
EconWorld2019@Seville

Pareto-superiority of Corporate Social Responsibility in unionized industries

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A B S T R A C T

Economists believe that a firm's engagement in Corporate Social Responsibility (CSR) is motivated by objectives beyond increasing profits. Using a duopoly framework with convex technology and an industry-wide union-setting wage at the central level, this work shows that, when owners cooperatively select a level of CSR engagement, profits under CSR are higher than under standard profit maximization; thus, the firms' owners' simple self-interest leads to the adoption of CSR. Moreover, the union, consumers, and the overall social welfare in the presence of CSR activities are higher than without CSR. As such, the firms' owners' social concerns yield a Pareto-superior outcome.

KEYWORDS Cournot Duopoly; Labor Union; Corporate Social Responsibility

JEL J51, L13, M14