

## LABOUR MARKET DE-REGULATION AND CHRISTIAN ETHICS

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Pressure for the removal of labour market regulations has undoubtedly to be placed in a broader context. That is why this theme is treated from a somewhat more general viewpoint which involves referring to other topics as well. Hopefully this will enhance the paper by introducing a comparison of different approaches which can contribute to making optimal recommendations.

### 1. THE WORLD IN TRANSFORMATION

The fall of communism in the countries of Central and Eastern Europe was generally accepted as a victory for capitalism, as a confirmation of the fact that there is no alternative version of the economy. The example of developed Western countries with their relatively high degree of material welfare seemed to confirm that no alternative version was required. Their example seemed to be an invitation for other countries to follow it — feasible for former communist countries, if they were able to cope with post-socialist planning and party dirigisme, as well as for countries of the Third World, if they were able to find suitable politicians capable of implementing the Western model. The rapid economic growth of some countries which had developed only recently also seemed to confirm this.

However, certain new factors which had already started to take effect inside the capitalist world were hardly noticed, perhaps because of the common interest in fighting against communism. These blinkers were removed after the fall of the Berlin Wall. In the course of a comparatively short time the face of our planet has changed and it keeps changing even without our perceiving it. The new society — called post-modern or post-industrial or post-capitalist — which is gradually being formed, resembles

less and less the capitalist society of those “30 happy years” of the welfare state in Western countries after World War II.

This is, however, a society capable of achieving a tremendous growth of wealth. It is characterised particularly by an explosion of new technologies in developed countries and by globalisation (or mondialisation). Here human knowledge becomes the decisive form of capital. The underlying principles are those of economism as the rational scientific approach, which is associated with the criterion of personal profit as the decisive factor for achieving maximum productivity.<sup>1</sup>

The technological explosion brought about and continues to bring about a rapid growth of new spheres of activity, it changes the character of labour and of work requirements and it influences working and social conditions of people.

Globalisation, made possible by the creation of world-wide data networks and rapid transport connections, in its turn makes it possible to carry business to practically any corner of the globe. An important role in this development is played by supra-national corporations which can now organise the production and exchange of goods on a world-wide scale entirely for their own interests. That is why they manufacture in countries with the lowest wages, why they sell on the markets with the most advantageous prices, and why they record their profits in countries with the most advantageous taxes.

It has been noted that in 1994 approximately 3,700 supra-national corporations with more than 200,000 subsidiary companies had at their disposal approximately one third of global private property. Their turnover reached 4,800 milliard dollars and was bigger than the total remaining volume of world trade. The governments of individual countries can only sit back and watch this undertaking.<sup>2</sup>

Knowledge represents the key source of wealth in this period of high scientific and technical development. If value is nowadays formed through productivity and innovation, then “both these factors represent an application of knowledge in the working process”.<sup>3</sup> Knowledge becomes the decisive asset of the company; unlike other assets it does not wear out by being used; on the contrary it even grows.

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<sup>1</sup> This subject is dealt in greater detail in e.g. Drucker, P.F. (1969), *The Age of Discontinuity: Guidelines to Our Changing Society*, London: Heinemann & (1993), *Post-capitalist Society*, London: Butterworth-Heinemann.

<sup>2</sup> Doettinchen, L.W. (1994), “Governments Overslept on Globalisation of Economics”, *Ekonom*, 44.

<sup>3</sup> Drucker, P.F. (1992), *Post-capitalist Society*, (Czech translation), p. 14.

Economism judges all forms of social life exclusively from the viewpoint of rational science and material productivity: it excludes ethical aspects in advance. It thus leads to the question of the purpose of the contemporary productive system and the values it should serve.<sup>4</sup> In combination with the criterion of personal profit, which is considered to be the most efficient source of social organisation in a market environment, it significantly influences the present world as a whole. Thus, Amitai Etzioni states that the “Neo-classic paradigm, surrounded by defences and oriented towards profit, individualism and rationality, is applied not only to economics, but to the whole spectrum of social relations from crime to the family, and is now on the move”.<sup>5</sup>

### *New corporate organisational structures*

These changes are also connected to the creation of a new more efficient organisational structure of companies: they influence the working conditions of employees, they create pressure for a complete opening of the market and elimination of any controls. Modern enterprises are no longer organised in the form of a pyramid in which the top management rules a large number of managers at various levels, a still greater group of workers, and where everyone follows the standard process. The modern enterprise, which valorizes the pursuit of the highest profits, is being transformed into corporate networks. Its control centre enables a strategic understanding of problems and inter-connects individual units in the network which also have considerable autonomy and can create profitable connections with other networks.

The most able specialists, on whom the company's results depend, share in the profits. They have considerable executive power over what they do and how they do it. Current functions are executed on a more and more contractual basis with external partners. Power does not depend so much as in the past on a formal hierarchy but rather on the ability of increasing the value of corporate networks. Intellectual capital — knowledge and abilities — become the most important assets, increasingly replacing tangible capital. Due to the fact that the costs of transporting standard items and data are still decreasing, modern factories can be installed almost anywhere in the world. Millions of workers all over the world thus enter the mutual competitive struggle. A cheaper and more able work force prevails.<sup>6</sup>

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<sup>4</sup> Passet, R. (1987), *Revue Economique Politique*, 5.

<sup>5</sup> Etzioni, A. (1988), *The Moral Dimension — Toward a New Economics*, New York: The Free Press, (Czech translation), p. 5.

<sup>6</sup> This subject is dealt in greater detail e.g. Reich, R. (1995), *The Work of Nations*, (Czech Edition, *Dílo národů*, Prostor).

*The opening of the labour market*

Opening-up the world market requires an open labour market. This is now being more and more vigorously asserted. A study of The World Bank entitled "Labour in an Integrating World" predicts that at the end of this century approximately 90% of workers will live in countries with close relations to world economics. The free flow of goods, services and capital should and does increase opportunities for all workers, both in developed and developing countries. It therefore has a positive influence upon the improvement of living conditions in the less developed areas and enables a real growth of wages in countries with growing exports. Direct foreign investment in developing countries brings new jobs with it. Supra-national corporations play a significant role in this: in the period 1985-1992 some 5 million jobs were created by supra-national corporations out of the 8 million new jobs generated in developing countries.

The comparatively high rate of unemployment in industrial/developed countries is said to be not so much the result of competition with a cheap work force in the less developed countries, but rather the result of a reduced demand for less qualified or un-qualified workers due to technological changes or inflexible economic factors.

Developing countries become a source for the further growth of developed countries. An increase in world exports by 75% during the period of 1991-1993 was realised thanks to the markets opened up in developing countries. It is presumed that by 2010 the developing countries will absorb 30% of world imports. The economic growth thus stimulated brings more employment and a greater increase in salaries and wages.<sup>7</sup> On the other hand, traditional social contracts between governments, enterprises and employees are being broken as a result of globalisation.

*Pressure for removal of controls*

Any restrictions and controls of the labour market are considered to be detrimental to an open world market. They are also considered to be detrimental to basic human freedom if we hold that people should have the opportunity to make their own decisions about the form of their work, method of their insurance and the division of time for work and leisure. However, contemporary labour problems are considered to be the result of unnecessary regulation which distorts the labour market. From this viewpoint, politicians and trade union representatives are criticised for

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<sup>7</sup> Urban, P.A. (1995), "Working Force and Globalisation", *Ekonom*, 38.

appropriating a monopoly of decision-making concerning labour and that government; tariff and corporate controls are also criticized for being so numerous that they do not provide the necessary space for responsible citizenship. It is argued that until now we could not speak about a classical labour market since jobs were tied to a fixed working week and it was impossible to use flexible forms of employment. The market reputedly did not meet diverse regional requirements, much less satisfy individual wishes. The existing systems of social security cannot ensure the necessary funding for the future, nor ensure funding by further controls and re-distribution since this requires a greater freedom for market forces in this area as well.

Competition and freedom on the labour market are therefore considered to be “the most efficient form of policy on the labour market, as they extend in a very special way the possibilities of employment and thus bring about bigger benefits than mere fine words like the ‘fight against unemployment’ or ‘employment programmes’”.<sup>8</sup> In the same vein it is also argued that the ideology of a “secure” job in the company must therefore be rejected. Profound changes in the world require a mobile and flexible work force. Various legislative acts protecting employees against dismissal, or at least giving long terms of notice, are detrimental according to this approach.

Unemployment could best be reduced by market forces, not by government intervention. It is illusory to think that a general shortening of working hours would help resolve the unemployment problem. These are only considered as attempts at the “re-distribution of scarcity”. The way forward is held to consist in enabling a greater freedom in the selection of work and in the full free-play of market mechanisms.

Flexibility is the password these days. Higher flexibility should be given to employers and greater freedom should be offered to employees in selecting their jobs. This would foster the development of more short-term jobs, jobs with shorter working hours, irregular working hours, etc. that allow the modification of the type of job in accordance with the needs of the company or possibly even the employee. It is necessary to separate operation time and working hours, to enable group work and other new organisational forms in the modern enterprise. The combination of a company job and employment on the side is considered to be advantageous for employees, as are home working or work at a distance, as prospective variations. Flexibility should allow workers “time possession” and better use of time in relation to the interests and needs of employee and employer. Supporters of de-regulation require the elimination of minimum wages as

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<sup>8</sup> Then, W. (1994), *Die Evolution in der Arbeitswelt*, Inno Vatio Verlag, p. 70.

they reason that it is better to employ more people with lower wages. They would end government unemployment benefits and propose privatising social security as well. However, it is admitted that many such measures would bring about a deterioration in the status of employees. In the long-term perspective this drawback should be ironed-out, it is maintained.

Renato Ruggiero, general director of the World Trade Organisation, stresses that any restrictive measures limiting the freedom of trade would not promote an improvement in working conditions but instead would limit the possibilities for economic growth, which also constitutes social development in his view.<sup>9</sup> Is this really so? What is the effect of the changes we are witnessing so far? How should we regard these changes, namely the deregulation of the labour market, from the viewpoint of Christian ethics? What are the concrete effects of these changes for labour in developed Western countries? What approaches should we follow more closely when searching for social development in accordance with the requirements of Christian ethics?

These are the questions which are more and more topical for both developed countries and for developing countries, because sooner or later development will open up similar questions there as well. Is it possible to find a satisfactory answer to those questions?

### *The growing gulf between wealth and poverty*

According to data published at the World Summit for Social Development held in March 1995 in Copenhagen, the overall wealth of nations has increased seven-fold over the past 50 years; international trade has increased even more and the increase of wealth has further accelerated during the past years. On the other hand, the gulf between the rich and the poor in all countries deepens as well as the gap between developed and developing countries.

More than 1 milliard people in the world live in poverty, many of them at starvation level. More than 120 million people are officially unemployed and the number of under-employed is much higher.<sup>10</sup> Even in developed industrialised countries there are approximately 32 million unemployed: in Europe alone there are 17 million men and women who are jobless.<sup>11</sup> Seven

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<sup>9</sup> Ruggiero, R., Speech held at international conference - "Economics, For What Kind of Future", Institute Jacques Maritain, December 1995.

<sup>10</sup> Copenhagen Declaration and Programme of Action, March 1995.

<sup>11</sup> Proceedings of the Pontifical Council for the Laity "Gaudium et spes — Thirty years after".

hundred million people in developing countries do not have sufficient food to satisfy their basic daily needs.<sup>12</sup> According to a UNO report of 1992, the countries in which 20% of the richest peoples live have increased their share of the Gross Domestic Product from 70.2% to 82.7% in the period 1960-1984, while the share of the countries where 20% of the poorest live, has decreased from 2.3% to 1.4%.<sup>13</sup>

The common declaration of governments participating at the Summit in Copenhagen reads: "We witness in countries all over the world an expansion of prosperity for some together with an expansion of inexpressible poverty for others". Government representatives at the summit also stated: "Globalisation as a result of human mobility frees up communication, promotes business, the flow of capital and technological development, opens up new possibilities for permanent economic growth in developing countries. It brings about at the same time growing poverty, unemployment and social disintegration. Environmental danger is globalised as well. It is necessary to gain control over these processes so that they bring benefits and do not have a detrimental impact on people". They added that the final aim of social development must be the improvement of the quality of life of all people.

We can undoubtedly agree with such a conclusion. There is, however, the question of whether the governments which adopted this declaration genuinely have the will to enforce its realisation or whether it is even within their capabilities. That is the reason it met with a certain criticism at the meeting of representatives of the seven most developed countries in the world, held one year after the Copenhagen Summit, where there was no mention of the Summit's conclusions. So far there are no signs of a positive shift in this direction.

The enormous growth of wealth together with the proportionate increase in poverty and hunger remains one of the sad paradoxes of our so called advanced civilisation: the key question is whether this paradox can be resolved.

### *The practicality or non-practicality of eliminating poverty*

Does the present world have sufficient means for eliminating poverty and hunger? Undoubtedly it has. According to data from the World Bank just 1% of the Gross Social Product of industrial countries, or just 20% of the world's annual expenditure on arms' programmes, are sufficient for

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<sup>12</sup> Data of FAO and WAO — according to *World Hunger — A Challenge For All: Development in Solidarity*, Pontifical Council "Cor Unum", 1996, p. 17.

<sup>13</sup> UNO (1992), *World Report of Human Development*.

providing every man in the world with an income which equals a living wage.<sup>14</sup>

The UNO report about human development proposes a tax on the international flow of speculative capital for the creation of a global social network protecting people against poverty and hunger. According to their calculations, a tiny rate of 0.05% can bring in some 30 milliard dollars annually for these purposes. It is generally accepted that the resources of our planet as a whole are sufficient for feeding every inhabitant.<sup>15</sup>

The fault therefore lies not in the incapacity of existing states or in the impossibility of eliminating the gulf between poverty and wealth; the fault is obviously due to the nature of existing societies, their values, priorities and targets. Economic growth is necessary, but if its aim is the maximisation of profit for a small minority at the expense of others, it means an inversion of values which disregards the fair distribution of wealth and it endangers itself in the process. Simultaneously it also contradicts the principles of Christian ethics by refusing to acknowledge human dignity.

## 2. THE VIEWPOINT OF CHRISTIAN ETHICS

### *The need for Christian Social Ethics*

“Christian ethics consists in following Christ. Ethics in the life of a Christian is the interposition of faith into practice”.<sup>16</sup> This definition encapsulates the approach common to various Christian denominations to the question “how should man behave and how should his behaviour relate to the structural arrangements of society in order to promote responsibility in all human relationships” (social ethics). Despite certain differences in the issues confronted, Alfred Klose maintains that the social doctrines of the various churches have a common denominator although their justifications might differ. Nevertheless, scriptural authority takes priority here.<sup>17 18</sup>

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<sup>14</sup> Kreye, O. (1995), *Die Verwaltung der ökonomischen Krise ist nicht ihre Lösung*, Starnberger: Institut zur Erforschung globaler Strukturen, Entwicklungen und Krisen.

<sup>15</sup> World Hunger, p. 11.

<sup>16</sup> Vidal, M. (1989), *La ética cristiana*, Spain, p. 35.

<sup>17</sup> Klose, A. (1993), *Christliche Soziallehre: eine ökumenische Herausforderung*, Andreas Schnitzer Verlag, p. 6.

<sup>18</sup> It is interesting that in the Czech Republic the interest of some religiously oriented economists has, on the contrary, focused on Protestant ethics derived from Calvin's metaphysics of redemption, considering profit maximisation and wealth as proof of a greater subjective probability of redemption. It has thus substantiated a radical transformation of economics. See, for example Gerhard Ditz, “Protestant ethics and market economy” *Proceedings* “Liberální ekonomie” (Liberal economics), Prostor, 1993.



Whether social doctrine derives from natural law and a view of human nature which is also shared by humanistic non-believers (e.g. the Holy Father speaking to the diplomatic corps in 1989: "From real human nature ensues respect for life, personal integrity, religious freedom and personal freedom for every citizen"), or whether it is derived from a doctrine of hereditary sin which can only be healed by faith, hope and love (e.g. Artur Rich: *Ethics of Economics*), we can probably agree that the changes now occurring in the world should respect at least three main principles:

- the dignity and value of human beings;
- an interest in the common good;
- structural justice.

It seems that changes in the contemporary world and those affecting the world of labour, are in deep contradiction with these ethical principles and that this is one of the roots of the existing problems. The reference in economics to "the invisible hand of the market" justifies a rather ruthless neglect of the value of others. The common good is considered to be a vague, utopian term which is not sufficiently precise to allow the formulation of clear criteria for its application. Hence it is possible to dismiss considerations about the common good and human solidarity which is related to it. Finally, the enforcement of structural justice is considered dangerous to individual freedom, as it suggests a forcible re-distribution of income. It takes away the fruit of their efforts from the more successful and assigns it to others who have not contributed to it.

All three main principles, however, are related and mutually reinforcing. However, appeals to ethics, no matter how just they are, are insufficient if we leave existing structures unchallenged, which leaves intact what John Paul II calls the structures of sin.<sup>19</sup>

Every form of injustice is in contradiction to the spirit of evangelism and to the aim of the Divine Kingdom. It represents atheism in practice which denies God not by words but by acts. Efforts to eliminate unjust structures are therefore not only a requirement of Christian ethics, but a necessary pre-requisite for the plausibility of evangelisation.<sup>20</sup> An integral demand of Christian social ethics must therefore be the search for "structures of Christianisation", i.e. such structures that enable both economic efficiency and necessary justice. From this viewpoint it is also necessary to confront changes occurring in the world, including changes brought about by the de-regulation of labour market.

<sup>19</sup> *Sollicitudo rei socialis*, art. 36.

<sup>20</sup> See Müller SJ, J. (1995), *Glaube und Gerechtigkeit*, Entschluss. Also Rich, A., *Ethics of Economics*, op. cit., p. 71.

*Ethics and de-regulation of the labour market*

De-regulation of the labour market appears to bring about a deterioration in many rights of employees and endangers their social security, but simultaneously issues in further improvements in the welfare of the rich. In our present society of individuals elbowing each other aside for personal gain, many employers do not look for anything else. However, a critical examination of the de-regulation cannot be so unequivocal.

If we admit that contemporary society is undergoing many substantial changes, it is self-evident that the world of labour cannot remain untouched by them. The conclusion that the Western economic and social model created in the past decades has reached its limits — and data contained in the next section will fully confirm this — then it is obvious that we cannot try to preserve its structures. In post-communist countries we cannot thoughtlessly take over these structures just because they were a tempting ideal in the era of communism. The same also applies to countries of the Third World.

If we realise that human knowledge, hence human capital, becomes the main undisputed source of economic growth, then we must examine all the possibilities of how further to develop and propagate this capital. Its suppression, reduction and limitation in the interests of short-term profit alone contravenes the good of society and also contradicts ethical requirements.

The organisational structure of modern, high profit-making enterprises is being changed into global networks. Hierarchical management is being abandoned. De-centralisation, flexibility, autonomy, and team-working has come to dominate. Fixed jobs with fixed working hours become anachronistic in such a system. Is this really to the detriment of the world of labour? Does it not rather open up space for greater freedom, liberty and autonomy, but ones which if misused then suppress human dignity?

The contemporary labour market — sub-systems of which gradually become not only enterprises, but also departments, work-groups and even families with their own authority and responsibilities — offers possibilities for greater variety, freedom, better utilisation of working hours not only for the needs of employer but also for the satisfaction of the employee's own interests, for the practical use of leisure time, for sport, for culture, etc. It offers the possibility of eliminating the alienation of labour and giving fulfilment through work. However, it also makes it possible to reduce labour costs through reducing wages, eliminating paid overtime, holidays, and the dismantling of social security.

From this vantage point it is possible to evaluate particular de-regulation measures and their effects on the labour market. The flexibility of work can undoubtedly provide greater liberty and freedom for employees.

Doing away with periods of layoffs need not always be against the interests of the employee if it is replaced by appropriate financial compensation for readiness to change work and be re-trained for another job and possibly by a short-term tax-allowances during this interim. The identification of new sources of social security and its re-organisation become more and more necessary as requirements for further social development. On the other hand, unless companies go bankrupt, the elimination of the minimum wage cannot be ethically justified and cannot contribute to a real resolution of unemployment. Working at home can bring a greater freedom to employee, and it can be especially advantageous for women, who could combine gainful employment with care of the family. In practice, saving on overheads has to lead to a deterioration in the position of those employees who get much lower wages as they often do not have old-age pensions, insurance covering the spouse and they are not entitled to health benefits. One delegate at the world conference of the International Labour Organisation in 1996 identified them as the "proletarians of globalisation". This proletariat is at present estimated to include some 500 million people in the world.<sup>21</sup>

A system of work, which even in the context of a global market, was oriented towards qualitative economic growth, could support the autonomy and responsibility of employees, could offer, instead of fixed working hours, the possibility of earning by flexible methods of employment, could satisfy the need for quality time not only at work but also in the family, education, etc. Such a system would probably meet the requirements of Christian ethics and also of social efficiency. This perspective therefore consists in changing labour market from one of cut throat competition to one which promotes human dignity. This represents a challenge for politicians and tariff partners alike.<sup>22</sup>

### 3. TYPES OF JUSTIFICATION

#### *Limitations of Western models*

"Western society" developed for many years as a society based on gainful employment which safeguarded a person's financial standing, social status and identity. These served to reward the efforts connected with

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<sup>21</sup> Vitek, J., "World labour parliament on deal of 'proletariat of globalisation'", *Hospodářské noviny*, (Economic News) 21.7.1995.

<sup>22</sup> (Compare Then, W., *Die Evolution in der Arbeitswelt*, pp. 69-70).

education and appropriation of society's norms and values. The labour market enabled young people in particular personal and family independence. Wages brought means for the free use of leisure time. Gainful employment also gave rise to contacts, provided a framework for time distribution and the means for consumption and a reputable life-style, even if strenuous manual work was the source of them. Only gainful employment was required and appreciated: other activities were considered to be less valuable. Material security in case of illness, in old-age or in emergency cases were also based on gainful employment. Full employment with comparatively high incomes enabled the financing of these social security systems.

The poverty and misery of the Third World did not touch the developed countries. On the contrary, it was known that the indebtedness of developing countries brought a further transfer of money which benefited rich countries and that were all countries to achieve the same level of development as the West, this would result in economic collapse on a global scale. Publicly it was stressed that a certain degree of unemployment in developed countries was only a temporary problem which could be solved by further economic growth. At the same time Western countries managed to master existing and potential conflicts within society on the basis of a lawful state and parliamentary democracy, as the counterparts of the labour market and civil society.

Those conflicts and injustices which manifestly existed were not considered to be decisive. Although there were different opinions concerning the assurance of economic growth, the growth of new jobs or the financing of social security systems, nevertheless there remained an unshakable faith in continuing economic expansion and in the efficient performance of society based on gainful employment. This faith was invigorated by the fact that the growth of wealth was accessible to all social strata.

The "Western" way of management did allow contemporary generations a tremendous growth in general welfare and gave hope of a permanent boom.<sup>23</sup> The emergence of new technologies further reinforced this expectation. There were no doubts that it brought new possibilities for the increase of social wealth. It was presumed that this would bring with it new jobs for those who had had to leave their now outdated positions. However, what escaped attention was the fact that new techniques and new technologies generated an increase in productivity with a much smaller number of

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<sup>23</sup> See Kitzmüller, E., "Wer kann den Weg öffnen zum Grundeinkommen", BIEN International Congress, September 1996.

workers and that advanced technology is less and less reliant upon the work of traditional workers in the primary or secondary economic sectors.

Technical progress in agriculture has already gone so far that agriculturists in developed countries represent only 3-5% of the economically active population and have become a marginal force. The countries with the highest productivity in agriculture are the countries in which the percentage employed in it is the lowest,<sup>24</sup> in relation to total inhabitants.

The proportion of traditional industrial workers decreases simultaneously. In 1990 it represented only one fourth of jobs in the USA and it continues to diminish. It is expected that in the year 2000, traditional workers in developed countries will represent no more than one sixth to one eighth of the labour force, and some even predict their shrinkage to a mere one tenth.<sup>25</sup>

This further substantially reduces the proportion of wages earned by production workers in relation to total production value. During the period 1949 to 1990, this proportion decreased from 40% to 24% in the USA. Workers' jobs represent only a small fraction of production costs for a majority of the goods produced in the USA and other developed countries. This fraction will continue its rapid decrease due to the application of computer controlled robots.<sup>26</sup>

It seems that Marx's vision of a victorious proletariat was thus defeated for the second time: in the first place, by the intense growth of productivity which enabled an increase of wages and improvement of workers' status, such that the proletarian revolution lost its justification, and in the second place, by the fact that the classical working class shrank in number and lost its social significance. The old class society ceased to exist. The division between rich and poor, however, continues and even deepens. It touches different social strata and groups but it does not reflect the obvious polarity of two antagonistic social classes. It can, however, be no less dangerous if the changes taking place do not result in social consensus.

### *Growth of unemployment*

For the first time these changes seem to endanger developed western countries. The living standard of their inhabitants is still high, faith in the

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<sup>24</sup> Kapuscinski, R., "XXth Century is Over", *Hospodáorské noviny*, (Economic news), 21<sup>st</sup> April 1995.

<sup>25</sup> Hengsbach, F. (1994), "Neue Gleise für die Wirtschaft. Die Wirtschaft der Zukunft", *Publik Forum*.

<sup>26</sup> Data from Reich, R.B., *The Work of Nations*, *op. cit.*, pp. 120 and 139.

welfare state still persists, but bigger and bigger cracks are appearing. Both pillars on which the model of the welfare state rested — full employment and assistance in case of need — have crumbled and ways to strengthen them have so far been sought in vain.

Unemployment in Europe varies within two-digit numbers. Data from June 1996 show that there were 30 million unemployed, of which 12% were in France, 10.3% in Germany, 15% in Spain and 12% in Italy. Every tenth European is looking for a job.<sup>27</sup> Even more disturbing is the fact that basic unemployment, i.e. that part of unemployment which does not disappear with an economic recovery, has increased from 5 to 20 million during the last two decades. The search for efficient solutions to eliminate it still continues. The number of unemployed in the United Kingdom is 7.8%, which is below the European average, but more than half of the unemployed have been jobless for more than a year. According to research, 55% of European citizens consider the feeling of personal insecurity to be their most important concern about employment.<sup>28</sup> Attempts at reducing unemployment or at least at reducing it significantly seem to be completely ineffectual. Governments receive a declining proportion from wages for funding sickness benefits, old-age pensions or unemployment payments.

This shows that even the western model of state is slowly reaching its limits. The question of a crisis in capitalist society arising from lack of gainful employment is now openly discussed.

### *The deterioration of social security*

Problems are brought about not only by unemployment itself but also by growing pressures to dismantle the existing social security systems. Next on the list is dismantling civil society itself.

The argument is well known: first it is necessary to strive for economic growth which would enable the provision of welfare for all. This would be best achieved by giving free play to “the invisible hand of the market”. Everything that limits its activity endangers economic efficiency and human freedom.

Yet, high unemployment levels, efforts to eliminate social benefits, relentless pressure on a reduction of labour costs and the instability of

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<sup>27</sup> Bilmes, L. and Wetcher, K., “Wise tending in the jobs garden”, *Financial Times* 3th June 1996.

<sup>28</sup> *Ibid.*

employment related to growing poverty — in developed countries this creates the feeling of a threat even for those who do have jobs.

In any case, there is little hope that in the event of losing a job, new work would be better paid than the existing one and that it would be long-term or permanent. That is why even employees of long standing experience a greater fear of losing their jobs; not because redundancy becomes more probable, but because of its adverse consequences.<sup>29</sup>

These tendencies manifest themselves in the same way in the USA. In spite of the fact that the unemployment level is below 6%, in spite of the fact that during the last 4 years some 8 million new jobs were created, fear among Americans is at the highest level since the time of the Great Depression. According to one survey, 30% of Americans state that they are afraid of losing their jobs.<sup>30</sup> Jobs for a “lifetime” are ending and people are looking for new jobs before losing their existing ones.

Prof. Richard Freeman of Harvard argues that as the labour market goes through long-term basic transformations these will have less effect upon the more educated employees. According to him, what is at issue is less these changes as such, but rather the increasing uncertainty which accompanies them.<sup>31</sup>

### *The paradox of the contemporary world of work*

The core of the problem has been defined by Shoshana Zuboff, in *The Age of the Smart Machine*. In principle corporations (companies) now have the same technologies at their disposal, the same system of work and the same software. The only way of succeeding in competition lies in allowing the biggest asset of the corporation — its labour force — a higher degree of freedom to use technology for the creation of new products and new services which sell well. Instead of that, for decades corporate America has regarded its employees as liabilities rather than assets. However, if America wants to reap the benefits from trade expansion and technological innovations, it must master the problems of workforce transformation. This means better training programmes, greater sensitivity to the fear of redundancy and participation in management.<sup>32</sup>

In other words, if human knowledge has become the most important source of wealth in advanced economies, it is necessary to look for creative

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<sup>29</sup> Flanders, S., “Life, jobs and the safety zone”, *Financial Times*, 29.4.1996.

<sup>30</sup> Bilmes, L. and Wetcker, K., *op. cit.*

<sup>31</sup> See Pennar, K., “Economic Anxiety”, *Business Week*, 19.3.1996, p. 32.

<sup>32</sup> Flanders, S., *op. cit.*

methods of using this knowledge in the interests of competitiveness. This entails stimulating the interest and initiative of employees and creating conditions in which people feel satisfied with their positions and enjoy their work. Instead of that, many companies determinately view their employees as a negative cost item which must be reduced or preferably replaced by machinery.

We thus arrive at another regrettable paradox of the contemporary world: while the need to use the full potential of human resources “opens up the chance of the century”, namely to enhance human dignity in modern economies and democratic culture,<sup>33</sup> the status of workers in a large number of companies is deteriorating and human dignity is being harmed. Creative human capital is thus being suppressed. This is to the detriment of economies and obviously does not correspond with the requirements of Christian Ethics.

#### 4. THE NEED FOR CHANGING APPROACHES

The mechanisms of economic development can be co-ordinated. Economics is not a rigid creation of nature, but rather a historic and cultural creation. It is a system of institutions which — although often appearing as an objective power, as an external force which restricts the possibilities of action — was not created without regard to man but formed by him. Man creates it himself and then obeys it.<sup>34</sup>

That is why it is within human reach to create structures which conform to the requirements of justice and, at the same time, support economic development. However, the pre-requisite is that there must be sufficient will to introduce them and an ethical approach must replace the ruthless quest for profit.

#### *Market regulation*

The approach to market regulation can serve as a good example. The notion that there is only a choice between a free market and a centralised one is completely false. Harvard professor and Secretary of Labour in the Clinton's administration, Robert B. Reich, states quite unambiguously: “The

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<sup>33</sup> Then, W. (1993), cited in *Der Mensch im Mittelpunkt*, Schatz-Roland, Innovatio Verlag, p. 226.

<sup>34</sup> Rich, A. (1984), *Ethics of Economics I*, p. 73.



idea of a free market which would not be influenced by laws and political decisions is pure fantasy".<sup>35</sup>

De-regulation of the market is justified, but it must also transform the character of government intervention, from one seeking concrete results to one dedicated to the creation and maintenance of new markets. Politicians cannot jettison their responsibilities in this context. Robert B. Reich gives several specific examples illustrating how precipitous de-regulation has had very costly consequences. At the beginning of the eighties, the government allowed mortgage banks to invest customers' savings freely. Simultaneously it insured depositors against possible losses. This enabled banks to speculate wildly without any real risk of losses. The result was that the price-tag for this "de-regulation" cost American tax-payers more than 300 milliard dollars. In this connection, Prof. Zamagni from the University of Bologna points to the paradox of freedom brought about by the functioning market. If only the most capable survive in the market, then according to market laws the others must cease to exist. As a means for resolving this paradox, he proposes introducing into the market certain requirements for solidarity, as its constitutive framework.<sup>36</sup>

### *Unemployment and the problem of inflation*

High unemployment represents one of the burdens of the contemporary world. It is generally accepted that it must be eliminated, but attempts to do so have not been very successful. The argument that economic growth would bring new jobs for the unemployed has failed. Downsizing now makes more workers obsolete than can be absorbed by newly created jobs. Moreover, these new jobs often require a completely different training from the skills possessed by workers made redundant in the old industries.

The growth of productivity has been significant. In 1960 in West Germany, the production of goods and services valued at 1 million DM required 40 workers; in 1990 the same effect was achieved with only 10 workers.<sup>37</sup> In 1995, it is estimated that within the European Union the

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<sup>35</sup> Reich, R. (1995), *Work of Nations*, p. 210 of the Czech translation. Reich's arguments from pages 211-213 are used freely further on in the paper.

<sup>36</sup> Zamagni, S. (1992), "On the limitations of the implicit morality of the market: a perspective from a modern economic analysis", in *What Markets Cannot Do: The Problem of Economic Transition in Central-Eastern European Countries*, Nova Spes, pp. 34-5.

<sup>37</sup> Kessler, W. (1994), *Die Wirtschaft der Zukunft*, Publik-Forum, p. 24.

existing volume of production and services would require approximately 20-25 million less jobs by the year 2000.<sup>38</sup>

Does this mean that the unemployment problem is insoluble? In a situation where millions of people in the world live in poverty, where their need for goods and services is completely unmet (leaving aside population growth in LDCs), significant reductions in poverty will be a long time coming. In developed countries, there is a great potential for implementing new environmentally-friendly technologies, e.g. the use of solar energy, recycling used materials, investments in the infra-structure such as health services, schools, etc., all of which could contribute to reducing unemployment.

The real question is whether there is a genuine will to resolve the unemployment problem. Economists are persuaded that a drop in unemployment fuels inflation and this is considered to be more dangerous than unemployment. This is based on the assumption that the unemployment rate determines the level of wages in a given country. Growing unemployment reduces the purchasing power of employees and therefore reduces the price of goods: reduced unemployment, on the contrary, results in price increases. "This, however, is not good business for financial markets, not only because additional costs limit their profits, but also because this recovery is connected with the spectre of inflation, which frightens people more than anything else".<sup>39</sup> They recall that it was precisely the 30 years of economic recovery after World War II that brought about high inflation, the victims of which were the financiers. That is why a reduction of unemployment below a certain percentage is against their interests.

In the USA economists considered it as an "article of faith" that the natural unemployment rate must not fall below 6%, otherwise there is a threat of accelerated inflation. Ten years ago when unemployment dropped below 6%, inflation accelerated — which is used as a constant warning. However, Robert Reich points out that this thesis is no longer valid. He argues that the unemployment rate in the USA has dipped to 5.1% and been the lowest for the last seven years; yet wages are increasing and there is no threat of spiralling inflation.<sup>40</sup> "How low can unemployment go?" "What is the real 'natural' rate?" Robert Reich's reply is that "no one knows precisely. But whatever it is, we need not assume it is fixed at that level. It can be lowered further".<sup>41</sup>

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<sup>38</sup> Dialogues Eurosocietal 65/95 from 1995, p. 3.

<sup>39</sup> Duboin, M-L., "The Civic Contract to manage basic income and large working time reduction" presented at the International Conference BIEN in September 1996 in Vienna.

<sup>40</sup> Reich, R., "Casualties of the Inflation War", *Financial Times*, 24.9.1996.

<sup>41</sup> *Ibid.*

Although many employers have difficulties at present in finding the employees they need, some 6.8 million Americans who want to work are unable to find a job. Another 4.4 million have part-time jobs, although they would prefer full-time work. This is because these applicants for work do not have the required knowledge or skills, or they have different skills, or because they do not know what skills are needed, or because they live in the wrong place, or just because they consider themselves to be too old. Thus Reich concludes that “the best way to reduce the ‘natural’ rate of unemployment is to ease the transition of these prospective workers into a workforce. This has been a central goal of this administration’s labour policy”.<sup>42</sup>

These examples show that the unemployment problem can be solved. It cannot, however, be solved if there is lack of willingness to take the necessary measures and particularly if a reasonable humane approach is ignored and personal profit is sought, to the exclusion of other considerations. References to the free action of market forces are just a pretext. The ethical approach can, on the other hand, offer a solution.

### *Basic income*

The idea of a so-called basic income (*Grundeinkommen* in German) presents an interesting way of solving the problem of poverty and unemployment. It arises from the fact that the elimination of unemployment in the foreseeable future is unlikely and that it will be more and more difficult to finance social security given the existing form of wage distribution. The radical version of this proposal would mean that every citizen has the right to a certain income regardless of being employed or not. This income is usually construed as negative income tax. A person with no job obtains a basic income from the government. If this person gets a job, his income is reduced depending on the level of his wage. If this exceeds a certain level then the basic income will not be granted anymore and the person will obviously have to pay income tax. This idea has already gained many supporters. Nobel prize winner, British economist James Meade and American economist Milton Friedman number among its adherents. In September 1996, an international congress was held in Vienna focusing on this topic.

Implementation of basic incomes can bring many benefits. Firstly, they ensure that everyone has a certain basic income regardless of employment. Secondly, they initiate interest in less well-paid jobs or in part-time work by allowing for a combination of the wage with earnings. Thirdly, the basic

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<sup>42</sup> *Ibid.*

income substitutes the high labour costs connected with the maintenance of social security by a simple tax. This eliminates unnecessary bureaucracy connected with monitoring benefits and their payment, etc. Fourthly, this is also beneficial to women working in households or doing useful activities which are not remunerated. Finally, by separating labour costs from social security costs, it offers an employee the possibility of holding various jobs, which he otherwise would not be offered due to the high labour costs connected with social security contributions. This would undoubtedly contribute to enhancing human dignity since people would not be pushed into working for low wages in disadvantageous conditions. It is even argued that this system could play a positive role towards the environment by not forcing people to keep working in ecologically harmful industries, but enabling them to choose healthier locales.<sup>43</sup>

Critics, on the other hand, fear that an entitlement to low wages would influence the regular labour market and replace normal wages. It also seems that although the basic income would reward many useful activities that are currently non-remunerated and would also give more freedom to engage in voluntary activities and suitable uses of leisure time, on the other hand it could promote idle inactivity. Avoidance of this danger seems to depend on setting a suitable level for the basic income.

### *New sources for social security*

Even if the basic income is not introduced, it is obvious that the funding of social security must be solved by means other than wage contributions. If the proportion of wages to the price of products decreases, the proportion of tax payments derived from wages decreases as well. The sources for social security would therefore also decrease. That is why tax payments from the value created are now being proposed. Such taxes would be higher for enterprises with greater created value, greater capital and fewer employees. On the other hand, the situation of smaller companies and service providers would become easier and a better stimulus for employment in these spheres would thus be created.

There are objections that this would lead to a higher tax on employers and threaten their interest in investment, which would endanger further economic development. However, statistical data does not seem to indicate that taxes on the rich will increase. On the contrary, in the USA, for example, taxation determined for funding social security by the federal

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<sup>43</sup> In greater detail, e.g. Ploch, R., "Basic Income: Social policy after full employment", BIEN International Conference, Vienna, September 1996.

government and local government increases VAT which drains a disproportionate amount from the incomes of the poor, not the rich. In 1979, federal and local government VAT taxes absorbed 6.1% of the incomes of 20% of the poorest Americans and 7.8% of incomes of 20% of the richest Americans. In 1990 the poorest 20% devoted 7.1% of their incomes on these taxes, whilst the richest 20% spent only 2.5%.

On the other hand, the progressive income tax introduced in 1917, whose upper rate amounted to 83% gradually decreased until it completely disappeared. The overall proportion of total taxes paid by the richest increased less than their share of total income. Simultaneously, the share of the poorest in the domestic product decreased, while their share of taxes remained the same; therefore their tax burden increased.<sup>44</sup>

Robert Reich regards the possible threat to investments by the rich under a system of high taxation as old-fashioned thinking. According to such thought, the public sector spends the money and the private sector makes and invests it. A higher overall standard of living is gained by such investments. It is deemed necessary to relieve the tax burden on the rich so that they will be motivated to invest. However, this picture is not valid. Increasingly the free movement of capital all over the world weakens the relation between the level of savings and quantity of capital at the national level. The value of capital in all developed countries has remained more or less the same. Reducing taxation for the rich thus has had very little influence.<sup>45</sup>

### *Investments in education and transport and communication systems*

The public sector, on the other hand, increases investment in production, particularly through the education of its citizens and the development of transportation and communication systems. Any de-regulation and tolerance of market-freedom (as we often hear justified in post-communist countries) is very dangerous for the future of the nation and its citizens. In this context Gary Becker stresses that

“the productivity of modern economics depends heavily on investments in the acquisition of knowledge and skills ... Education, training on the job and in specialised institutes and expenditures to improve health all contribute to human capital. Human capital is as much a part of the wealth of nations as are factories, housing, machinery and other physical capital. In fact economists estimate that

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<sup>44</sup> Reich, R. (1995), *op. cit.*, pages 224-225 and 274.

<sup>45</sup> *Ibid.*, pages 291-293.

human capital accounts for much more than half of all the wealth in the U.S. and other economically advanced nations".<sup>46</sup>

A well trained worker can achieve a higher productivity and thus a higher wage without the threat of inflation. For example, Anna Bartel found that companies that had introduced training programmes for their employees achieved a growth in productivity which was 19% higher than in companies with no such training programmes, at the end of the 1980's.<sup>47</sup>

Investments in human capital are in the interest of efficient economics; they are also indispensable to ethical requirements. Neglecting them or allowing free-play to market forces in this area is to the detriment of citizens and society alike.

### *Labour must lose its "minus sign"*

World wide competition undoubtedly brings pressures to reduce costs. Since these costs include those of labour, their reduction is in the interest of market competition. From this point of view the strivings of employees for higher wages are in contradiction with the moving principle of the capitalist enterprise, namely profit maximisation. This principle can itself be significantly modified in favour of employees if they are allowed to share in the productive capital of the enterprise. This proposition is supported by Jaroslav Vanek who argues that the motor of the traditional capitalist company is given by the objective function: maximise profit = revenue minus "labour cost" minus all other costs. In this equation, human labour appears with a negative sign and Vanek calls this the "minus sign syndrome" (MSS). This syndrome forces the employer to reduce the proportion of labour costs because growing labour costs reduce his profit. However, if employees have a share in productive capital this helps to offset the effect of the negative syndrome. Other things being equal, it enables the reduction of labour costs in favour of bigger profits without any detriment to employees, provided that they share in the profit as well. From this viewpoint, Vanek considers full joint-ownership by the company's employees to be the best solution (e.g. manufacturing co-operatives), because in such a case the principle of profit maximisation can be expressed as a new equation:

$$\text{Maximise Net Income Per Worker} = \frac{\text{Revenue minus all other costs}}{\text{divided by the number of workers}}$$

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<sup>46</sup> Becker, G.S., "Human Capital: One Investment Where America is Way Ahead", *Business Week*, 11.3.1996, p. 8.

<sup>47</sup> *Financial Times*, 24.9.1996.

Labour does not appear as a negative factor in production, but serves to benefit all who work in the co-operative. In any case, even a limited share in productive capital can positively influence the outlook and behaviour of employees and better reconcile their vested interests with corporate interests.<sup>48</sup> After all, if human capital has now become the decisive source of growth, it is worthwhile making this capital economically efficient. To overcome labour's alienation from ownership of capital can be a means to this end. The co-operative idea has many as yet unexplored potentials. The lack or limitation of capital resources in co-operative ventures need not be an obstacle as is demonstrated by the experience of the Spanish co-operative in Mondragon.

## 5. THE CHALLENGE FOR THE 21<sup>ST</sup> CENTURY

### *Uniting economic growth with an ethical approach*

The explosion in technology, the growing significance of human knowledge in economics and globalisation — all these can enable an unprecedented development of wealth on our planet, create the prerequisites for giving bread and butter to the growing number of its inhabitants, shorten distances between countries and between peoples. These changes are undoubtedly beneficial. Why then do they bring about more poverty and misery and deepen social differences?

It seems that the decisive factor is the ruthless pursuit of profit, whether it is justified by economism, neo-liberalism, radical individualism or any otherism or, even if it does not bother with any justification at all. This cannot unite people: it separates them instead. That is why we are witnessing so many separatist movements, nationalisms, local wars and conflicts. That is why the economist Lester C. Thurow stresses in *The Future of Capitalism* that capitalism needs an ideology that would unite people through common goals and values.<sup>49</sup> Is it not Christianity that can offer such common values, although it does not want to become a new ideology? What if these are just the values that contemporary man so desperately needs and which give new meaning to human strivings?

The Rector of LUMSA of Rome, Giuseppe Dalla Torre, rightly draws attention to the fact that the origin of the present crisis lies in the fact that

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<sup>48</sup> Vanek, J. (1996), "The Moving Principle (motor) of Economic Democracy", in his (ed.) *Producer Co-operatives and Labour-managed systems*, Edward Elgar, p. 2.

<sup>49</sup> Thurow, L.C. (?), *The Future of Capitalism — How today's economic forces shape tomorrow's world*.

“politics, economics, science and technology are unable by themselves to create the values necessary for influencing development in favour of the truth about man”.<sup>50</sup> An approach based on profit undoubtedly contributes to this distortion. It forms structures that bring with them tremendous poverty and injustice and whose replacement is indispensable for the achievement of real economic and social growth.

Christian Social Ethics, therefore, does not reject changes happening all over the world, but recognises the positive opportunities they offer to mankind. Its critique is that these potentials are now being developed in a manner which creates inequalities rather than solidarity and generates increasing redundancy instead of distributing what is needed. At the conference of the World Movement of Christian Workers (MMCT) Marc Maeschalck’s call for linking the globalisation (or mondialisation) of economics with the mondialisation of solidarity was taken up and re-echoed.<sup>51</sup> Thus Stefano Zamagni, emphasised that “the new social question of the 21<sup>st</sup> century will consist precisely in this, both in welfare states and in less developed countries”. If the political control of development is not re-directed, it will bring about unmanageable human costs, economic losses, and finally forms of “functional irrationality” in the long run.<sup>52</sup>

### *Never give up hope*

We live in a period of turbulent changes and reversals. Such periods are inevitably connected with conflicts, struggles, often with threats to human communities and thus to human itself. It could become a world dominated by selfishness and hatred, or a world characterised by human solidarity. If it seems obvious that the world needs an idea that would unite people, if space for the dignified involvement of man in the economic and working process is to open-up, then we must not give up hope. Human history shows periods of upheaval when a new world of hopes and opportunities was born out of destruction. Perhaps from all contemporary reversals, changes and conflicts a new world will emerge that better suits man and his spiritual orientation, for it corresponds to current possibilities. There is, therefore, no reason to give up hope.

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<sup>50</sup> Dalla Torre, G., Address to the participants of the international study meeting “Economia, per quale futuro?” 30<sup>th</sup> November - 2<sup>nd</sup> December 1995, Rome.

<sup>51</sup> Maeschalck, M., “Mondialiser la solidarité”, *MMCT*, November-December 1996.

<sup>52</sup> Zamagni, S. (1996), “Man: Author, Centre and End of All Social-Economic Life”, *Laity Today*, (*Gaudium et spes*, Thirty Years Later), pp. 188-9.