Corporate Social Responsibility, Wage Inequality and Economic Welfare

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Abstract

This paper examines the income distributional and social welfare effects of corporate social responsibility (CSR) for an open economy. Using a vertical linked model with CSR provision in the upstream firms while CSR usage by the downstream firms, this paper finds CSR activities may worsen wage inequality between skilled and unskilled labor as well as raise the capital rental rate in the short run with a fixed number downstream firms. Nonetheless, in the long run with free firm entry or exit in the downstream firms, CSR activities will raise firm concentration ratio via the exit of firms. The exit of firms reallocates capital to other sectors and hence lowers capital rental cost. This causes a substitution from skilled labor to capital, thereby reducing skilled wage, while it also yields an output effect by demanding more unskilled labor. Hence, CSR activities can narrow the wage gap between skilled and unskilled labor, additional to the beneficial welfare effect, in the long run.

Key words: CSR, Wage inequality, welfare
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