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Regulating global capitalism amid rampant corporate wrongdoing—Reply to “Three frames for innovation policy”

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ABSTRACT

Despite progress in science and technology and the economic prosperity achieved by numerous countries over the past century, contemporary global capitalism has left us with severe grand challenges for the future including rising inequality, global warming, modern slavery, child labor and several other human rights struggles. How can we fix them? For many years, scholars and policy makers alike have believed that economic growth (fueled by innovation) would fix institutional failures and lift people out of human misery. We now know that this story creeps. I would suggest that the current grand challenges are related in a non-trivial way to companies' wrongful business conduct, especially that of large multinational corporations which have grown to rival governments in size, and have proven to be powerful agents capable of shaping the global governance agenda. I challenge technological determinism and 'transformative change' frameworks by arguing that the regulation of global capitalism needs to put powerful private actors at center stage since neglecting them will give rise to yet another generation of dysfunctional development and innovation policies.

In their essay “Three frames for innovation policy”, Schot and Steinmueller (S&S, this issue) provide a thought-provoking interpretation of roughly seventy years of research in innovation studies. Their goal is to identify the shortcomings of some of the normative solutions proposed by earlier research, and advocate for a novel pathway (i.e. transformative change), which they claim is more suitable compared to the alternatives, to address contemporary grand challenges such as climate change and inequality for instance. They examine three powerful framings in innovation policy: first, innovation for growth (framing 1) which stresses the relevance of science and technology for long-term economic growth, and policy-wise, creates a rationale for public spending to foster research and technological advancements (Nelson, 1959; Arrow, 1962); second, national systems of innovation (framing 2) which hinges on the inter-organizational nature of innovation and emphasizes the need for policy to address coordination failures at the national, industrial or local levels (Lundvall, 1992; Nelson, 1993). Third, transformative change (framing 3), which places social and environmental concerns at the very core of a novel policy agenda, involves experimentation with new forms of engagement among a variety of actors including civil-society and users, to propose new solutions. It is interesting that S&S view the policies developed under the aegis of framings 1 and 2 as centered on advanced countries, with developing countries expected to mimic their policies to achieve

catch up. In contrast, framing 3 foresees communities in poor countries also experimenting and defining their own innovation forms from which advanced countries could also learn.

This essay gave me much food for thought. On the one hand, as a scholar interested in development issues, I greatly appreciate the efforts of innovation scholars to place social and environmental issues, however defined, at the core of policy debate. On the other hand, I feel that the thought-provoking nature of the discussion sometimes descended into gross generalizations about framings 1 and 2 with which I did not agree, or which only partially fulfilled my expectations. However, let me outline my agreement with S&S before discussing the more contentious issues.

First, I agree that the *symptoms are clear*: we do have more than one ‘sustainability’ problem in urgent need of attention. S&S mention rising inequality and poverty, and global warming, and make broad reference to the UN Sustainable Development Goals (SDGs). In that context, I want to highlight a few more issues of concern which frequently relate to companies' operations world-wide, and which S&S do not pick up explicitly. One such is modern slavery in the form of forced or bonded labor in global supply chains. This has become a salient phenomenon that is being exacerbated by the migration crisis, as exemplified by cases such as Rohingya refugees working as slaves in the Thai fishing industry, or North African migrants working in agriculture in Italy and

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Spain (Nieuwenkamp, 2016). To make sense of this problem, in 2014 the International Labor Organization (I.L.O.) estimated that there were some 21 million victims of forced labor (I.L.O., 2014), while more recent estimates suggest some 24.9 million victims of forced labor in 2016, 16 million of which are in the private economy, and 4.1 million are in state-sponsored forced labor including mandatory agricultural work (Ardea International, 2016).² Unfortunately, modern slavery and other forms of human degradation at work exist across industries, and in some cases have been reported as occurring in the lowest levels of global supply chains orchestrated by highly reputable multinational corporations, for instance, in connection with coltan or rare earth minerals extraction for the telecommunications industry. In similar vein, the I.L.O. reports that in 2016 a total of 152 million children were employed globally as child labor, with a striking 73 million children working in hazardous conditions that endangered their health, safety, and moral development (I.L.O., 2017). Another important grand challenge which should be mentioned explicitly is related to burgeoning evidence of premature deaths associated to fine particulate pollution (e.g. PM 2.5) from factories, power plants, and car exhausts (Di et al., 2017). In this regard, a 2017 European Environmental Agency report indicates that PM 2.5 concentrations were responsible for about 428,000 premature deaths in 2014, originating from longterm exposure in Europe (European Environment Agency, 2017). It seems that the negative environmental impacts caused by industrial activities and their products, have greater human costs than are predicted by the conventional Kuznets curve, so that premature death through higher cancer incidence is becoming a public health issue in most advanced economies (see Luzzati et al., 2018). Other macroscopic evidence on current grand challenges emerges from the EU-funded EJAAtlas project³ on environmental justice which documents over 2,000 social conflicts around environmental issues, involving more than 500 companies around the world whose business activities are threatening the livelihoods of various world communities. I could list more of these business-related sustainability struggles around the world but these examples would seem sufficient to show that something has gone very wrong, and that the extraordinary advancements in science and technology accomplished by the public and private sectors (and via their collaboration) over the last fifty years, have not kept pace with these new major environmental, health and labor rights challenges.

Against this background, my second point of agreement with S&S is that it is about time to debunk consequential views of economic development processes. The evidence tells us that economic growth will not lead to greater and diffused wellbeing, nor will it eradicate global injustice (Sen, 2009), while scholars recently have warned about the rise of inequality (e.g. Piketty, 2014). In certain academic circles, this is not novel. Amartya Sen immediately comes to mind. In rejecting utilitarianism, he proposed a model of development as a process of expanding “the real freedoms that people enjoy” (Sen, 1999; p. 3), calling for the need to overcome narrower views identifying development with GDP growth, income growth, or industrialization. The overall idea is that the enjoyment of certain rights which he describes as ‘freedoms’, is an end in itself and not the result of the magic of GDP growth. He was right on normative and also positive grounds; several economists are now expressing concern about the negative societal impacts of economic activities, and their global investments and trade (Rodrik, 2017; Stiglitz, 2006). Some are questioning the idea enshrined in modernization theory (Lipset, 1959) and in the broader consequentialist views on international development, that economic growth will fix institutional failures and lift people out of human misery (Acemoglu et al., 2009; Acemoglu and Robinson, 2012).

These uncertain effects of economic growth on human welfare

² See: <https://www.globallslaveryindex.org/findings/>, last accessed 20 April 2018.

³ See: <https://ejatlas.org/about>, last accessed 15 April 2018.

become even more piquant when one considers the negative externalities or otherwise defined harmful impacts that companies generate as they (allegedly) contribute to economic growth. Recall that, traditionally, negative externalities have been seen as something governments should fix on the basis of the political principle that the imposition of taxes and the expenditure of taxes are governmental functions that should not be left to private companies (Friedman, 1970). However, as we all now know, this principle has been challenged strongly because, in the current global economic landscape, companies operate across geographical spaces (via their investments, global value chains, and trade), and navigate across a wide variety of institutional contexts where the capacity of state or regional agencies to fix negative externalities cannot be taken for granted. Some countries may be too institutionally weak to ensure the rule of law or the respect of fundamental rights. Thus, firms can end up operating in countries with failed state agencies unable to deal with their negative externalities (Scherer and Palazzo, 2008). In fact, governments even in the most economically advanced countries cannot always deal efficiently with negative externalities, because they are often too slow to address these problems (Hart and Zingales, 2017). Therefore, I agree with S&S that we need to think differently about development processes, and to debunk the idea that economic growth eventually will fix all the socio-environmental problems it creates or encounters along the way.

Third, I agree that *anticipation is key*. One way to deal with the harmful impacts of business activities on society and the environment is by ensuring that they are avoided to the extent possible. Many believe that in some industries in particular, advancements in so-called green technologies will prevent the occurrence of a great deal of harm (Henderson, 2015), and therefore they have very high expectations about the capacity of science and technology to address contemporary grand challenges. However, is a more mission-oriented science and technology the answer? As I will elaborate later, I think that science and technology understood as knowledge that allows for the discovery of new ideas, products, or processes, will probably help to address some environmental concerns but it remains rather unclear how they would contribute to eradicating other challenges such as modern slavery or child labor, unless companies are able to accomplish radical organizational innovations. Nevertheless, I agree that anticipation is the key.

Although with some differences, I concur with S&S on some issues, but tend to disagree on some others. One area of disagreement is the way they portray innovation scholars belonging to framings 1 and 2, as narrow-minded consequentialists who view technology as a means to an end - the end being economic growth. The following quote is a nice introduction to their view:

The innovation model of both Framings 1 and 2 views social and environmental goals as being achieved through economic growth and the possibility of re-distribution of surpluses generated by productivity improvements and by a capacity for technocratic elites to regulate externalities in the service of social and environmental goals (S&S, p. 19)

The narrative that is constructed throughout the essay is that ‘framings 1 & 2’ scholars have limited interest in the unintended consequences that technology (and its technological systems) has on society and the environment *while it contributes to* productivity growth. Rather, these scholars are believed to consider economic growth as the ultimate goal which, once accomplished, will fix or improve societal and environmental problems. In my understanding, moreover, scholars representing these framings are perceived as being at ease with the negative externalities generated by companies and their technologies during growth processes, and consider them to be an issue that governments (or elite technocrats) should deal with.

I am being intentionally provocative here but I think that dismissing two generations of innovation studies to narrow consequentialism is inaccurate at best, not the least because some of the lead thinkers within that community were deeply concerned about development issues, general welfare, and the environment. It is possible that within

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