

Good Governance and Social Responsibility

Lecture 4: Corporate Social Responsibility and Organizations

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Lecture Learning Objectives:

At the end of the lecture, you will be able to:

1. Explain the meaning of corporate social responsibility and organizations
2. Discuss the different contemporary social issues
3. Enumerate the ethical behavior in the enterprise
4. Explain the role and influence of government and its impact on business
5. Understand the different pressure groups on corporate policy
6. Discuss on how income and wealth are distributed
7. Discuss the reasons behind economic equality

Corporate social responsibility (CSR) can be defined as the "economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time" (Carroll and Buchholtz 2003).

The **concept of corporate social responsibility** means that organizations have moral, ethical, and philanthropic responsibilities in addition to their responsibilities to earn a fair return for investors. A traditional view of the corporation suggests that its primary, if not sole, responsibility is to its owners, or stockholders. However, **CSR** requires organizations to adopt a broader view of its responsibilities that includes not only stockholders, but many other constituencies as well, including employees, suppliers, customers, the local community, local, and national governments, environmental groups, and other special interest groups. Collectively, the various groups affected by the actions of an organization are called "**stakeholders**".

Corporate social responsibility is related to but not identical with business ethics. While CSR encompasses the economic, legal, ethical, and discretionary responsibilities of organizations, **business ethics** usually focuses on the moral judgments and behavior of individuals and groups within organizations. Thus, the study of business ethics may be regarded as a component of the larger study of corporate social responsibility.

Carroll and Buchholtz's four-part definition of CSR makes explicit the multi-faceted nature of social responsibility. The economic responsibilities cited in the definition refer to society's expectation that organizations will produce goods and services that are needed and desired by customers and sell those goods and services at a reasonable price. **Organizations** are expected to be efficient, profitable, and to keep shareholder interests in mind. The legal responsibilities relate to the expectation that organizations will comply with the laws set down by society to govern competition in the marketplace. **Organizations** have thousands of legal responsibilities governing almost every aspect of their operations, including consumer and product laws, environmental laws, and employment laws. The **ethical responsibilities** concern societal expectations that go beyond the law, such as the expectation that organizations will conduct their affairs in a fair and just way. This means that **organizations** are expected to do more than just

comply with the law, but also make proactive efforts to anticipate and meet the norms of society even if those norms are not formally enacted in law.

Corporate social responsibility is a complex topic. There is no question that the legal, ethical, and discretionary expectations placed on businesses are greater than ever before. Few companies totally disregard social issues and problems. Most purport to pursue not only the goal of increased revenues and profits, but also the goal of community and societal betterment.

Research suggests that those corporations that develop a reputation as being socially responsive and ethical enjoy higher levels of performance. However, the ultimate motivation for corporations to practice social responsibility should not be a financial motivation alone, but rather inclusive of moral and ethical dimension.

CONTEMPORARY SOCIAL ISSUES

ENVIRONMENTAL ISSUES

Corporations have long been criticized and even lambasted by some pressure groups for their negative effect on the natural environment in terms of wasting natural resources and contributing to environmental problems such as pollution and global warming. The use of fossil fuels, which according to some has long been obsolete, is thought to contribute to global warming, and there is both governmental and societal pressure on corporations to adhere to stricter environmental standards and to voluntarily change production processes in order to do less harm to the environment. Other issues related to the **natural environment** include **irresponsible disposal of waste**, **deforestation**, and **land degradation**. It is likely that corporate responsibilities in this area will increase in the coming years.

GLOBAL ISSUES

Corporations increasingly operate in a global environment. The globalization of business appears to be an irreversible trend, but there are many opponents to it. Critics suggest that globalization leads to the exploitation of developing nations' workers, destruction of the environment, and increased human rights abuses. They also argue that **globalization** primarily benefits the wealthy and widens the gap between the rich and the poor. Proponents of globalization on the other hand argue that open markets lead to increased standards of living for everyone, higher wages for workers worldwide, and economic development in impoverished nations. Many large corporations are multinational; ins cope and will continue to face legal, social, and ethical issues brought on by the increasing globalization of business.

Whether one is an opponent or proponent of globalization, it does not change the fact that corporations operating globally face daunting social issues. Perhaps the most pressing issue is that of labor standards in different countries around the world. Many

corporations have been stung by revelations that their plants around the world were “**sweatshops**” and/or employed by very young children. This problem is complex because societal standards and expectations regarding working conditions and the employment of children vary significantly around the world. Corporations must decide which one is the best and responsible option; **adopting the standards of the countries in which they are operating** or **imposing a common standard worldwide**. A related issue is that of **safety conditions in plants around the world**.

Another issue in global business is the **issue of marketing goods and services in the international marketplace**. Some US companies, for example, have marketed products in other countries after the products were banned in the United States. An example is the “**magic sugar**” which is already banned in the U.S. and yet we can still find it here in the Philippines as sweetener used by sidewalk vendors, typical example of a wrong product that falls into wrong hands.

Dumping is also another delicate issue in globalization. Secondary products or variants are sold to foreign countries at the price chokingly low for the host country businessmen to compete thereby killing local industry. **Chicken** is just one example wherein the **best parts (e.g. breast, thigh, and drumstick)** were sold at origin country like the US at prices high enough to cover costs with a very decent profit for the whole chicken. The **secondary parts (e.g. backs and wings)** are exported to Africa at prices so low for locals to compete.

TECHNOLOGICAL ISSUES

Another contemporary social issue relates to technology and its effect on society. For example, the **Internet** has opened up many new avenues for marketing goods and services but has also opened up the possibility of abuse by corporations. **Issues of privacy and the security of confidential information** must be addressed. Biotechnology companies face questions related to the **use of embryonic stem cells, genetic engineering, and cloning**. The marriage of science and technology has a very serious implications, this union must not be given “blank check” otherwise it can do limitless things. As our technological capabilities continue to advance, from prolonging life, manipulation of global food production to keeping us on hook with tech things, it is likely that the responsibilities of corporations in this area will increase dramatically. All of these issues have far-reaching societal and ethical implications.

ETHICAL BEHAVIOR IN THE ENTERPRISE

Paying attention to ethics makes good business sense. This can create goodwill for the corporation and enhance the chances of success. Meeting its obligations and treating customers, suppliers, employees, and other stakeholders fairly is a sure shot investment of a brighter future for the company in the long run.

When we hear the word ethical, several ideas come to mind, most notably good versus bad and right versus wrong. These are the **six foundations of trust** upon which ethical business practice is built:

Character

Character drives what we do when no one is looking. Each person has the ability to build, change, or even destroy his or her own character. We can build our **character** through the way we live by thinking good thoughts and performing good acts.

Ethics

Ethics refers to a set of rules that describes what is acceptable conduct in society. **Ethics** serve as a guide to moral daily living and helps corporation judge whether such behavior can be justified.

Integrity

To have **integrity** is to be honest and sincere. Integrity is defined as adhering to a moral code in daily decision making. **Integrity** put simply, when people and businesses possess integrity, it means they can be trusted.

Laws

The **law** is a series of rules and regulations designed to express the needs of the people. **Laws** frequently provide us with a sense of right and wrong and guide our behavior. It is worth noting that an illegal act can be ethical. One of the most famous examples is Martin Luther King Jr.'s violation of the law on marches and sit-ins during the fight against segregation.

Morals

Morals are a set of rules or mode of conduct on which society is based. Certain moral elements are universal, such as the laws forbidding homicide and the basic duties of doing good and furthering the well-being of others. **Morals** and ethics are very similar; both pertain to society's ideas of right and wrong.

Values

Values are defined as the acts, customs, and institutions that a group of people regard in a favorable way.

Many professions and corporations have developed codes of ethics to address their unique business situations. By developing a **code of ethics**, an organization makes

it clear that corporations, employees, and members themselves cannot claim ignorance as a defense for unethical conduct. In general, the proper role of corporate management in promoting business ethics involves clarifying and enforcing expectations, listening to and respecting diverse views on various issues, acting consistently over time, and creating an atmosphere free from harassment and inequality.

In the wake of corporate scandals that cost employees and investors billions of dollars, the US federal government passed legislation that requires publicly registered corporations to have a corporate code of ethics. While the Sarbanes-Oxley Act of 2002 (SOX) does not guarantee the elimination of unethical practices, it does provide a way to legally address such behavior. Companies that have made a bona fide effort to prevent unethical and illegal behavior are likely to receive less severe punishment.

Many corporate ethical standards fail because they are too vague and general and give no specific directives. **Codes of ethics** must be specific enough to convey the intended conduct. However, they must avoid being so prescriptive that a literal interpretation becomes an excuse for noncompliance. Also, codes must be general enough to avoid encouraging defensive management, where an employee becomes unable to act and make decisions fearing that any action will be unethical.

The potential for unethical behavior in business is everywhere. Several factors, however, contribute to how real administrators can act ethically. Establishing an ethical standard for business conduct involves more than a written policy. The most compelling support for an ethical standard is adherence to and enforcement of that standard by those who institute it, and by those for whom it is written. More than briefings and policies handed out to every single employee, our behavior, practice, and deeds are the foundation for creating an ethical standard and making it stick.

ROLE OF THE STATE AND ITS IMPACT ON BUSINESS ORGANIZATIONS

Some sectors have criticized that the government regulatory parameters on the economy is restrictively futile on some extent considering that, often, it not only lacks teeth but also has some features that obstructs the full capability of the enterprise in terms of maximizing wealth. Others mock that some countries claiming to be free market economy are not actually free market at all, with so much regulation. At present, some of the most continuing debates in economics are actually focused on the role of the government.

The importance of private ownership is perfectly consistent with what people believed about personal freedom. People and the business sector believed in limiting the government's authority over the economic pursuits of individuals, including its role in the overall kingdom of economics. Most people believed that private ownership of business is more ideal than government ownership to achieve the best economic outcomes. They further believed that government should be where it is, and that is on regulatory aspects, except for some critical industries.

In spite of this “leave us alone” attitude of business sector most people still want the government to perform certain important tasks in the economy more importantly on regulation, and our legal system provides a very sound fundamental structure which creates an atmosphere suited for this business environment.

In the next slide are some of the important involvements of the government which highlights its functions on regulation and protection of the general public:

ROLE OF GOVERNMENT IN BUSINESS

The private sector is the chief economic force of every country, but it needs government regulation. The government's role in business is as old as the country itself; the **Constitution** gives the government the power to regulate some commerce. Though the government's role has increased over time, the business community still enjoys considerable freedom. However, the government still exercises its authority in several ways.

Consumer Protection

The government's role in business includes protecting the consumer or customer. When a **vendor** fails to honor the guarantee, the purchaser has recourse in the law. Likewise, when a product causes harm to an individual, the courts may hold the vendor or manufacturer responsible. **Labeling** is another requirement the government imposes on marketers. Many foods, for example, must display **nutritional content** on the packaging. The government has been making advances in consumer rights for decades. Nonetheless, the consumer movement still needs considerable development to protect the public.

Other manifestations of this protection are as follows:

- a. Businesses need the court system for protecting property rights, enforcing contracts, and resolving commercial disputes.
- b. Governments protect consumers from businesses. For example, businesses need to secure the approval first from the government whenever there is a proposed merger or other business combinations to make the industry less competitive which ultimately means too liberalized price setting at the disadvantage of consumers.
- c. Government hears and corrects consumers' complaint about business fraud and put into effect recalls of substandard and dangerous products.
- d. Government controls private companies' actions to protect public health and safety. An example is the control effort of the **Food and Drug Administration (FDA)** banning harmful drugs and medicines. Although the agency is showing less interest in some food

supplements that may not imminently endangering the health of but are having some false claims with no proof of their efficacy. Some of these food supplement companies are actually in the business of having textual and oral capitalizing the public's confusion through the use of tricky placements of words and lines.

Contract Enforcement

Businesses deal with other businesses. These contracts may be complex, such as mergers, or they may be as simple as a warranty on supplies purchased. Companies bring one another to court just as individuals do. An **oral agreement** can constitute a contract, but usually only a written agreement is provable. If one party fails or refuses to meet its obligation under a contract, a company will turn to the government's legal system for enforcement.

Employee Protection

Many agencies work to protect the rights of employees. This right covers the following: **regular employment, probationary employment, minimum employable age, prohibition against stipulation of marriage, anti-sexual harassment law** and many others.

The **minimum wage law** is another good example of government involvement which is mutually beneficial to both the management and labor, since this would set a hard minimum benchmark of compensation across all industries. In addition, the government set **laws on pensions** for both public and private employees while they are still in the mainstream workforce of industries.

Environmental Protection

When a marketing transaction impacts a third party besides the marketer and purchaser the effect is called an "**externality**." The **third party** is often the environment. Thus, it is the government's role to regulate industry and thereby protect the public from environmental externalities. Whether the government is effective in this role is a matter of much discussion.

Because people have become more and more concerned about the environmental impact of industries, the government through its legislative branch passed some laws the pure intent of which is to protect the environment. Famous of these laws is the "**Clean Air Act**", which has become the epicenter of troubles for businesses engaged selling motorcycles with 20stroke engine in mid 200s. This law was also the start of a downhill for government contractors dealing garbage disposal via incinerator, a process not allowed in principle by this law.

Investor Protection

Government mandates that companies make financial information public, thereby protecting the rights of investors and facilitating further investment. This is generally done through filings with the Securities and Exchange Commission. Whether government regulation has been adequate is a matter of much debate, especially in countries with advanced economies.

The government certainly has the hand on what it wants the country to be perceived in the outside world. It is a heaven and earth difference when you do business in Singapore compared Cuba or U.S. and Venezuela for that matter. The business atmosphere and investment protocol of these countries differ from each other. Textbooks would tell us that the following issues are the specifics a government needs to address well if its country wants to be considered business as well as investor friendly.

- (1) **Starting a Business.** It should be easy for everyone to start a business in a particular country. It should be counted in days or weeks only under ideal setting, not months.
- (2) **Licenses.** Requirements pertaining to permits and licenses should be more simplified.
- (3) **Employing Workers.** It has to be in an environment where Fair Labor Practices thrives but not to the point where workers are overly pampered. Pampered labor scares off investors.
- (4) **Getting Credit.** Facilities should be present as far as financing. The banking system and financial institutions should be healthy to easily obtain credit for business.
- (5) **Protecting Investors.** There should also be a clear and functioning government policy that protects investors' money. One of these can be a government guarantee or an arrangement where the government has to invest a certain proportion of the project. This will make the other party feel secure that certainly the government will not have any upcoming policy that would hit the project's future.
- (6) **Paying Taxes.** The tax system should not be in a way that is discouraging to investors in terms of incentives and disincentives.
- (7) **Export Policy.** With globalization already dictating, a country should be more liberal in its policy on the entry and exit of goods.

Permission

Most businesses need to register with the government to operate. Corporations need a charter, and other forms of businesses, such as limited liability companies or partnerships, need other forms of registration. The function of this registration is usually to define the financial liability the owners of the company have. It limits their risk to the amount they have invested in that particular organization. **Registration** also allows the government to monitor companies to execute its other functions in the business world.

Legitimate businesses need permission from governments to operate and corporations need a charter from government. Businesses need various registrations, licenses, and permits from local governments as well as from different agencies and bureaus.

Taxation

Governments at all levels tax businesses, and the resulting revenue collected is an important part of government budgets. Some revenue is taxed at the corporate level, then taxed as personal income when distributed as dividends. This is in no way inappropriate, since it balances the tax burden between the company and individual and allows the government to tax more equitably.

ROLE OF GOVERNMENT POLICY

Government policies can also promote businesses. For example, **tax holidays** for those foreign companies in the **Economic Zone (ECOZONE)** under the administration by the **Philippine Economic Zone Authority (PEZA)**. Another is the tax benefit the government is giving to Board of Investment (BOI) registered companies. At present, BPOs because our government set policies to make it work. Of course, these companies are getting quality services at a relatively low cost.

Governments provide certain services-such as national defense, administration of justice, education, environmental protection, public works, and highways. The aforementioned services are viewed as better suited for the government than private businesses although government certainly needs help on the delivery of these services from private enterprises. Government also takes care of requirements beyond the reach of market forces. When the market is behaving like a “**dead horse**” wherein it is lowly irresponsible no matter how hard it is hammered by private initiative, government comes to the rescue. Efforts like bailout, provision for insurance to people who lose their jobs, pulling out money for trainings for alternative livelihood (TESDA, for example), and other initiatives are examples of efforts to lessen the adverse impact when business reverses take place. The government comes to the rescue also in times wherein prices are so high, so high that it is already hard to survive by the public. Rescue in the form of subsidies on certain commodity to diminish its impact on people’s pocket, NFA rice

distribution at lesser price is an example of this effort. Back then, before the liberalization of oil industry there was this **Oil Price Stabilization Fund (OPSF)** the purpose of which is to absorb at a certain level the increase in petroleum products for pump prices for the general public to be lesser than the real market price.

PRESSURE GROUPS

A **pressure group** is an organized group that seeks to influence not only government policy but also private enterprises' operating policy. These groups are also concerned in the protection and advancement of a particular cause or interest. They may promote a specific issue and raise it up as commercial or political agenda or they may have higher general ideological objectives in mind when they do some campaign for their cause.

The following are the **types of pressure groups** which can become variables to consider in laying down platform of governance not only in government but also in private enterprises.

ECONOMIC PRESSURE GROUPS

(1) Giant Private Corporations (the Giant Connection)

Many large industrial corporations have clout in government policies. These corporations need to ensure that their interests are protected since large government contracts are often at stake. The relative size and power of these companies can sometimes rival to that of the government and therefore, bring massive influence on political and economic decisions which affects variety of business activities. With size and power, there is this implication of lobbying certain laws and regulations, putting pressure on their once political beneficiaries who are now in position and to certain degree, do some maneuvers to outdo their competitor through the use of "special connections". It will now be a million-peso question on whether corporations with good governance play the game of these companies.

(2) Professional Organizations

This is a powerful group bound by the common interests of its members. The **Philippine Institute of Certified Public Accountants (PICPA)**, the **Philippine Medical Association (PMA)** and the **Integrated Bar of the Philippines (IBP)** are prime examples. In the Philippines where history's turning points are sometimes defined where the military stands, the **Philippine Military Academy Alumni Association Inc.** and the **Association of Generals and Flag Officers Inc. (AGFO)** are important pressure groups. The **Philippine Bar** through the body called the **Judicial and Bar Council (JBC)** plays an important role in the selection and nomination of justices this body is also important source of opinion.

(3) Trade Associations

Association of businesses with a common interest to protect to is the simplest description of a **trade association**. The number of business and trade associations at present is more apparent than ever before. The increase in government initiative and other progressive laws has prompted an increase in business representation from this group. As new regulatory bureaus and bodies that are put into place, a good number of companies have found the need to react to the new policies rather than having an input into helping to formulate those policies. They are more in a defensive mode rather than being active in crafting those policies which affect them. These business groups have seen the need to organize as essential if they are to influence the formation of policies not only in government but also in private enterprise. The Chamber of commerce, business clubs, and other commercial associations like the Association of Hospital Owners which made a hard stand on the implementation of the **cheaper medicines law**, are classifiable under this group.

(4) Trade Unions

One of things that greatly influence the corporate governance principles and government policies in Philippine setting is in the area of labor and management. It is such a pretty delicate issue that companies are willing to hire the best consultants when it comes to legalities about labor. In the Philippines, we have several clusters of unions that can have pressure on governmental policies and companies' philosophy and governance, one of which is **Partido Ng Manggagawa (PM), Associated Labor Union-Trade Union Congress of the Philippines (ALU-TUCP)** is another and many others that are working for the protection of the labor sector.

Labor groups certainly have influence on policies considering the vast sector that it covers. This sector can be considered as the common denominator of all business endeavors and its collapse, or a mere and simple disorder will definitely send a strong regional message that a country is not safe for long-term investment. Those in charge of governance therefore should take into account seriously this pressure group. We need to understand that in the worst scenario of a labor strike, it can cause financial pain to the business enterprise, and it can also affect the corporate reputation among others.

PUBLIC PRESSURE GROUPS

These are groups that represent a cluster of the public on certain issues. The development in public pressure groups can be partially explained by a change in attitudes towards some of the government policies. The public have turned to pressure groups since they are visibly vocal on issues that pat the hearts of certain individuals. These individuals have the belief that these pressure groups might be triumphant in changing what they believed unacceptable, the most obvious present issue would be environmental and climate change issues. Example of groups with advocacies on environment are the

Haribon Foundation in local setting while there is **Greenpeace** in the international level. In the area of consumer protection **Consumer and Oil Price Watch** is one good example of these pressure groups. While the giant companies are more individualistic pressure groups; that is, they are concerned only with their well-being, these groups represent the interest of the public in general.

SECTORAL PRESSURE GROUPS

Sectoral pressure groups refer to groups which work to protect and advance the interest of specific social groups in a certain society. At times they are a crossbreed of political groups. Typical example, in the Philippine setting, is the **Gabriela** which is for women and children specifically on promoting equal opportunity for women. In recent years, the civil rights movement, and the right of equality for women have been brought to the forefront by this [articular pressure group.

The **urban poor groups** are also other groups to be reckoned with in policy setting since this sector has numbers to put on the table especially during election time. They are voting block that can make or break an official. The **third sex** is also another sector worthy to be looked upon most especially that this group are now given wide recognition in our society. Gays and lesbians are now slowly expanding their mass which will make some politicians and policy makers think twice before talking about things which might be against what this sector believes in.

RELIGIOUS/ATTITUDE PRESSURE GROUPS

These are the fast-growing group in the Philippines with regards to putting pressure on government. They are considered as one of the most powerful groups.

They share universal beliefs and objectives on one issue, and they believe that their major role, aside from endorsing a politician and lobbying Congress, is to mobilize support in the country for what they believe in and to support for political office those who share their beliefs.

Few of the most prominent groups in the Philippines are the Catholic Church in general led by the **Cardinals, Iglesia Ni Cristo (INC)** Bro. Eduardo Manalo, **El Shaddai** of Bro. Mike Velarde, **Jesus Is Lord Movement** of Bro. Eddie Villanueva, **Kingdom of Jesus Christ** of Pastor Apollo Quiboloy, and **Ang Dating Daan** of Bro. Elly Soriano. It is said that only one of the above organizations practiced block voting. Nevertheless, an endorsement or a “blessing” from the leader of any of these groups would certainly have an impact on our political leaders’ way of formulating their decisions.

The **Gun less Society** is another attitude pressure group pushing for the gun ban because this group believes that gun promotes and fuels violence, more often crimes are directly associated to gun, and most importantly, gun endangers life. This advocacy can

certainly, have impact on policies regarding ownership of gun in the Philippines considering that it carries a high social stake. **Couples for Christ** and other Pro-life Organization are groups that are putting pressure on the government and other political decision makers on policies relating to health and life. One of the most controversial legislations relating to health of women and life is the **Reproductive Health Bill**. **Pro-life advocates** believed that this law has more anti-life and anti-health features rather than being pro-life and health.

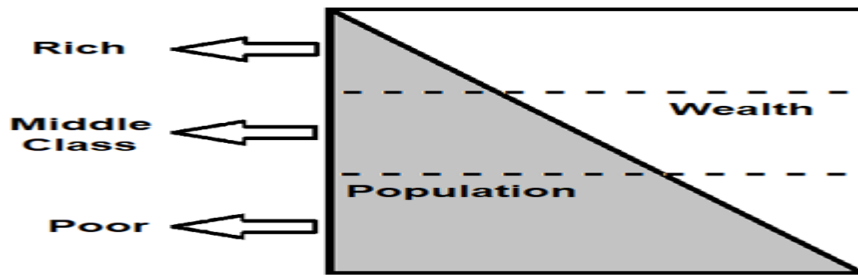
GOVERNMENTAL UNITS PRESSURE GROUP

The level of maturity of the system of administration and the development government agenda in the last two decades, and the enormity of the sums of money involved, has led to an expanded role being played by the local governments as administrative arms of the national government. This has led to a greater degree of freedom and power for the **local government units (LGUs)**. This freedom and power give rise to the lobbying power of LGUs which is sometimes left unbalanced in favor of LGUs with stronger connections. It has now become ordinary for provinces and individual cities to have their own permanent fixture or at least a close contact in the national level or at Malacañang in particular for them to be at the beat of decision making so that they can represent their beliefs and stands with speed, effectiveness and proper timing as the need arise. For such an obvious reason, these LGUs wish to be as near as possible to this ultimate source of revenue to put in a bid for extra resources for local projects and developments.

INCOME AND WEALTH DISTRIBUTION

Income distribution is defined in economics descriptively as how a nation's total economy is dispersed amongst its population. Income distribution has always been an essential concern of economic theory and economic policy. Classical economists such as **Adam Smith**, **Thomas Malthus** and **David Ricardo** were mainly concerned with income distribution, that is, the distribution of income between the main factors of production, **land**, **labor**, and **capital**. Modern economists have also tackled this issue but have been more concerned with the distribution of income across individuals and households. Important theoretical and policy concerns include the relationships between income inequality and economic growth.

Distribution of wealth is a comparison of the wealth of various members or groups in a society. It differs from the distribution of income in that it looks at the distribution of ownership of the assets in a society, rather than the current income of members of that society. Defining the two important economic terms would easily lead us to one very important economic issue which owners of big corporations should consider and should not just be indifferent about **economic inequality**.



(Biore et al., 2024)

MAJOR CAUSES OF ECONOMIC INEQUALITY

There are many causes of economic inequality, the following are some of them both from the basic to global perspective and from the micro and macro standpoint:

Culture and Religion

Culture and religion also catch some notion that these two play a role in creating inequality by either encouraging or discouraging wealth-acquiring behavior. In many countries individuals belonging to certain racial and ethnic minorities like the natives are more likely to be poor than others. Attributed causes to this include **cultural differences** amongst different races, educational achievement gap and racism, and in some instances cultural values and religiosity level.

On the level of religiosity, as students in history in particular we can make simple profile of countries that gone through strict religious policies of colonizers compared to the ones that are colonized by liberal countries. **Philippines, Puerto Rico, Peru, Brazil, and other South American countries** are relatively poorer compared to their counterparts like **Singapore, Australia, Hongkong and India**. The **first group** is colonized by either Spain or Portugal which more on occupation with religion as front, the **second group** is colonized by England which motive-wise more on expansion of empire as well extension of economic activities. Study history to understand why inclusive growth is hard to attain because vested interest deemed it to be that way by undermining institutions. Creative destruction did not wield its maximum benefit because the status quo was protected.

Development

According to Simon Kuznets, levels of economic inequality are in large part the result of stages of development. Kuznets points out that countries with low levels of development have relatively equal distributions of wealth. As a country develops, it acquires **more capital**, which leads to the owners of this capital having more wealth and income and introducing inequality. This inequality is obviously attributable to the dominance of the wealthy faction.

Diversity of Choices

Diversity of choices within a society often contributes to economic inequality. When confronted with the choice between working harder to earn more money or enjoying more leisure time, equally capable individuals with identical earning potential often have different choices. This leads to **economic inequality** even in an environment where perfect equality and abilities exist. The swap between work and leisure is important specifically in the supply side of the labor market in labor economics.

Individuals in a society often have different levels of risk absorption capability. When equally able individuals undertake risky activities with the potential of large payoffs, such as starting new businesses, some ventures succeed and some fail.

Education

One of the most important factors contributing to inequality is variation in individuals' access to **education**. Education, especially in an area where there is a high demand for workers, creates high wages for those with education. As a result, those who are unable to afford an education, or choose not to pursue optional education, generally receive much **lower wages**. Many economists believe that the major reason the world has experienced increasing levels of inequality is an increase in the demand for highly skilled workers in high tech industries. They believe that this has resulted in an increase in wages for those with education but has not increased the wages of those without education, leading to greater inequality.

Globalization

Globalization is a progression by which the worlds are unified into a single society and function. It has been asserted that globalization supports productivity, cultural mix, and cash flow into the developing countries; however, there are some drawbacks of globalization that should not be overlooked: **unemployment, social degeneration, and difficulty of competition.**

Of all the three mentioned, the two (2) are apparently the contributors of the inequality. First, there is a new demand now; one should be able to ride the advances of time to be able to stay in circulation. In **globalization**, when one stops learning it is more likely that he will be out of a job. Emphasis on efficiency to compete globally now is taking its toll on manpower. The more companies strive for efficiency, the more they invest in technology and the lesser people are involved in the production of goods and services.

The final significant effect of globalization is the **difficulty of competition**. With globalization, trade between countries dissolves any limit that was used to be the protection of inferior economy. This state of enterprise has prepared the ground to be in continuous competition with not only national competitors but also international competitors. The main effect of this hard competition is in business since underdeveloped

countries choose to use foreign capital for their improvement and in the process disposes the equality and stability instead.

Inflation

Some economists have theorized that high inflation, caused by a country's monetary policy, can contribute to economic inequality. This theory argues that inflation of the money supply is a coercive measure that favors those who already have an earning capacity, disfavoring those on fixed income or with savings, thus aggravating inequality. They cite examples of correlation between inflation and inequality and noted that inflation can be caused independently by "printing money", suggesting causation of inequality by inflation.

Additional viewpoint in inflation as source of inequality is on savings and investment on productive activities. The poorer and the lower income individuals keep or save their money with a promise of minimal income approximately 2% per annum, the rich ones invest their money on productive activities with income within the neighborhood of 10% to 17% after all enjoyable expenses, if the inflation rate is at 4% keeping and saving is not a good choice. This would explain why for generations now people have been complaining that the rich are becoming richer, and the poor become poorer.

Labor Market

One of the major causes of economic inequality in modern market economies is the **determination of wages by the market**. Inequality is rooted in the differences in the supply and demand for different types of work. In an ideal world, workers' wages will not be controlled by the labor and by the employer but rather dictated by the market. The demand side of labor (employers) cannot afford to offer a price below what the market is offering, otherwise it will be in danger of going understaffed or worse will have the lowest class of workforce in terms of quality.

There is ongoing serious coordination between the industry and the government with regard to college course offerings. **Regulation** can be an antidote, regulating courses to be offered by academic institutions to better fit the demand rather than leaving the professionals with no choice after graduation but becoming prey to the demand side (employer). Take the case of the nursing and teaching professions in the Philippines where every year tens of thousands are being produced. Evidence of this is the fact that they do not have enough hospitals to employ them so they could practice their professions. Also, the licensed teachers ended up as domestic helpers in neighboring countries like **Hongkong and Singapore**.

It is expected that there will be many discomfoting comments on this issue. Some people on the streets will even turn to an instant economist and would say that these professionals are looking forward to working abroad and in turn helping their family in

particular and the country in general. They are the “**new heroes**”. However, we need to consider the following provoking realities: **first**, this export labor policy has long been overdue for a complete change. It is true that they remit foreign currencies to the country, but we notice that policies of these advanced countries are changing. They now impose some restrictions in terms of remittances, and they also allow **family migration** which is a danger sign as far as flow of money.

Second, the jobs that they are giving to us are mostly the ones they do not like to do; jobs that are giving them problems which we can easily offer solutions to because we have no choice. We solve their problem and have the money we earned add more spin to their economy.

This is not the economic policy (**labor export policy**) being used by advanced countries today or in the past. **Japan, South Korea, Germany, and the US** are not complete believers in this policy. We need not go far, Chinese people may have no pride on being the citizens of the world, we seldom heard of a Chinese caregiver but look at their economy. When everything is said it boils down to policy. Full productivity employed domestically is still better “we should have our jars filled first before giving some water to our neighbors”. Koreans got out only after they became top 11 economy in the world.

Wealth Condensation

Wealth condensation is a theoretical process by which, under certain conditions, newly created wealth concentrates in the possession of already-wealthy individuals or entities. According to this theory, those who already hold wealth have the means to invest in new sources of creating wealth or to otherwise leverage the accumulation of wealth, thus are the beneficiaries of the new wealth. Over time, wealth condensation can significantly contribute to the persistence of inequality within society.

Savings from the upper income groups tend to accumulate much faster than savings from the lower income groups. **Upper income groups** can save a significant portion of their incomes. On the other hand, **lower income groups** barely make enough to cover their consumptions, hence only capable of saving a fraction of their incomes or even none. Assuming both groups earn the same yield rate on their savings, the peso return on upper income groups’ savings is much greater than the lower income groups’ savings because upper income groups have a much larger base.

Related to wealth condensation are the effects of inter-generational inequality. The **rich** tend to provide their offspring with better education, increasing their chances of achieving a higher income. Furthermore, the **wealthy** often leave their offspring with a hefty inheritance, jump-starting the process of wealth condensation for the next generation. However, it has been contended by some sociologists such as Charles Murray that this has little effect on one’s long-term outcome and that innate ability is by far the best determinant of one’s lifetime outcome.

In short, those who already have more money to begin with are the ones who have greater capabilities to earn more by capitalizing on their assets. Their huge resources base gives them the buffer on the impact of inflation.

Textbook:

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