

# **Moral Externalities**

## **Globalization, Human Rights & the Demand for Multinational Responsibility**

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The case of Apple

The concept of externality

International law & human rights

Challenges & sustainable capitalism

# The case of Apple

- **Vernon's product cycle**
  - creation in wealthy market
  - new markets
  - standardisation through competition
  - North-North trade
  - export platform
  - South-North trade and South market
- **Foxconn**
  - Chengdu China
  - Fast turnaround and innovation
  - Low wages (\$17-22 per day)
  - Labour dormitories and fast mobilization
- **Fair Labour Association**
  - Apple joins
  - Assessment shows unfair practices



- The difference between the benefit a decision maker receives directly for the decision he or she has made and the benefit that accrues to others that have not been involved in that decision.
- Positive: if I paint my house, cut my grass, and park my cars neatly in front of my house, I benefit directly from the sustained value of my property, but my neighbours also benefit from these decisions as the neighbourhood looks better, and a high value for my house can ‘spillover’ into sustained value of my neighbour’s house.

- Negative: If I do not paint my house, allow my grass to become long and full of weeds, and drive my cars up on to the pavement or have a few cars on concrete blocks, the direct benefit is more leisure time for me since I do not need to do these chores.
- But this benefit carries with it significant costs: the value of my house decreases as does the value of my neighbour's house. There may also be additional *reputational costs*.

- A firm that is purely driven by profit may be highly effective in increasing its profits through reducing its marginal costs.
- For the manufacturing sector, for example, a firm will happily relocate its end assembly operations to a country where labour costs are lower, tax rates are lower, and environmental regulations are less stringent. There is direct benefit to the firm in the form of increased profits and good stock market performance for the shareholders.
- But there are significant negative consequences to this search for ever diminishing marginal costs: **violation of labour rights** (possible poor working conditions), **violation of children's rights** (employment of underage workers), **destruction of the natural environment**, among many others.
- If the firm continues these practices, *its profits may well diminish significantly in the long run as customers switch brands and the client base for the product dries up.*

- Standards
  - Civil rights
  - Political rights
  - Economic rights
  - Social rights
  - Cultural rights
- Principles
  - Universality and Inalienability
  - Indivisibility
  - Interdependence and Interrelatedness
  - Equality and Non-discrimination
  - Participation and Inclusion.
  - Accountability and Rule of Law

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights;
- Principle 2: make sure that they are not complicit in human rights abuses.
- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour;
- Principle 6: the elimination of discrimination in respect of employment and occupation.
- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility;
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.
- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.



- States' existing obligations to respect, protect and fulfil human rights and fundamental freedoms;
- The role of business enterprises as specialized organs of society performing specialized functions, required to comply with all applicable laws and to respect human rights;
- The need for rights and obligations to be matched to appropriate and effective remedies when breached.

# Categories & Dimensions

		Dimensions of Human Rights		
		<u>Respect</u> No interference in the exercise of the right	<u>Protect</u> Prevent violations from third parties	<u>Fulfil</u> Provision of resources and outcomes of policies
Categories of human rights	Civil and political	<u>1</u> The extent to which the state does not engage in torture, extrajudicial killings, arbitrary detention, electoral intimidation, disenfranchisement, etc.	<u>2</u> Measures to prevent non-state actors from committing violations, such as militias, uncivil movements, or private sector firms or organisations.	<u>3</u> Public investment in judiciaries, prisons, police forces, electoral authorities, and resource allocations to ability.
	Economic, social and cultural	<u>4</u> The extent to which the state engages in ethnic, racial, gender, or linguistic discrimination in health, education and welfare, and resource allocations below ability.	<u>5</u> Measures to prevent non-state actors from engaging in discriminatory behaviour that limits access to services and conditions.	<u>6</u> Progressive realisation; investment in health, education and welfare, and resource allocations to ability.

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- Top MNCs are larger than states
- Current instruments are
  - Voluntary (UN Global Compact)
  - Apply only to states (IHRL, Ruggie Principles)
  - International law *may* evolve to include MNCs
  - IFC and other global financial actors (e.g. Mazars) are beginning to include human rights in decision making
- Customer demand
  - Faster
  - More powerful
  - Cheaper
- Sustainable capitalism
  - Values matter
  - CSR must move beyond 'box ticking'
  - Human rights based approaches to CSR
  - Long term planning vs. short term gain
  - Northern rates of consumption are not sustainable

# Thank you!

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