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THE BOTTOM LINE REVISITED: INVESTING FOR SOCIAL RETURNS

by Joan Bavaria

Joan Bavaria is president of Franklin Research & Development Corporation and Co-chair of the CERES Coalition.

Through much of modern history we capitalists have chosen to ignore the long-term social impact of our investment decisions. It has been our collective belief that if we simply aim for the highest financial return on all our investments, the resulting increased activity (otherwise known as prosperity) will magically cause every person and every business impacted by investment decisions to adjust, move around, survive, or perish according to the Darwinian concept of survival of the fittest. The outcome, the theory goes, will be the most efficient possible social structure, with weak components destroyed and the strong surviving. Our economic system posits that we are better off if we all act in our own self-interest, for it is self-interest that generates the highest level of energy and thus the most goods.

As we bump elbows on an increasingly crowded planet we begin to see the holes in that cynical argument. It has become accepted in progressive circles, for instance, that we need to redefine the cost of doing business to include the cost of the degradation of our natural resources. We understand after the last decade that business, left to seek the highest possible return at any social cost, will walk the edge of moral and ethical abomination, sometimes transgressing the law itself in competitive frenzy. Witness the deregulated savings and loan industry, of course. Computers and modern communications exacerbate the myopic thinking of investors competing to "beat" arbitrary measures of economic activity such as the S&P 500 as if the whole process were a horse race void of social impact.

But social impact there is. For instance, an "efficient" market ignores whole geographic areas in building housing if the market decides that more money can be made elsewhere or the cost of monitoring the investment is too high. Homeless or marginal families are simply left out of the system. Timber companies rip down diverse old forests, leaving behind eroding mountains of silt that eventually run into water bodies, strangling infant fish populations and stranding fishermen. Manufacturing firms use our waterways as private sewers, killing food supplies and rendering public water unfit to drink or even use in any way. Developers build new shopping centers or condominiums on wetlands depriving migrating birds of their nesting grounds. There are many more examples of investments run amok.

Socially responsible investors,

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ficult to introduce. Evidence from past trade decisions suggests that the harmonization of standards will be to the lowest common denominator. This lowering trend is exacerbated by corporations' placing pressure on governments and threatening to move to regions where standards are lower or not enforced.

Transfer Of Decision-making Power

Free trade agreements move decision-making out of the hands of publicly elected officials and into the hands of international trade bodies. These bodies generally exclude the public. And trade decision-makers focus on the short term economic benefits of liberalizing trade. Concepts and goals such as sustainability, resource conservation or environmental protection do not enter into trade decisions. For example, in the Canada-U.S. Free Trade Agreement and NAFTA, Canada, which currently exports 75 percent of its heavy crude oil to the United States, cannot reduce this proportion of export. Therefore, despite the outrageously inefficient consumption of energy by North Americans, shortages of supply, and efforts to achieve climate change targets, Canada must maintain this proportion of oil export to the U.S. forever. The same requirement applies to natural gas, coal and even fresh water.

This "proportionality" element is key to NAFTA. For example, these trade agreements explicitly aim to provide U.S. consumers a supply of fossil fuels and to guarantee Canadian petroleum companies a market. This support for fossil fuel use undermines the goal of long-term sustainability. Countries should be moving to decentralized, local supplies of renewable energy, not massive international mega-projects such as Hydro Quebec's Great Whale power dams, Canada's off-shore Hibernia oil project and remote development in sensitive Arctic ecosystems. Yet free trade agreements support these environmental disasters.

Three public policy problems: 1. Governments subsidize natural resource exploitation; 2. Economic measurements of trade ignore ecological well-being; and 3. "Least trade-restrictive" approaches often conflict with natural resources conservation.

The public policy situation is even more disconcerting, for three reasons. First, governments subsidize natural resource exploitation indirectly by allowing oil companies and forestry companies to extract and sell resources without paying full environmental and social cost. Trade agreements limit governments' power to introduce policies designed to compensate for environmental externalities. Therefore, the system benefits corporations on both sides of a trading relationship at the expense of the public.

Second, the economic measurements of trade ignore ecological well-being. Increasing trade surplus and increasing GNP are fundamental measurements of economic success, but very poor measurements for sustainability. By ignoring the importance of measuring ecosystem health, trade agreements can override environmental policy. Third, economic globalization, particularly under NAFTA, forces governments to prove that their policies fulfill "legitimate objectives" and are the "least trade-restrictive" means of meeting these objectives. These requirements conflict with specific policies to conserve natural resources.

In the face of these threats, the Great Lakes Basin provides a model for international and interjurisdictional cooperation in environmental protection. The support, focus and leadership of a number of foundations in the U.S. and Canada have permitted NGOs and activists to achieve a binational regulatory regime. Foundations must therefore continue to foster constructive debate of trade and the environment, to ensure that past achievements are not defeated. In general, foundations should encourage international collaborative efforts toward understanding the complex issues of economic globalization and the environment. Otherwise, the force of trade negotiations may destroy the significant progress toward preserving the Great Lakes Basin.

NAFTA and Beyond

by Mark Ritchie

Mark Ritchie is Executive Director of the Institute for Agriculture and Trade Policy.

All over the world, trade negotiators are drafting the rules that will govern future exports and imports between countries. The North American Free Trade Agreement (NAFTA) and the General Agreement on Tariffs and Trade (GATT) are only the best-known of these discussions. Free trade proposals stretch from Chile to Singapore. Experiments are being undertaken in South America, the Caribbean, Southeast Asia, in both western and eastern Europe, and in the former Soviet

scious about the issue, even if they have not previously addressed it. This sometimes leads to women on the Board of Directors and in upper management teams. Even if these women are tokens, as they often are, prejudices and barriers can be broken by their presence.

Especially for the institutional investor, active participation as a shareholder can help insure that investments achieve social goals. As our public and private pension funds move, in the next few years, toward owning more than fifty percent of the equity in this country's corporations, the voices of pension trustees will count for more and more. At a minimum, examining shareholder resolutions and voting according to the fiduciary's beliefs promotes a dialogue with corporate managers, who are often open to feedback from their various stakeholders. There is great power in company goals and mission statements, and increasingly stakeholders have the power to affect them. Engaged investors make a big difference, and that power will only increase over time.

Social responsibility is a phrase that has come of age in the business community. For the investor, there are growing and diverse opportunities actively to promote progressive social goals. And, in a shrinking world, with investment dollars crossing and recrossing the globe in seconds, it isn't a second too soon. For it is a fundamental fact of life that the allocation of trillions of available investment dollars will have a very large part in determining the quality of life on the planet for the generations to come.

Patricia Bauman, Editor, GREEN, c/o Bauman Foundation, 1731 Connecticut Ave., N.W., Washington, DC 20009. Tel: (202) 234-8547 Fax: (202) 234-8584.

Environment, Economy, and Democracy

by Richard Healey

Richard Healey is organizing a new project on corporate accountability and the environment at the National Center for Economic Alternatives.

Recent discussions within the environmental movement about the economy and the environment have been quite heated. Did President Clinton craft a praise-worthy compromise about logging the northwestern forests, as many major environmental organizations claim? Or did he (and they) sell out the environment, as Kirkpatrick Sale argued recently in the Nation? What are the merits of "market-driven environmentalism?" In the Winter 1992 issue of this newsletter, Eric Mann and Paul Portney's analyses of this approach were so different a reader might have concluded they were not discussing the same policies.

Unstated assumptions about basic power relations and institutions of our society and differing goals are the cause of much of this heat. If we analyze current policies within a short-term framework that assumes that the power of corporations and the role of government are fixed, then maybe the President achieved as much as he could have. If we assume that over a longer period we can change our socio-economic institutions and relationships, then it is plausible to expect environmental policies to achieve more stringent standards and broader goals.

A series of GREEN seminars asks, "Can we have it all?"

To explore these issues, **GREEN**, with co-sponsorship by the Island Foundation, the Jessie B. Cox Charitable Trust, the Rockefeller Brothers Fund and the International Society for Ecological Economics put on a seminar on "The Economy, Environment, and Democracy in New England" on June 24 and 25th, in Westford, Massachusetts. More than 50 people participated, including public officials, environmentalists, business people, union leaders, citizen activists, and, of course, foundation staff. Patricia Bauman of the Bauman Foundation and I planned the seminar.

Multiple Actors, Multiple Goals

The seminar focused on two specific examples of economic and environmental problems. The first was the threat by Pratt & Whitney to move thousands of jobs from its Hartford, Connecticut, plants to a lower-wage area. The second was real estate development and increasingly destruc-