Among the most pressing problems of the contemporary world are the growing gulf between poverty and wealth and the menace to ecology. In spite of the enormous riches which the economy produces and is able to produce, the major part of humanity still remains in a state of miserable existence.

Everyday thousands of people are dying in the world of hunger. Almost half of humanity - 2.8 billion people - live on less than 2 dollars a day and one fifth - 1.2 billion - live on less than one dollar a day. At its annual conference in Prague in September 2000, the World Bank published the comprehensive document 'World Development Report 2000-2001 – Attacking Poverty'. It is the result of a survey of more than 60,000 people living in poverty in 60 countries of the world, and it confirms with further facts what John Paul II indicates as the ‘shame of present society living in abundance, where the rich are getting richer and the poor poorer, because poverty leads to further impoverishment’.  

At the same time the gulf between wealth and poverty is intensifying not only between rich countries and developing countries but also within individual countries, even in the most developed countries.

The gulf between rich and poor countries is caused directly by contemporary international relations and the functioning of the economy, moved by market forces aimed at profit without regard to humanitarian considerations.

As long as present market mechanisms are retained, the gap between rich and poor will keep growing. Traditional ideas, such as the belief that

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1 Speech of John Paul II, 5.11.2000 on the occasion of the Jubilee of politician in Vatican.
economic growth will resolve everything, are already proving to be unrealistic. These ideas urgently need to be reevaluated, above all with the help of moral principles, as well as by the concrete proposals given further in this text.

John Paul II justly emphasizes that in the present globalised world, where the market has the tendency to consider as its sole rule the law of maximal profit without regard to morality, it is necessary to adapt the laws of the ‘unrestrained’ market to laws of justice and solidarity.2

This appeal is still not finding an adequate response even though there is a widespread increase in consciousness of the need to seek suitable solutions. No doubt certain measures were adopted at the meeting of the UN in 1995. However, such solutions have not been effectively put into practice. Apart from Denmark, Sweden, Norway, and the Netherlands, the member states of the OECD do not fulfill even these obligations, according to which they should be contributing help to poor countries with 0.7% of their GDP.3

Of course, the best intentions for helping developing countries do not have to be fully realized. The differences will continue to increase as long as methods are not devised to create a competitive milieu, where economic growth leads to higher living standards for the people in both developing and developed countries.

Calls for even greater distribution of produced goods will also be increasing. In a world founded on unrestricted profit taking, such calls will necessarily meet with increasing resistance. Therefore, democratic procedures are needed which support the extension of direct participation of citizens in forming suitable structures for the common good of society.

General proclamations to this effect are by themselves insufficient. Essential measures are necessary which would solve these problems step by step.

It is necessary:
- to seek solutions which respond to contemporary possibilities for economic growth and which do not increase the gap between poverty and wealth but enable better living conditions for all people.
- to proceed first to give effective help to countries with inadequate GDP in order to form in them a competitive milieu comparable to the competitive milieu of countries with above-average GDP.

2 Ibid.
I. The Possibility of Step-by-step Elimination of the Main Differences Between Advanced and Developing Countries

A. The necessity of help to developing countries from advanced countries is generally acknowledged today. It is even more urgent because in the next 25 years it is estimated that world population will increase by 2 billion people, 97% of whom will be in developing countries. James D. Wolfensohn, president of the World Bank, rightly considers poverty in the midst of wealth as the greatest world problem.

It may be justly objected that help to developing countries is already taking place and that it is not small.

For example, at the end of 1996, 40 countries among the heavily indebted poor countries had an external debt of more than 200 billion U.S. dollars. Payment of this debt caused the situation of the poor countries to get worse. The deficit represents 465% of the yearly exports of these countries, and in some cases it exceeds more than ten times the yearly export value. In addition the possibilities of export to developed countries are limited. For example, the export of agricultural products as the main article of export of many poor countries is confronted by the protectionist measures in developed countries.

Unsatisfactory results of the struggle against poverty in countries of the third world have a number of causes. These results are brought about by many factors, internal as well as external. According to the World Bank, internal factors include civil wars, corruption, unsuitable economic policy, deformed price relations, deteriorating conditions for international commerce, and often inability and unwillingness of politicians to proceed to more radical reforms because of unstable political situations in their own countries.

As external factors, the World Bank lists the necessity of expanding market access in rich countries for goods and services from developing

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countries, reduction of the risk of economic crises, encouragement of production of international public goods that benefit poor people, and ensuring a voice for poor countries and poor people in global forums.9

Many critics point out the wrong approach of lending institutions which undermines the help by connecting it with the acceptance of unrealistic 'Structural Adjustment Programs', which do more harm than good to recipients. Requirements of these programs which are typically aimed at shortening social expenditure, budget expenditure, cancellation of subsidies for basic necessities, orientation toward production of export goods, of cancellation of import duties often bring further reduction of living standards and lead to political instability favoring dictatorships. Evidence exists that such programs of structural adjustment are drawing developing countries further into debt. According to information from the OECD, since the beginning of the 1990s all countries of the third world obtained 927 billion U.S. dollars of development aid in different ways during the years between 1982 and 1990. At the same time these countries made payments to banks of 1345 billion U.S. dollars for debts and interest. Although they paid more, the debts have grown to 1450 billion U.S. dollars in 1990.10

The coordination of even well-intended help is frequently insufficient. The study of the World Bank, for example, discloses that in the early 1990s in Tanzania there were 40 donors and more than 2000 projects. In Ghana during the same period 64 different government or quasi-government institutions were receiving aid. Coordinating these efforts to support a coherent development strategy is nearly impossible.11

In addition, after experience with a series of financial crises, measures offered by international institutions are accepted with mistrust and considered as interference in domestic policy.

The provided help is still insufficient and does not lead to necessary results. On the contrary, in many cases it deteriorates the situation of the poor countries. Evidently, present forms of help as well mechanisms for providing this help need reevaluation.

To establish a certain consensus of applying acceptable measures is therefore necessary.

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10 Jan Keller, A help that too often harms, Pohledy, Review for Politics, Economy, Sociology and History, Published by Czech Trade Union Prague, CZ, n° 3-4/2000.
The sole operation of market mechanisms in the present globalised economy is not sufficient and, on the contrary, intensifies differences. Therefore, it is necessary to connect help with application of direct measures which together with market mechanisms lead to forming a competitive milieu in which there exist preconditions for realization of direct investments followed by positive effects of a market character. Of course, this help should not go to countries which do not respect democratic structures and where the danger exists that totalitarian regimes will abuse it.

According to our view the main cause of the unsatisfactory economic situation is the fact that the competitive milieu existing in countries with below-average GDP does not enable progress in more advanced production and other advanced processes. Present conditions of exchange of products between countries with underdeveloped economic processes and countries with above-averaged GDP lead under conditions of existing market economy to steadily growing divergences between poverty in the developing countries and wealth in the advanced countries. To do away with this main cause of the problem it is necessary to form systematically infrastructures in countries with below-average GDP.

These infrastructures must include information technology, education possibilities, and the formation of other necessary factors, such as access to products of scientific and technological research, provision of public health service, as well as the formation of factors of an ecological character.

With the help of these measures a market milieu in these countries will be formed. This will enable direct investments of a market character which, according to experience, are the most suitable way to enable economic progress.

B. In this situation it is to be recommended that the U.N. puts into place a 'Social Contract of Globalization'. This would require that member states participate and that an agreement would be reached on measures concerning advantageous help to countries with below-average GDP. Of key importance is the agreement on annual appropriations from economically developed countries to underdeveloped countries. According to this agreement countries with above-average per capita GDP would give regularly in set amounts appropriations for countries which fall below this index.

At the same time this social contract of globalization presupposes agreement concerning:

- the mechanism of delivery of appropriations to the central fund
- using resources from this central fund only for projects helping economic and social advancement of developing countries.

Above all these projects should support the step-by-step abolition of the above mentioned main cause of the unequal competitive milieus, which up to now are causing the steady expansion of differences between poverty and wealth.

Financial resources should be given only to countries which will fulfill necessary conditions for the granting of these resources. Among these conditions it is necessary to list the following: no repression of private initiative, as well as the promotion of public goods such as education, health care, and the rule of law.\(^\text{13}\)

The U.N. should establish the agreed measures with the help of the institutions which the participants will confirm.

Evidently the main institution should be the World Bank, which today also has among its tasks providing credit help and economic consultancy for developing countries with the aim of abolishing poverty.

Financial resources for help should not be passed to state organs of relevant countries. In each country the authorization process of individual projects, allocation of funds concerning these projects, as well as control of their qualified utilization should be provided by the institution commissioned by the UN for realizing the ‘Social Contract of Globalization’. This restriction of actions to local organs in countries which will be included in the ‘Social Contract’, seems necessary in the interests of getting optimal benefits from relevant funds.

Experience within the EU concerning help to economically weaker countries in order to equalize economic levels indicates that such help can lead to acceptable results.

The application of initiative for the HIPC Debt Relief Initiative with active strategic participation of these countries also shows that much needed reduction of deficits may be reached in such a way that it does not lead to new debts.

In this connection the World Bank makes reference to the experience of Uganda as the first country which used this initiative in May 2000. The government of Uganda founded the Poverty Action Fund by means of which the country uses financial resources for agreed purposes with maximal possible transparency.\(^\text{14}\)

\(^{13}\) Ibid.

Of course, critics point out that this is the first and only case of such an approach. Nevertheless, to seek and to find new forms of help is urgent.

James Wolfensohn, president of the World Bank, declared in July 2000, 'The United States and Europe do not understand, that without massive effective investment in the developing world, there will be no peace in 20 years'.

The ‘Social Contract of Globalization’ project will in this way be an effective help to prevent further growth of poverty in the globalised world.

II. New approaches need to be found in a global economy

There is a growing gap between the poor and the rich which brings about a growing feeling of danger. It has found its expression in numerous protests against globalization, which is often considered as being the cause of the present situation. However globalization as such is not the culprit. Rather it ‘globalizes’ and sharpens current problems the causes of which need to be looked for elsewhere. Moreover globalization is a historical process that can not be reversed. Just as workers in the 18th century could not stop the advance of industrial society by destroying machines that took away their work, protest against globalization only deflect attention from the real causes of current problems. To a large extent they stem from a misunderstanding of the fact that in a radically changed and changing world, it is not possible to solve problems using the usual old procedures. New means must be found that are better suited to our changing world.

The Coming of Information Society

Our behavior and attitudes are based on our experience of the so-called industrial society spanning the 19th and 20th century, in which we are still living. Its main means of creating wealth were productively allocating capital and manual labor. Its main social groups were capitalists and workers. This society achieved an unequalled growth of wealth and productivity. According to P.F. Drucker, labor productivity of manual worker has increased 50 times in the course of 100 years.

Nevertheless, the age of industrial society has irrecoverably come to its end. The way of wealth creation has changed. The main social groups have

changed as well. A rapid advance of modern technologies, in particular in the information and communication field, together with the so much discussed globalization, calls for new attitudes and new, different ways of thinking. People talk about the coming of information society, post-industrial society, a new economy or even a third civilization wave (Tofler).

The following significant changes have been suggested as being typical for the new society:

The decisive source of growth of wealth are not any longer money, physical capital, or land but human knowledge. Productivity growth is less dependent on manual work, however well organized, then on the utilization of human knowledge and on the way of how well used it is. Under certain conditions one can acquire modern technologies, machines, capital, raw materials. However a more durable competitive advantage under global hyper-competition rests in the use of knowledge, ideas, and innovation. These latter resources add value today and are essential for the growth of society’s wealth. Education, and lifelong education in particular, is becoming a challenge and a condition for success. Good basic education of all the children has been proved as an efficient long term investment in a fight against poverty. People working with knowledge and those who manage them (knowledge managers) and who must allocate knowledge (instead of capital) for productive use, have become the dominant society groups.

Side by side to them a large social group of service and ancillary workers without the required knowledge (service workers)\(^{17}\) has grown. Their humanly acceptable integration into the future global world presents a fundamental social problem and a challenge. The number of knowledge workers in the developed countries is growing (according to Peter Drucker it represents two-fifths of American work force in the United States\(^{18}\) and the demand of them will grow further). However as more and more knowledge is being incorporated into products, facilities and services, the economic and social situation of the second group is getting rather worse. The transfer of traditional production from developed to developing countries brings certain reduction of poverty in the developing countries, but the gap between poverty and wealth is not being eliminated. A significant portion of profits flows back to the parent country.

In the developed countries the supply and allocation of capital has taken on some new features in recent years. Pension funds and open invest-

\(^{17}\) Ibid., p. 14-15.

ment funds have become main shareholders in public companies. In the United States, pension funds own 40% of all American publicly registered corporations and probably over 60% of big corporations. A similar trend is beginning to emerge in other developed countries.19

The funds concentrate large financial power. They invest on behalf of their shareholders but are managed by professionals. Usually they do not invest into a particular company but they purchase shares in an open market where shares frequently pass from hand to hand. Their prime interest is high dividends for the shareholders. Such is also necessarily the interest of shareholders of supranational corporations, which usually have no knowledge about the particulars of wealth creation by their corporations in various countries.

The well-known problem of control and authority in corporate management (corporate governance) and the problem of having influence on corporate performance is presently solved mainly from the viewpoint of fund shareholders, that is, by upholding the shareholder model with the aim of maximizing the share value. The stakeholder model, in which mainly those who actively create the company assets share in the created value, is preferred less. Both models allow for the possibility of extended capital participation by citizens in wealth creation and thus improve the population's material position.

The stakeholder model stimulates the interest in long term efficiency of the firm and can play an important role in satisfying the ambitions of knowledge workers as holders of the decisive asset of a contemporary company. The shareholder model allows other social strata, those that do not work in public limited companies, to participate in share capital.

New aspects of ownership and work

These contemporary changes require new approaches to ownership and work:

In a knowledge society, in which intellectual capital plays the main role in wealth creation, it apparently will be necessary to tie company ownership to the person who is the owner of such capital. The value of most contemporary companies consists of their non-material assets, their accumulated abilities and experience, their trademarks, research, and management skills.20

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If somebody buys such a company, s/he primarily buys ‘a hope that the best employees working in the company will stay there and carry on their work for the new owner’ (Charles Handy).\(^{21}\) Regardless how the value of the nonmaterial assets of the company is estimated, their true owners are those employees in who keep these assets in their heads. And it is not possible to take the assets from their heads without their assent and preserve their creativity at the same time, as Robert Reich reminds us in a different context.\(^{22}\) Hence to see a company as a sole possession of the people who finance it does not correspond to economic conditions of today. ‘In the economy of tomorrow, in which knowledge is an asset, we need to see that everyone has the right to own a part of the assets and wealth which he creates’, Charles Handy concludes. From this point of view the stakeholder model is becoming topical for public limited companies and not only for them. Today, when knowledge becomes the main means of production and the holders of intellectual capital are becoming an increasingly more important social group, work, as a practical application of people’s knowledge, gains in importance. In turn, a search for ways of stimulating employees’ creativity gains in importance, and in particular, ways of stimulating their interest in the optimal results of the company. Making working conditions worse or using authoritarian management methods become contra-productive. Enormous productivity growth in developed countries makes further growth of services possible and, probably, it will permit an increase in investment into the so-called non-productive areas, preferably into a range of useful and needed but unpaid human activities, such as child care, family care and others. Not only production activity but also every useful human activity, in which one realizes himself as a person, can be considered as work.

Thoughts about the so-called end of work, called out by the unemployment growth accompanying the production growth in developed countries, are apparently not well founded. However, in a society based on knowledge and education it is fully justified and needed to promote a culture of work which will allow for self-realization in the production process.

Poverty amidst affluence as a challenge

At a first glance, the changes connected with the coming of information society (or a new economy) are positive. They bring a more rapid growth of

\(^{21}\) Charles Handy, ed. cit., p. 141.

wealth, higher productivity and, at the same time, they emphasize the role of the human factor. Human knowledge is becoming the decisive source of the growth of wealth. The main company asset is the intellectual capital. Its ownership is tied to a particular person and, in its own way, it legitimizes the person's claim for a share of value brought about by this ownership.

Creativity, initiative and resourcefulness are the requirements of a culture of work based on the application of knowledge. In an increasingly more complicated and interconnected global economy cooperation and partnership, network organization and teamwork are becoming an important organizational principle for achieving results. Confidence in the partners to honor agreements and to play by the rules turns out to be necessary for the working of the economy, and it equally applies to those who otherwise do not respect ethical principles.

From this point of view the new economy shows a positive potential for developed countries (where it operates) at least. The perspectives are also positive from the point of view of the church's social doctrine. The assumed growing demand for knowledge workers can expand the perspectives into new fields (internet, business-to-business, and other modern ways of enterprise) and create new job opportunities.

The problem arises however from that the 'positive perspectives' are mostly set into a social framework where ruthlessness is considered a driving power of success and a necessity in market competition. Furthermore, the 'positive perspectives' still apply, and for a long time will apply, to relatively narrow social groups, others being excluded from the benefits. Global hyper-competition based on a ruthless drive for personal benefits makes the status of workers without education worse and excludes a significant part of them to the society's periphery. Even qualified employees in developed countries are worried about growing job insecurity. Even a prosperous enterprise can be relocated to a different country if it can thus increase profits, as psychiatrist Iver Hartz, professor at the psychiatric and neural clinic Eppenstorf in Hamburg, demonstrates on an example of a supranational concern in Hamburg. Even qualified employees then often feel like chess pieces in a game of somebody else's interests and alien powers. It does not improve their contribution to the company's prosperity, nor does it help the economy. Worries and insecurity at work are often identified as the root of a series of health complaints, particularly depression and

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23 Harmut Volk, Wenn sich im Unternehmen die Angst breit macht, Die Tagespost, Katholische Zeitung für Politik, Gesellschaft und Kultur, 12.10.2000, Würzburg, BRD.
back troubles, which are widespread. A society of ruthless competition, in which ‘the winner takes all’, leaves behind a number of ‘other runners on the track’ and deepens social differences.

The forms of use of limited natural resources, such as space, clear air and water, are no less important from the viewpoint of the distribution of wealth. For instance the use of space, especially in the form of urban or other land, produces scarcity rent an exclusive appropriation of which further deepens unequal distribution of incomes and property. Call for a taxation of scarcity rent has not met an appropriate response so far.

The attempts of the rich to hide in attractive well-secured ‘ghettos’, providing them with refined comfort (such as a suburb of Johannesburg or Alphaville in Brazil), do not contribute to the resolution of wide social disparities, rather they raise social tension in the long run.

The growth in poverty amidst affluence becomes a potential serious threat for the contemporary world. It contradicts main principles of Catholic social teaching – its principles of solidarity and common good. The key requirement of the teaching of universal determination of wealth for all people remains unfulfilled. The church defends the right of private property but it asks for such a property creation and distribution that it can serve to everybody. This requirement is more important at present than anytime before.

However these arguments should not lead to a rejection the new economy, globalization, or the whole social transformation, which is necessary for a transition to a new society. Rather they should lead to carrying through a transformation that will be compatible with common sense ethical principles and a real care for human beings. Elimination of poverty amidst affluence is possible and necessary. The impoverishment of workers 100 years ago, caused by a contradiction between work and capital, was no less depressing. The contradiction was gradually and successfully solved through cooperation between labor and capital, through the growth of labor productivity that made higher wages possible. It brought improvement in material conditions of manual workers and their transformation into a middle class. New technology gradually reduced the share of blue-collar work.

Similarly at present there is no other possibility than to search for new solutions suited to present conditions and needs and, as a priority, to strive for social consensus in their implementation. In the search for a solution,
the possibility of wider capital participation of citizens, as an alternative
source of their income, should not be omitted.

Capital participation as a way of improving citizens's material situation

In societies where the main source of people's incomes is employment
(wages) only one cannot expect a significant income growth (with the
exception of top managers and experts). Employers are not interested in
wage growth since it raises their costs. Wage growth without a link to pro-
ductivity brings a danger of inflation. Proposals for providing an alternative
income source show new possibilities. If people are given an opportunity to
use a part of their savings for capital participation in companies, they gain
another source of income from capital, apart from wages. It does not
increase wage costs and, hence, it does not involve inflation risk, neither the
competitiveness of companies is threatened. Also, companies have access
to additional capital without having to obtain a loan. Citizen participation
in productive capital requires such conditions to be created that encourage
the particular form of investment. Among other things, it includes prefer-
etial tax treatment or other advantages. Positive experience with savings
in building societies or with life insurance in some countries may be
applied to the area of capital investing. The German Association of Catholic
Entrepreneurs (Der Bund Katholischer Unternehmer) published a series of
suggestions in this respect applicable in European conditions.25

Experience from the United States appears to confirm that entrepre-
nurial expectations connected to a wider citizen capital participation in
business increases consumer demand even under a zero or low income
growth and stimulates economic activity. In the United States, for the first
time in history, a large class of employed capitalists has emerged, men and
women, whose wealth generating activities involve both labor incomes and
capital ownership. More than a half of all Americans are owners of shares
either directly or through collective investing.26

The employees' capital participation can be financed from a share in
profit or, under certain limited conditions, in the form of 'investment wage',
or in other forms. Employee shares, share options, etc. may be used. Public
support for citizens' capital participation in business may improve materi-

25 Cf, for example, Beteiligung der Bürger am Produktivvermögen, Verpflichtendes
Ziel der Katholischen Soziallehre, Paulinus-Verlag, Trier, 1996.
26 James K. Glassman, Reporter of the Washington Post for Euro, Economic Review,
n° 6, 8/2000 published by Euronews, a.s. Prague, CZ.
al position of the population at large and reduce the gap between the poor and the rich. However people must be free to decide how to invest their savings. For their decision-making, some aspects should be emphasized:

1. Experience and research suggest that companies in which the stakeholders (i.e. those who have economic links to the company) participate both in management and in profit and capital are most efficient. Several studies document this point.

2. The stakeholder model supports the link between the management and ownership rights in the governance system of a company. It shortens the communication chains and improves the quality of decision making. Among others, Josef Stiglitz, the former main economist of World Bank, referred to this fact at the Annual Conference on developing economies in April 1999.

3. The stakeholder model can best satisfy the demands of knowledge workers, the owners of intellectual capital who lend their ability to create wealth to the company and necessarily have interest in its long term efficiency. The adoption of the stakeholder model will often be a condition for keeping these workers in the company.

4. The stakeholder model fully corresponds not only to the requirement of economic efficiency but also to the principles of the social doctrine of the church which has always been emphasizing that those who create values should also have an ownership share in the newly created values.

5. Nevertheless, there is a number of activities and branches in the non-profit sector, in the state apparatus, health service, education system, etc., where the stakeholder model cannot be used. Even in these activities participation in productive capital should be made possible through investment funds or publicly traded company shares. There are apparently no other possibilities in the current situation where the proportion of employees in the productive (primary and secondary) sectors permanently falls. At the same time this way extends private ownership to a larger number of participants. In this context Professor Ockenfels observes that the latter approach cannot be considered as immoral, since it subordinates ownership to a higher principle.

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29 Wolfgang Ockenfels, Kann denn shareholder-value-Denken Sünde sein?, ‘Die Tagespost’ from 19.8.2000, Würzburg, BRD.
of the universal determination of material goods (Gaudium et Spe 69-71). ‘God has given earth to the whole human race in order to provide for all its members without excluding or giving advantage to anybody. In this is the core of the universal determination of earthly goods’ reminds us John Paul II.30

6. Hence the shareholder model should not be given priority to the detriment of the stakeholder one, nor is it possible to put through the stakeholder model only since it would exclude some classes from ownership. The stakeholder model should be favored where it is possible, since it also better serves to the long term efficiency of the company. The shareholder model should enable those, who otherwise would not have access to private property, to a have share in it. Both models could purposefully contribute to the improvement of citizens’ material position.

Income from a standard job and, apart from it, an income from capital property, can form two pillars of material security for a man in the new economy and provide him/her with a more favorable economic environment for his personal and family independence and thus help to extend human freedom.31 Also it can be one of the ways contributing to reduction of poverty amidst affluence.

A globalization of solidarity instead of a globalization of ruthlessness

The global economy requires a global solution. All analyses confirm that economic growth on its own does not resolve the problem of poverty, rather, it makes it worse. A growing wave of mega-mergers even endangers the principle of free competition. Hence the philosophy of ruthless growth, on which these developments are based, requires to be reappraised.

In contrast human capital is becoming more and more a decisive economic asset and cooperation and partnership are considered an important organizational principle in the economy. It is found that the economy needs the observance of an ethical code for its smooth operation. It implies that the accent on the values of human development and social protection gains in importance. Then globalization needs not to be regarded as a danger, but as a historical opportunity for the enrichment of human life. Social structures that would stimulate this development need to be supported. The idea of a replacing of the present globalization of ruthlessness with a globalization of solidarity does not need to remain only an empty challenge.

30 Centesimus Annus § 31.
31 Gaudium et Spe §§ 69-71.