transformation” to which Polanyi refers, marking the passage from feudalism and other pre-capitalist systems to the market-based form of society we call capitalism and that in several variants dominates the globe today.

With economic activity largely freed of government and social controls, the scale of markets increased, as did the size of the participating enterprises. Small-scale domestic and craft production was largely replaced by large-scale enterprises. Due to their scale, these enterprises needed to borrow investment funds. Specialized financial markets emerged to meet this need, and as these financial markets expanded in scope, investment funds flowed ever more efficiently to the most profitable uses available. The result has been that producers in our market-based economy find themselves forced to aim for the highest possible rates of growth and profit—and to ignore social and environmental externalities as far as they can—lest they

become less attractive to investors than their faster growing and more profitable competitors. This growth-and-profitability imperative is just as ineluctable for virtuous business leaders as for greedy ones.

Fictitious commodities and the failures of the self-regulating market

Investment funds are not, of course, the only resource required by enterprises in a market-based economy. Increasingly, capital equipment and intermediate goods are needed too: in due course, these appeared as commodities on the market available for purchase by other enterprises. Natural and human resources too are required by this system on an ever-greater scale. In mobilizing these latter resources, however, the market-based system encounters a structural limit. Unlike the equipment and intermediate goods that businesses find available in the market place, natural and human resources are not truly commodities—they are not produced for sale on the market: natural resources are given by nature, and human resources are nurtured by families and communities. They are therefore “fictitious” commodities, to use Polanyi’s term: they are resources whose treatment as commodities contradicts the actual conditions of their production and exchange.

This contradiction manifests itself in two main ways. First, for these resources to appear on the market place at all, they must be freed from the control of traditional communal and authority structures: they must be withdrawn from the rules of reciprocity, householding, and redistribution and subordinated to the rules of exchange. This process has everywhere been a rather violent one, dispossessing people of their traditional means of subsistence as peasant farmers and forcing them into wage labor, and dispossessing communities of their traditional communal relationship to the land and giving individual title to the land enabling its sale and lease. The dispossession of labor and land was a particularly visible process during the initial emergence of the market-based economy; but it continues to operate, typically contested and sometimes violent, as capitalism develops and draws into the orbit of the market economy new geographic regions (such as the formerly socialist countries) and new aspects of social intercourse (such as ideas being transformed into intellectual property, communal lands being appropriated for private developers, and rotating credit associations being transformed into corporate microfinance programs).

Second, this contradiction is manifest in the effects on labor and nature once they appear on the market place. While the supply of real commodities can, at least in principle, adjust fluidly to changes in demand, the ideal of a self-regulating, self-equilibrating market process fails when it comes to these two fictitious resources, and in the absence of sufficiently powerful normative or regulative constraints, the spontaneous working of the market economy proved to be very destructive of these two resources. Let us take human and natural resources in turn to pinpoint the problems created by this contradiction.

In the case of human resources, once dispossession has done its work, the enterprise finds labor services—“labor-power”—available on a labor market; but this resource cannot be detached from the people who embody it, and those people remain deeply embedded in families and communities. Unlike a real commodity, the supply of such this resource cannot adapt to changing demand conditions without massive ripple effects on those families and communities. These effects can be, and in many cases have been, benign and welcome. Relative to prior forms of society, market-based economies often afforded huge advances in individual freedom and material affluence. However, in many cases, in the absence of strong normative or regulative constraints on business operations, these effects have been destructive. When demand for labor-power falls, unemployment ensues, families lose their means of subsistence, and communities are stressed if not devastated. When demand for labor-power rises, working hours lengthen, often to the point of impairing the health of workers and the well-being of their families and communities; new categories of workers are drawn into the labor-market—most distressingly, children; and workplace injuries and deaths multiply. In the most developed economies, it took many decades of protest and regulatory reform to put even modest safeguards into place to avoid these abuses of labor resources.

Natural resources too are abused when they are treated as if they were true commodities whose supply can adjust smoothly to changes in demand. Some resources, such as air, are appropriated as free gifts of nature and used as such by enterprises; others, such as land, are first appropriated as private property and then rented or sold. In the former case, we are dealing with common pool resources, where overuse and inadequate maintenance can be avoided only by strong government or normative constraints. But precisely insofar as the economy has been disembedded from those constraints, and precisely to the extent that the

maintenance of these resources appears as an externality to profit-driven firms, environmental degradation is almost inevitable. In the latter case, where private property is established, ownership creates at least some incentive for stewardship, since the owner of the resource does not want its future utility impaired. But insofar as these owners participate in the competitive market place, they cannot promise genuine environmental stewardship because they cannot afford to consider a time horizon longer than investors' discount rates permit: mining companies, for example, leave as wasteland the open-pit mines that they have successfully exploited. The private ownership of land and water therefore does far too little to protect them from abuse.

The “double movement” and its prognosis

These abuses of human and environmental resources were prominent in the early phases of the emergence of the market-based economy and they provoked normative and regulative backlash aiming to “re-embed” the market for these resources and to reassert a degree of social control over economic behavior. Polanyi called this disembedding-reembedding dynamic the “double movement” of market-based economies: the former movement, he argued, would inevitably provoke the latter. If we retrace this double movement and the factors that accounted for both its successes and its failures, we can formulate a prognosis for the future of corporate stewardship.

Concerning enterprises' stewardship of social resources, the dynamic has been as follows. The negative social externalities of business activity—insufficient work leading to poverty, too much work impairing non-work life, dangerous work putting lives and health at risk, unfulfilling work stifling human development, etc.—often provoke protests by those who suffer from these externalities. Protest movements, labor unions, and labor parties emerged. Sometimes these movements gathered enough force to jeopardize the stability of the social order. Enlightened business and political leaders, responding to this challenge, sometimes enacted helpful laws and regulations—limiting work hours, abolishing child labor, instituting minimum wages and unemployment insurance, regulating workplace safety standards, institutionalizing basic education, legalizing unions, etc.—and these regulations have enabled businesses to adopt more humane policies without risking that competitors would undercut their prices and force them out of business. Indeed, in many cases, the internalization of these social externalities eventually boosted productivity, wages, and consumer demand, creating a virtuous circle of economic growth and income levels. The result has been that over the past century and more we have seen progress—albeit slow, erratic, and uneven—in business's stewardship of human and social resources. I see little reason to think the future would be much different from the past on this, social, dimension—were it not for the compounding effects of our environmental challenges.

The past record of the business sector's environmental stewardship is far more negative, and our prognosis must, I fear, be far more pessimistic. I will not rehearse the relevant baseline scenarios here—other chapters have been eloquent on the accelerating deterioration of our atmosphere, oceans, fresh water, forests, and biodiversity, and the resulting impacts on human wellbeing. Notwithstanding the mounting risks, I see strong reasons to doubt that regulatory or normative pressures can succeed in pushing business to deal far enough and fast enough with these challenges. While the negative environmental externalities of business sometimes provoke protests, and while these protests sometimes prompt regulatory action, environmental protests are typically less potent than social protests, and they are more likely to provoke more intense counter-pressure to block regulation.

Environmental protests are typically less potent because most environmental externalities have a diffuse rather than geographically concentrated effect, and these effects are often slow to manifest their impact on humans. Greenhouse gas emissions, for example, affect the global climate rather than local conditions, and do so only cumulatively, over a period of many decades. There are exceptions—sometimes local communities are affected dramatically enough by some environmental externalities to prompt the organization of very effective protest movements—but these exceptions are rare relative to the ubiquity of environmental degradation. Protests addressing broader, long-term environmental challenges are bound to be more difficult to organize, less compelling in their arguments, and less of a threat to social order.

Environmental protests are also more likely to provoke more intense counter-pressures. While stronger environmental stewardship will surely create some new business and job opportunities (for example, in solar energy), the very aggressive environmental regulations that we need now to forestall the looming environmental crises will inevitably create massive regional losses in jobs and tax revenues as entire industries are dramatically downsized (for example, oil, coal, auto). Any regulations serious enough to deal with the impending crises will deter investment; investment funds will flow rapidly away from more heavily regulated regions; and the affected businesses will intensify their efforts to change public policy at both the local and global levels.

The fundamental problem can be stated simply. If our environmental challenges were less serious, we might well expect that modest regulatory pressure would encourage rather than discourage investment, and would thereby spark a new phase of “green growth.” In reality, however, the environmental crisis has gone so far and is progressing so quickly that modest regulatory measures will not suffice. The most credible evidence suggests that now—right now—we need dramatic cuts in production and consumption levels, at least in the most affluent parts of the world. If we agree that less affluent countries, which have inflicted less cumulative environmental damage and which house populations in greater need, should shoulder less of this burden than the more affluent countries, then the cuts we need in these latter countries will need to be of truly massive proportions. In these more affluent countries, we need to get on a path of “de-growth.” Everything we know about the market-based economy, however, suggests that a negative growth trajectory would rapidly degenerate into economic crisis. The reason is not hard to see: private-sector investment flows where it can expect a healthy rate of return; and where overall production is on a declining trajectory, private sector investment will not be forthcoming—savings will be hoarded rather than invested—and the gears of private enterprise will stop turning.

In sum, in a market-based economy, regulatory efforts on behalf of the environment of the intensity and breadth that are needed now are not likely to create any virtuous cycle of economic growth but are instead more likely to engender economic crisis. As a result, business opposition is likely to be more tenacious and other stakeholders are likely to be more ambivalent. There is therefore little reason to believe that regulatory and normative pressures can prevail over these counter-pressures in any market-based economy.

The choice we face

The argument so far suggests that so long as we live in a market-based system, there are severe limits to the power of social norms or government regulation to reorient economic decision-making, and those limits preclude the kinds of reforms that would be needed if we are to avoid the looming environmental and social crises. We need to get onto a de-growth trajectory, at least in the developed economies of the North America and Europe; however, the market-based economic system is simply incompatible with de-growth.

De-growth is of course possible in principle, but only if investment and production decisions are no longer primarily in the hands of private-sector enterprises operating under the market-based system’s growth-and-profitability imperative, and are instead put in the hands of some over-arching planning authority. Moreover, given the globally interdependent nature of our environmental challenges, such a planning authority would need to be global rather than only national in scope. As a result, the real choice we face—if we have any chance of avoiding ecological catastrophe, the resulting social crisis, and the degeneration of society into dispersed survivalist communities—is whether this global planning authority will take a despotic, autocratic, or democratic form. Despotic and autocratic global planning are terrifyingly dystopian prospects. In contrast, democratic global planning seems implausibly utopian: it is, however, far less utopian than the dream that somehow our market-based system can be adjusted so as to avoid the looming catastrophe.

My diagnosis leads to no easy solutions, clearly. But it does point to two criteria, one negative and the other positive, which might guide our way. Negatively: it is important, as Paul Hawkins argues, that we not encourage the illusion that the kinds of things progressive businesses are doing today are “a good first step,” “headed in the right direction.” It is no contribution to the public debate that we need to have today to encourage the illusion that firms will do better competitively if they exercise more stewardship: in reality, sometimes greater stewardship will help the firm’s bottom line and sometimes it will not, and if we hinge our

hopes on the market driving firms towards stewardship, we will be inadvertently accelerating, not decelerating, the unfolding crises. While applauding the goodwill demonstrated by these corporate leaders, we should be clear that their efforts do not point to a solution. When the patient has cancer and needs major surgery, dieting is nice but not a cure, and it is dangerous to encourage the patient to think otherwise.

Negatively too, we should not indulge the facile assumption that technological innovation will allow the market-based economy to adapt to the looming environmental and social challenges. Many economists have argued that market will be able to deal with these challenges because the growing demand for energy-efficient equipment and buildings, for weather-resistant structures, for pest- and drought-resistant seeds, and so forth will incentivize private-sector R&D efforts in those directions. Indeed, I see no reason to believe that technological innovation could not allow a projected 10 billion people or more to live in comfort on this planet; however, it defies credibility to imagine that the market-based economy, even aided by government subsidies and regulations, could mobilize the massive, sustained R&D effort that would be required, *and* drive the resulting new technologies into wide-spread use, *and* get industry to abandon the huge accumulated capital assets thus rendered obsolete, *and* achieve all this in time to avert the collapse of numerous ecological and social systems. Technology can probably save us, but it surely cannot save the market-based economy.

Positively, we need to celebrate instances where we see the market being effectively re-embedded—where investment and production decisions are being driven by social needs rather than private profit considerations. Where popular city governments team up with local credit unions and union pension funds to support the emergence of local cooperatives, where these cooperatives join together in planning processes that involve the local community, where these cooperatives' products respond to real economic, social and environmental needs as determined by the people involved—here, even if the experiments are local in nature and far from the global scale we so urgently need, at least such examples help people to see the contours of the kind of world we need to create. There is an impressive range of such new democratic institutions and institutional ecologies that have been quietly developing just below the surface of public awareness in recent years. They presage various ways of re-embedding the economy, not as a return to pre-capitalist modes of embeddedness, but as the creation of a new form of society where economic decisions are made under norms of democratic dialogue.

Such institutions, however, will need to find social movements powerful enough to propel their global diffusion. It is here that our disempowerment is most frustrating. At the moment, the best hope for the emergence of such movements lies in the chaos that we are likely to see over the coming few decades as the environmental crises deepen. If current predictions are even approximately accurate, that chaos will involve a combination of widespread economic collapse, massive population transfers, intensifying tensions over fresh water and arable land, and proliferating epidemics. Such chaos may well galvanize mass movements powerful enough to reshape the economy on a national and indeed international scale.

The turmoil of the Great Depression in the 1930s provoked the emergence of new mass movements that prompted important changes in the economic system: by comparison, the chaos likely to emerge in the near future will be far more disruptive and the movements it provokes will therefore probably articulate far more radical goals. Like the Great Depression, however, the looming chaos will represent a very dangerous period, since it will confront us with a very stark choices between despotism or autocracy on the one hand—benefitting from a well-oiled arsenal of ideological as well as military weapons—and on the other hand, a highly uncertain path of social experimentation towards a radical deepening and broadening of democracy. It is this latter, democratic path, however, that we will need to forge if we want to create the conditions for genuine stewardship by economic enterprises.