

In defence of economics – why public policy doesn't need the triple bottom line.

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Summary

While the concept of triple bottom line accounting has appeal across a spectrum of interest groups, it needs more critical examination than it has had to date. There are logical difficulties in separating the economy, the environment and society from one another. Economic activity cannot exist separate from society, and environmental goods are similar to other scarce economic goods. Economic activity, as traditionally defined, is a social activity, and the broad principles of managing scarcity apply as much to environmental goods as to other economic goods. Sound economic management should be concerned with the social consequences of policies, and should be just as concerned with environmental resources as with other resources.

This point is not merely semantic. There is a risk, particularly in the public sector, that we are coming to re-define “economic management” merely in terms of budgetary bookkeeping. This thinned down notion of economics is consistent with a limited view of public policy and public accountability. Triple bottom line accounting runs the risk of tokenism, and is a poor substitute for a more traditional, inclusive notion of economic accountability.

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Introduction

My first encounter with the topic was just on two years ago in an article titled “triple bottom line revolution – reporting for the third millennium”. It wasn't on SBS Television or in a journal of the New Age; it was in the Journal of the Certified Practising Accountants,¹ and it was written by John Elkington, the creator of the term. Since then it has appeared in many places – government and business. Two years is beyond the life cycle of most fads.

In spite of its widening use, it has been subject to little critical analysis. Perhaps this is because it captures the interest of left and right alike, of hard nosed businesspeople and those with wider community and environmental concerns.

My intention is consider the concept dispassionately. I will suggest that it suffers a fundamental logical flaw. This point is far from semantic, for it influences the way in which we perceive concepts such as “society”, “the environment” and “the economy”. In separating these three elements from one another we lose sight of their proper relationship. Economic activity is a social activity, and environmental concerns are economic concerns. If the discipline of economics cannot accommodate our environmental concerns, then the fault lies not with economics, but in the way in which we have adopted a thinned down concept of economics. The three elements are inclusive, not exclusive as implied in the triple bottom line structure.

In discussing the application of the triple bottom line to government, I will point to the easy substitution of the words “economic” and “financial”. The distinction has become blurred; indeed one will find both used interchangeably in triple bottom line literature. But the distinction is important. Financial management is a much narrower activity than economic management, but it has become convenient for governments to define economic management in terms of narrow financial metrics. It is little wonder, therefore, that there is a demand for something more in terms of accountability. The solution, however, does not lie in loose constructs like the “triple bottom line” which seem to arise from a postmodernist degeneration of political language. Rather the need is to return to a more inclusive concept of “economic management” – one which encompasses all scarce resources (including environmental), and which makes it clear that economics is a servant of society, not its master.

The triple bottom line and meaning

Let's start with the way the triple bottom line is normally presented:



If someone said “At the Fyshwick markets you can buy food, fruit and apples.” it would be easy to pick the flaw in the sentence. It encapsulates a basic logical error – what logicians often call a *category error* – because it uses “and” statements to connect terms which are, in fact, moving from the general to the particular.

There is the same problem in the triple bottom line construction. There are three elements, and I will briefly comment on the three pairs of relationships, suggesting a different, but more traditional, way of looking at these elements.

Society and economy

What is the relationship between society and the economy? We tend to see them as separate. In the public dialogue on political issues, it is often assumed that there is a necessary tradeoff between social goals and economic goals. Such a conflict is not at all inevitable, however.

We can examine the relationship through the work of Karl Polanyi, one of the more influential economic philosophers of the twentieth century. First a little biographical background, for while Polanyi’s work was commonplace on economics reading lists in 1950, is not so well known today.

Polanyi was born in Vienna in 1886. He was a cavalry officer in the Hungarian Army in the Great War, and returned to Vienna as an economic journalist. He fled to England in 1933, and from 1947 to 1953 he was Professor of Economics at Columbia University. He saw the rise and fall of that earlier era of globalization in the nineteenth century, war, the rise of communism, depression, and the rise of fascism. These experiences influenced his major work *The Great Transformation*², published in 1945. He was concerned that the postwar era would see a repeat of the previous half century’s history – a growth in economic liberalism, followed by a collapse as the tensions of inequality and lopsided development associated with the unfettered power of markets became too great.

Polanyi’s thesis is that markets have existed since time immemorial, but they have generally been embedded within society – subject to society’s norms and controls and serving society’s ends. But the nineteenth century saw a new form of organization emerge in which the supposed “self-regulating” market would become the dominant or even sole means of resource allocation.

He described a situation in which markets are no longer embedded in society. In such a situation they are subject to their own controls and values; society is set off to one side. Polanyi believed this form of organization was so divisive that it was unviable in the longer term; it had led to the chaos and suffering from 1914 to 1945, and would do so again unless the postwar order could restore markets to their proper place. He understood the tensions and flaws in capitalism, but, unlike the Marxists, he saw markets as having a central role, just so long as they were subservient to, and not dominant over or separated from, society.

Those who fashioned the postwar order largely took the advice of liberal economists, such as Polanyi and Keynes. That order was hammered out in Bretton Woods in 1944 by statesmen who understood the mistakes of the past fifty years. Trade was to be liberalized and markets were to be expanded, but to serve global social ends. The spirit of the postwar era was

summarized by Henry Morgenthau, Secretary of the Treasury in the Roosevelt administration. His closing address at Bretton Woods stated:

I take it as an axiom that this war is ended; no people – therefore no government of the people – will again tolerate prolonged or wide-spread unemployment. A revival of international trade is indispensable if full employment is to be achieved in a peaceful world and with standards of living which will permit the realization of man's reasonable hopes.

We find similar sentiments in the Australian Government's postwar *White Paper on Full Employment*. Economic development was subservient to social ends.

That postwar order collapsed in the early 1970s – not because of fault with its underlying principles, but because the practical mechanisms of market stability, particularly fixed exchange rates, had been stretched beyond their limits. In Australia in the early seventies we saw economic growth collapsing, inflation rising to 18 percent, and the unemployment rate doubling (to 4 percent) in one year. Restoring economic growth became an imperative, and, politically, it was perhaps all too easy to forget that economic growth is a means to social ends. Economic growth became an end in its own right; social objectives could wait. What should be seen as a subservient relationship came to be seen as a tradeoff.

Political timing reinforced the notion that social and economic goals were antagonistic because economic performance turned down sharply after the Whitlam Government implemented a broad program of social reform. Public perception is easily influenced by *post hoc ergo propter hoc* thinking. In the political debate economics had become detached from society.

It is impossible, however, to conceive of an economy existing as separate from society. The economic activities of production, consumption and exchange, are, in general social functions, in a social context. It is not possible to cite examples of nations with weak societies but strong economies; where society has collapsed so too has economic activity – other than primitive transactions involving barter and coercion. As a practical example, social trust is a prerequisite for successful economic transactions.³ Could we imagine being able to engage in transactions such as agreeing to work for a wage, or buying a new car, without having some confidence that we are undertaking these transactions in a strong and robust civil society?

If economic activity does not serve social ends, then it will eventually damage the society from which it draws its resources. It is possible for a nation to go on producing impressive headline economic measures for a few years while social capital is being depleted – perhaps long enough for the government to win an election or two – but that momentum won't last very long.

Therefore, my first rearrangement of the triple bottom line elements is to put the economy back where Polanyi put it. That is, firmly within, rather than alongside, society. Economic activity is a subset of social activity.

Economy and environment

There are many definitions of economics, but they all are concerned with the central concept of scarcity – which requires the efficient utilization and distribution of scarce resources. While there are deep seated differences on what constitutes efficiency and on the normative principles that should govern the rules of distribution, there is little difference on what is meant by scarcity.

Environmental resources are one set of scarce resources. Indeed, they are one of the three traditional economic factors of production – land, labour and capital – where the term “land” is a shorthand for all nonhuman endowments.

When “environmental” considerations are set aside from “economic” considerations, there is a clear implication, however, that environmental resources are *not* economic resources. This is confusing – does it mean we have different criteria for allocating environmental resources?

When environmental considerations are hived off from economic considerations, it is almost inevitable that some resource misallocation will occur. There is a risk that environmental issues will be left out of economic analysis, resulting in decision-making in an irrational and emotionally charged forum. “Our priority must be jobs; we cannot afford the luxury of protecting the forest”, or “We must protect this patch of forest at all costs”. Without an economic framework there is no metric to bring these considerations to a rational basis for decision-making. And there is a risk that scarce resources will be applied haphazardly; they will not be applied to rectifying the most pressing environmental problems.

Two examples illustrate this point.

One of the biggest environmental battles in Australia’s history was in the mid 1970s, when the Tasmanian Hydro Electricity Commission wanted to build a new dam, the Gordon Below Franklin. This would have cut through the middle of Tasmania’s south west wilderness, and have tamed the wild flow of the Gordon River. Ultimately the river was saved, but with a residue of resentment which endures to this day.

That battle was unnecessary; the dam should never have been considered, but it came onto the table because of misuse of economic analysis. The HEC’s proposal was based on rough advocacy rather than robust economic analysis. They used a discount rate of 5 percent to evaluate the project – its internal rate of return was only 6 percent. They applied no valuation at all to the river or to the south west wilderness – had they put only a modest valuation on these environmental assets the project would have been seen to be unviable. A contingent valuation survey (that is, a survey of what people were willing to pay to preserve the wilderness) done some time after the political brawl found the Australian public placed a reasonably high value on the wilderness. Unfortunately, both sides in the debate dug in, one basing their claim on poor economics, the other basing their claim on denigrating economics. Had the opponents of the project engaged in the economic debate over the project, questioning the HEC’s rough economic reasoning, the project could have been killed off with far more less bitterness.

A more recent example relates to oil pipelines in Russia.⁴ Huge quantities of methane escape from holes in these pipelines. Methane emission is also a problem relating to coal fired power plants in USA. For a set budget, much more reduction in methane emission is possible

in attending to the former problem rather than the latter. This is a simple application of cost-effectiveness analysis.

Techniques of cost-benefit analysis and cost-effectiveness analysis are well developed. Perhaps they are not as well developed as techniques of corporate management accounting, but they can give some guidance to valuation. There is a little-known government handbook, *Techniques to Value Environmental Resources*, a joint publication of the Department of Environment, Sports and Territories and the Department of Finance.⁵ The work which went into the handbook was by the Resource Assessment Commission, which was abolished in 1994. (How governments came to abandon cost-benefit and cost-effectiveness analysis is the subject of my last section.)

This is not to suggest valuation of environmental resources is easy, or that it produces hard and fast results. Valuation is always difficult, particularly when there is no simple metric such as a market price. Techniques such as contingent valuation are expensive and subject to biases. There are always difficult questions of adding values across different individuals and across different time periods (choice of discount rates). But these problems afflict all valuations – environmental and other. If we apply rigorous techniques of economic analysis to all resources, we are likely to make wiser decisions than if we do not. We are less likely to become distracted by minor but high profile aesthetic or NIMBY issues (such as the alignment of a new road) while neglecting serious issues such as salination.

The alternative to a cost-benefit approach, which brings environmental and other considerations into the ambit of economic analysis, is to posit “environmental” considerations as being separate from “economic” considerations. That sets up a series of battles which are more likely to be based on lobbying power rather than any wise attempt to achieve the best outcomes from scarce resources. The possible “win/win” solutions will not emerge in a confrontational bargaining process. And, in a conflict between concentrated corporate or government power and diffuse public lobbying power, the outcome is fairly easy to predict.

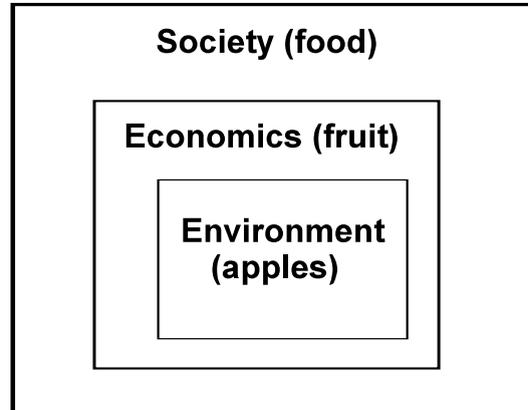
Environment and society

All of the foregoing makes a normative assumption about values – that human values are the appropriate measures of environmental values; all accountability is to society. This could be disputed, by “deep green” ecologists, who claim that such valuation is anthropomorphic. Such criticism is valid, and here I do no more than to acknowledge the limitations of my assumption. It is, indeed, possible that optimizing with respect to human valuation will be in conflict with some other value system.

Human valuation, however, is not as hedonistic as one may believe at first sight. There are notions of “existence value” (the value I gain in simply knowing an environmental resource exists), “option value” and “quasi option value” (the value I gain or may gain in the future but am at present unable to specify given my present state of knowledge). While these are human values, they do not necessarily contradict other, nonhuman value systems.

A contained model

That leads us to a different, contained structure of these three concepts, similar to the way in which we may properly classify food, fruit and apples. The three are linked hierarchically, nested inside one another. At first, some may recoil from containing the environment within economics. Is that not devaluing environmental concerns to mere economics? If one sees it in that light, the problem most likely resides in the way in which, in its popular and political presentations, we have allowed economics to become so narrowly defined.



Thin economics and postmodernism

How have these separations taken place? Why has economics become uprooted from its social context, and how has the environmental problem of scarce resource allocation become separated from the discipline of economics?

There are two converging trends, a popular thinning down of economics and postmodernism. Between them they have provided fertile ground for a conceptual framework which makes such separations.

Thinned down economics

The fault does not lie in economic textbooks or in the canon of the discipline. The texts generally place economics in a social context and they refer generally to the traditional factors of production (sometimes with minor variations). They usually cover environmental externalities, theories of public goods and cost-benefit and cost-effectiveness analysis. In short, economics points out that the “cost” of public programs may be quite different from what is revealed by the narrow metrics of financial accounting.

But in the realms of politics and public policy, “economics” has taken on a more limited, constrained, thinned down meaning. James Scott, Professor of Political Science and Anthropology at Yale, refers to “thin simplification”, whereby politicians and public servants reduce complex concepts to simplified ones.⁶ Thus “economics” becomes reduced to the simplified bookkeeping systems of national accounting and government budgeting. In time, bureaucrats and politicians forget that they have made simplifications and come to govern in accordance with their simplified models. This simplification has been particularly convenient for the current government, which has been in office at a time of strong headline economic growth which in turn has made it easy to sustain budget surpluses.

Inadvertently, perhaps, opponents of neoliberalism have contributed to the process of thinning down, through their use of the term “economic rationalism”. This term has been in vogue since Michael Pusey popularized it ten years ago.⁷ Over time Pusey’s and similar work has been used as a way to denigrate economics in general. Those who use the term “economic rationalism” are generally unaware of the liberal canon of economics; the word “economics” is becoming detached from its textbook meaning.

It appears that our notion of economics has come to be synonymous with financial accounting. When critics attack the government for “economic rationalism”, perhaps, what they are criticizing, is the narrow bookkeeping function which has come to characterize what is called “economic management”.

Nowhere is this thinned down notion more evident than in the current election campaign. The economic credibility of the government, and of the opposition, rests almost entirely on their capacity to keep their expenditure proposals within the budgetary projections. (The accuracy of those projections, and the wisdom of balanced budgets are questionable, but those matters are peripheral to this argument.)

Such a notion of economic management didn’t start in the 2001 election campaign. It’s a development that’s taken place over many years, described very clearly by John Wanna and his colleagues in their recent work on managing public expenditure.⁸ The prime responsibility of departments and agencies is to manage within their budgets. If that means cost-shifting off-budget, then that’s acceptable, even if the total economic cost of such transactions is higher than they would be if they were kept on-budget.

The clearest example of such cost-shifting is the government’s encouragement of private health insurance, an initiative which may save budgetary costs but which is imposing high costs and economic distortions on the health care system.⁹ This emphasis on budgetary management rather than traditional economic management is reflected in the Commonwealth’s proforma cabinet submission, which requires projections of financial (budgetary) implications, but which has no requirement for any economic analysis. It is reflected in government accounting manuals, which state that financial accounting is all that is needed to cost government programs, with categorical statements such as:

“Accrual information also enables the full costs of an organization’s operations and activities to be measured.”¹⁰

and

“Accrual accounting will provide ...a clear picture of the full cost of the goods and services our agencies provide”.¹¹

These are claims no knowledgeable accountant would ever make, particularly in the public sector, because government decisions can have huge costs and benefits which never get revealed as monetary transactions. But these simplified cost concepts are contained within what is sometimes called “new public management”. It’s as if the economic techniques of cost-benefit analysis and cost-effectiveness analysis never existed.

In the current election campaign issues with profound economic implications are being raised – issues concerned with education, the environment, and infrastructure. But they are not

being raised in an economic context; the only “economic” question is whether or not expenditure on these programs can fit into the projections of revenue and expenditure. The issues of salination, of global warming, of declining education participation, of crumbling infrastructure are getting some attention, but, apart from the budgetary cost of specific proposed programs, they are not presented in an economic context.

We cannot stop language from drifting. We have to accept, for example, that “loan” has become a verb, and that split infinitives are now acceptable. But when terms change their meaning we are often left with nothing to describe what the terms once meant. If “economic management” now simply means bookkeeping, then what do we have to describe what the term once meant?

Nothing, it seems, or nothing much. That’s where the triple bottom line might claim to fill the void. It’s a poor substitute for economic rigor, but the words “social” and “environment” have a gentle ring. The words may not be related logically, but they convey “soft” impressions; in a postmodern world connotations and images are all that count.

Postmodernism¹²

Postmodernism is not easily defined. The term itself has different shades of meaning in art, architecture and politics. Part of the difficulty in defining postmodernism is that it has no rational basis; indeed, its main plank is a denial of any objective rationalism. In this regard it is in strong contrast to the rational thinking of the Enlightenment, which forms the basis of most of the disciplines of our physical and social sciences. Smith’s *Wealth of Nations*, seen by most as the groundwork of modern economic thinking, was published in 1776; economics has come to maturity in the world of reasoned inquiry and analysis.

Postmodernism basically rejects any objective basis for ideas. It is about a world in which there are no facts or moral standards, only views. Ultimately there is no reality, only one’s subjective impression of the world. Summarizing the work of Jean François Lyotard, Madan Sarup says postmodernism:

“...attacked the legitimizing myths of the modern age (‘the grand narratives’), the progressive liberation of humanity through science, and the idea that philosophy can restore unity to learning and develop universally valid knowledge for humanity. we can no longer talk about a totalizing idea of reason, for there is no reason, only reasons.”¹³

Postmodernism is often associated with the “left”, because it came to prominence in the worldwide student unrest in 1968, particularly in Paris where students rebelled against what they saw as a dogmatic and authoritarian education system.

But postmodernism is anathema to both Marxist and traditional conservative thinking. The American Marxist David Harvey says of postmodernism that it disempowers the weak – the racial minorities and the poor – because it removes rational discourse from their armoury.¹⁴ Without rationality, all that is left is a world of lopsided power relations tilted against the weak.

From another direction, the conservative American political scientist, Allan Bloom, in his work *The Closing of the American Mind*, says of postmodernism's barrenness:

...it is the last, predictable stage in the suppression of reason and the denial of the possibility of truth in the name of philosophy. The interpreter's creative activity is more important than the text; there is no text, only interpretation. Thus the one thing most necessary for us, the knowledge of what these texts have to tell us, is turned over to the subjective, creative selves of the interpreters, who say that there is both no text and no reality to which these texts refer....

This fad will pass, as it already passed in Paris. But it appeals to our worst instincts and shows where our temptations lie.¹⁵

From two very different philosophical perspectives, Harvey and Bloom are of one mind on postmodernism; it appeals to intellectual laziness and is disempowering. There is no need for the rules of logic; in fact the very term "rational" has no function for it refers to a prior set of rules and standards.

Postmodernism has infected political discourse. Jaques Derrida refers to "floating signifiers"— words and phrases with no connection to the things they normally signify. Rather, they are used to create mood and impressions. Summarizing the political language of postmodernism, Paul Corcoran says:

What passes for public discourse after the withdrawal of the function of communication from the sphere of linguistic performance is merely a residue of speech in forms increasingly reminiscent of the incantory displays of oral culture. The "image" and the "mood" of the performance, more than content and coherence, are essential. Replaced as techniques of specialized communication, political language and rhetoric remain as archaic structures of emotional declamation or, increasingly, as a curtain of insubstantial images whose task is to veil, rather than to reveal, information about the conditions of life.¹⁶

Terms like "law and order", "rural and regional" and "family values" can be seen as examples of Derrida's floating signifiers. They are very seldom defined; in fact to do so would be problematic for the terms often involve logical contradictions. (What set of attributes is defined by the combination "law" and "order"? What part of Australia is not "regional"?) Vagueness is in the interests of the user, who can rest on a "you know what I mean" assumption, hoping that the recipient constructs a notion that indicates an alignment of the user's and listener's values.

So we come to the triple bottom line. It consists of three words, one of which has (undeserved) negative connotations, while the other two have generally positive connotations. And, as we have pointed out, they should not be linked by "and" statements.

The word "economics", in its traditional sense, should be fairly neutral. But, particularly in Australia, we have come to use the term "economic rationalism" in a perjorative sense. It is a way of delegitimizing economics, thus allowing for subjective interpretations of what is meant by economic accountability. In associating "rationalism" with the despised dismal

science, it relegates rational economic analysis to the world of dead white Enlightenment males.¹⁷

Once “economics” is stripped of its original broad meaning, as used by Smith and academic economists over the last two hundred years, the term is available for other uses. As we have shown it has been convenient for governments of neoliberal persuasion to equate economic management to financial management – ignoring wider issues such as public goods, market failure, and environmental externalities. That narrow bookkeeping connotation of “economics” has legitimized severe cuts in public budgets in the name of “economic management”.

Of course people react against such cuts. There is a reasonable body of research which suggests Australians would like to see more expenditure on public goods – health, education, roads, police and environmental restoration are prominent in recent surveys.¹⁸

The reaction, all too obvious in the current election campaign, is for political parties to promise token allocations to these causes. The amount of funding is immaterial; a one million dollar appropriation will earn the same space in an election speech or a media release as a hundred million dollar appropriation. If what is being peddled is impression, rather than substance, then it’s far more cost effective to buy as much impression as possible within a limited budget. And, if the government’s objective is to cut the size of government, it is useful to posit “economics” on the one side and “environment” and “society” on the other side as antagonistic. One side can gain only at the expense of the other. Those who speak on the “economic” side have the language of power; those who speak on the other side are often left disempowered.

This is the risk of triple bottom line accounting. Is there an alternative?

Back to the Eighteenth Century

Neil Postman, in his work *Building a Bridge to the Eighteenth Century*, asks if we can go into the future believing that gibberish is as good as any other form of language.¹⁹

It is easy to suggest that the answer lies in better economic accountability. Few would take umbrage at a set of normative principles which would involve improved accountability. Such principles may be different for the public and private sectors.

Public sector

Rather than confining economic accountability to budgetary bookkeeping, the public sector should be accountable to society in broad economic terms. They should account both for their own programs and for the performance of the economy as a whole.

Accountability for major programs should include regular cost-benefit evaluation. Obviously such evaluation is expensive, but resources devoted to accountability should be proportionate to the economic impact of the programs. There is a precedent, in the work of the Industries Assistance Commission (now the Productivity Commission), which keeps account of the cost

of certain aspects of industry assistance, much of which is off-budget. Such evaluation should expose cost-shifting, economic (deadweight) losses, and other conflicts between economic and financial outcomes.

There needs to be greater accountability for the state of public assets. While there is a public balance sheet published as part of the budget papers, valuation techniques are questionable and the asset side of the balance sheet achieves little public prominence. The debt side achieves huge prominence, however. (What would be the reaction if the Treasurer reported on the state of the nation's roads, railroads and rivers and announced that Australia could have another \$230 billion of debt-funded public assets without exceeding the OECD public debt average?) It should not be difficult, for example, to have regular audits of the state of intellectual assets, accumulated through investment in education and research, so that budgetary outlays on education can be counterbalanced with reports on the state of intellectual assets.

On accounting for national economic performance, accountability should go beyond simple headline measures such as GDP growth, consumer price inflation, unemployment and, when it is convenient, balance on current account. Simon Kuznets, who developed the concept of national accounts, never envisaged national accounts to provide all-encompassing measures of economic performance. He recognized, far more clearly than most of its users do, that their meaning is limited by conventions of accounting.

One of the main limitations of national accounts is that they do not measure the depletion of natural resources. The Australian Bureau of Statistics is working on a set of indicators in a project named *Measuring Australia's Progress*, which attempts to bring to account many elements not covered in national accounts. More ambitiously, the Australia Institute has developed a *Genuine Progress Indicator*, which attempts to bring these elements to a common monetary metric. While many may criticize the weightings used by the Australia Institute, they do demonstrate that issues such as environmental degradation and the costs of crime can be accommodated within conventional economic techniques. They do not have to be hived off.

This is not to argue for the abandonment of financial accounting standards or of measures such as the GDP. There is a strong and valid case for retaining such measures, and for retaining the narrow bookkeeping functions of financial accounting, but we need to be aware of their limits. When we start to believe that economic performance is covered in such narrow measures we are at risk of delusion. It is interesting to note that John Hewson has recently warned of the dangers of getting carried away with the thinned down set of headline figures to which the government keeps drawing our attention; when we consider the broader social context of our economy we are facing serious trouble.²⁰

Private sector

Some of the proponents of triple bottom line suggest that it is consistent with the private sector taking over some of the functions traditionally reserved for government. But it is not credible to believe, in the absence of regulation, that private firms will take on such functions thereby placing themselves at a competitive disadvantage. There may be good public

relations reasons for firms to become involved in philanthropy and community projects, such as environmental restoration, but these projects while welcome, will never extend far in comparison in comparison to public budgets.

Although many social liberals are enthusiastic about corporate social responsibility, there is little public acknowledgement of the limits of such activity. Milton Friedman suggested that corporate philanthropy was theft from stockholders.²¹ A more liberal Austrian economist, Peter Drucker, also believes that corporations should not dabble in social responsibility beyond their legal requirements, because such activities are distracting and do not necessarily align with their core competencies.²² In some industries, particularly where there is high investment in brand names and wide consumer choice, firms will be very sensitive about their corporate image, and may invest heavily in corporate social responsibility, but such actions, reasonably, are directed to firms' financial self-interest, which, properly, should be the interests of their stockholders.

Rather than expecting firms to go beyond their interests, we should expect them to operate within the confines of the law. If that means adhering to rules on employment, environment, and consumer protection, and paying required environmental taxes and levies, then no firm places itself at a competitive disadvantage by operating as a law abiding corporate citizen. But passing and enforcing such laws remains a function for governments. If regulations, taxes and subsidies can be designed to account for environmental and other externalities (that is "internalizing externalities"), then there is no need for triple bottom line accounting; these factors will be covered within the normal accounting metrics. Such interventions need to be carefully designed; in banking they may involve rules on disclosure and regional coverage, in utilities they may involve environmental taxes. The triple bottom line is too much a "one size fits all" approach.

There is also a broader, macroeconomic risk that copious triple bottom line reports in corporate accounts will give the impression that the private sector can take over the role of public programs, thus hardening attitudes to taxes and public expenditure. A little tokenism can generate a large amount of impression.

And we do not need triple bottom line reporting to widen the meaning of responsibility to shareholders. As Australia moves to mass share ownership, through direct ownership and pension funds, firms are going to have to consider carefully what is meant by "shareholder interest". The shareholder of a bank is also a user of the banking system. The shareholder in a chemical company wants a clean, safe environment. The shareholder in an airline is also an employee who seeks job security.

Achieving greater accountability

It is easy to design a set of accounting principles, and it is easy to argue the case for their implementation. But that does not bring about change. Postman stresses that the rejoinder to postmodern means of manipulation is skepticism – skepticism based on reason.

If we want better accountability from government – both for its own management and for reporting on macroeconomic performance – we have to demand it. The 2001 election campaign shows how far we have to go; in an economically mature electorate both the main

parties would be ridiculed for the way they have presented economic issues. An informed electorate, on its guard against rhetorical manipulation, would not have allowed the government to define economic management in such narrow terms.

That puts the onus back where it belongs in a democratic society. Those who seek a more decent society and a healthier environment must engage in the political process, and not stand on the sidelines with jibes like “economic rationalism”. They must not be seduced by hollow terms such as the triple bottom line. If they engage in reasoned economic debate they will find that economics, far from being antagonistic to liberal values, can be a valuable servant of the public purpose.

Notes

1. John Elkington, “Triple bottom line revolution - reporting for the third millennium” *Australian CPA* November 1999.
2. Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (1945, Beacon Press edition 1957).
3. See Francis Fukuyama’s treatment of trust in his work *Trust* (Free Press NY 1995).
4. See a description of this in Max Bazerman, Jon Baron and Katherine Shonk, “*You can’t enlarge the pie*” – *six barriers to effective government*. (Basic Books 2001).
5. Resource Assessment Commission; Department of Environment, Sports and Territories; Department of Finance, *Techniques to Value Environmental Resources* (AGPS 1994).
6. James Scott, *Seeing like a state – how certain schemes to improve the human condition have failed* (Yale University press 1998).
7. Michael Pusey, *Economic Rationalism in Canberra – A Nation Building State Changes its Mind* (Cambridge University Press, UK, 1991).
8. John Wanna, Joanne Kelly, John Forster, *Managing Public Expenditure in Australia* (Allen and Unwin, Sydney 2001).
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