

# Corporate Social Responsibility and Public Goods Provision

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## Abstract

Corporate social responsibility is firms' actions contributing to social goals and benefits for the public. Profits aside, some firms may devote resources to the provision of public goods or reduction of public bads. In a competitive market, CSR will directly reduce profits and fail to sustain. In a monopolistically competitive environment, on the other hand, consumers' demand for variety gives room to CSR. We examine firms' equilibrium actions and the impact to efficiency.

## 1 Introduction

Business corporations contribute significant amounts to public goods. The total contribution from corporations sums up to \$15.5 billion. The Committee Encouraging Corporate Philanthropy (2011) report that, among the 183 companies participated in the survey, the median contribution is \$22.1 million and the median ratio of giving as part of pre-tax profit is 0.91%. These contributions are directed to diverse programs that are not linked to production. For example, they are donated to health and social services, education, environment, disaster relief, etc. Why would corporations contribute to consumption public goods from which only consumers receive direct benefits?

The classical libertarian free-market view towards corporate philanthropy that corporations should not do charity with stockholders' money, and should leave public goods to the government (Friedman 1970). Moreover, in a perfectly competitive environment, there is really no room for charity since it reduces profits. If corporations, however, do benefit (increased sales) from the act of charity, it must be that competition is imperfect

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