

**Centesimus Annus – Pro Pontifice Foundation**

**2014 International Conference**

**The Good Society and the Future of Jobs:  
Can solidarity and fraternity be part of business decisions?**

Vatican City – The New Synod Hall  
8-10 May, 2014

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Solidarity “is not a feeling of vague compassion or shallow distress at the misfortunes of so many people, both near and far. On the contrary, it is a firm and persevering determination to commit oneself to the common good; that is to say, to the good of all and of each individual, because we are really responsible for all”

Saint John Paul II, *Sollicitudo Rei Socialis*

We should understand solidarity “no longer as simply assistance for the poorest, but as a global rethinking of the whole system, as a quest for ways to reform it and correct it in a way consistent with the fundamental human rights of all human beings”

Pope Francis, *2013 Address to the Centesimus Annus – Pro Pontifice Foundation*

“The exclusively binary model of market-plus-state is corrosive of society, while economic forms based on solidarity, which find natural home in civil society without being restricted to it, build up society”

Pope Emeritus Benedict XVI, *Caritas in Veritate*

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Members of the Centesimus Annus Foundation – Pro Pontifice, entrepreneurs, professionals, academics, prelates, gathered on May 8 and 9, 2014, in the New Synod Hall in the Vatican City to discuss how solidarity and fraternity can be part of economic and business decisions.

## **Economic integration, Growth, and Inequalities**

Over the last three decades, an unprecedented integration of the global economy, together with an enormous expansion of monetary and financial instruments and markets, have produced a dramatic impact on income and wealth inequality, reshaping access to economic resources, endowments, and opportunities for people around the world.

Overall, globalization has sustained the diffusion of economic development and a significant rise of average per capita income in many poor and medium-income countries.

However, economic integration and growth contributed to generate new inequalities, tensions, and despair within and between countries, both rich and poor ones. Moreover, the outbreak of the economic and financial crisis that the World has gone through since 2007 has further increased interdependency, instability, and unevenness, including income inequality, in the global economy.

The new economic and financial scenario calls for a new reflection based upon an analytical and morally inspired effort to understand its multiple determinants: institutional, economic, and ethical.

The coexistence of different national experiences and models seems to prevent any overarching common interpretations and prescriptions. However, a distinctive perspective was shared by participants to the Conference, which affirms the critical importance of the ethical and social determinants of economic decisions to address inequality and justice in economic systems.

Virtue, vocation, and values are conceptualized as key economic categories, while economic actors are conceived as complex persons embedded in dense multi-layered networks of family, community, association, and reciprocity relations.

The emphasis on the social and moral dimensions of collective and individual behavior generates a framework centered on autonomy, responsibility, and solidarity, which aims at harmonizing individual achievements and liberty with solidarity and the aspiration to the common good.

It is through this vision that societies can develop ethical and religious values, to sustain the emergence of a rich set of intermediate institutions, between the individual and the collective, between State and Market.

These decentralized solutions, practices, and rules assume a primary economic value and play a key function in the evolution of society, inspiring decisions, technical solutions, and actions, creating traditions, and shaping the long-term evolution of institutions at large. Importantly enough, such a view of individual and collective behavior has been inspiring also some of the mainstream contemporary economic thought, where some scholars have started to focus on non economic motivations, such as altruism, in explaining individual decisions.

### **Disparities in Earnings, Consumption or Wealth? Within or Among Countries?**

Economic disparity can be measured in terms of inequality of income derived from work earnings, consumption of goods and services, and accumulated wealth.

Wealth, which is influenced by returns on capital (interests, dividends, rent, capital gains, profits) and can be inherited, is the most unequally distributed of the three, while consumption is the least.

Wealth, income, and consumption interact in different ways depending on the specific features of different institutional and social arrangements, and no robust patterns of correlation can be found between them across countries. We know examples of strong positive links between wealth and income inequality can be found in countries like the US and Korea, moderate wealth inequality and high income inequality in countries like Italy and Japan, and, at the opposite end, high wealth inequality and relatively low income inequality in countries like Switzerland and Denmark.

Similarly, there is little evidence that, in otherwise similar countries, higher income or wealth inequality generates the political support for more redistribution of income, and vice versa. Therefore, national “social contracts” featuring persistently high inequality and low redistribution (e.g. the U.S.) coexist along with others with the opposite features (e.g. Continental Europe).

Against this background of different national experiences and models, the Conference started with an accurate analysis of the evolution of household income data, worldwide, from 1998 to 2008.

The analysis unraveled a series of relevant facts in the evolution of global inequality, and allowed a comparison of the economic conditions of individuals across different Nations.

While inequality of household income within countries has increased significantly, together with a further polarization of wealth, global inequality is still significantly higher than inequality within any individual country, and poor people in rich countries continue to be richer than even a large fraction of relatively rich people living in poor countries.

At the same time, sustained economic growth in the global south and east has made the world less unequal. During the last thirty years, for the first time since the Industrial Revolution, global income inequality has started to decline due to skilled labor and income per capita in several medium and low-income countries catching up with more industrialized nations. As a consequence of this diffusion of economic growth, the number of people living on less than US \$ 2 per day has fallen by over 700 million.

This positive trends notwithstanding, two thirds of global inequality can be attributed to differences in income across countries (location), while one third is due to inequalities within individual countries (class). In other words, the lottery of the place of birth has a dramatic influence on opportunities, income, and wealth.

While medium and low-income countries have caught up in terms of average per capita income, thereby inducing a reduction in inequality across countries, this convergence has simultaneously contributed to an increase of inequality within countries.

Globalization has induced a rapid increase in average real income of large but previously poor countries, with the coexistence between a new middle class and a large poor population.

At the same time, the sudden and enormous growth in the size of labor force actively involved in the global economy, with the opening up of China and India to trade in goods and services, has had dramatic implications for workers in OECD countries.

Stronger integration of real and financial markets have sustained a drastic reorganization of global value chains, with a significant pressure towards offshoring of industrial activities from richer countries to low-medium income ones.

This process has induced new differences and tensions, with the emergence of a large, dynamic middle class in the fast growing low-middle income countries, and, in parallel, wage stagnation and a race to the bottom in labor cost in developed countries. As a result, many developed countries have experienced an increase in unemployment -especially among the young- accompanied by precariousness among the poor and of the fragile middle class, where a strong pressure has been imposed on the salaries of those whose jobs can be done elsewhere.

Moreover, while growth rates have fallen, insecurity has increased further, both in rich and in poor countries: nearly 3 billion people survive on incomes between US \$ 2 and \$ 10 per day, and unemployment, extreme destitution, and poverty have become more entrenched as levels of socio-economic mobility are stagnating or falling because of the slowing down of the economy.

### **A Renewed Ideal of Justice and Solidarity**

In his Apostolic Exhortation *Evangelii Gaudium* Pope Francis made the point that the dominant economic system is economically unsustainable and ethically wrong: “Human beings are themselves considered as goods, to be used and then discarded. We have created a ‘throw away’ culture, which is now spreading. It is not longer simply about exploitation and oppression, but something new.

Exclusion ultimately has to do with what it means to be part of the society in which we live; those excluded are no longer society’s underside or its fringes or its disenfranchised – they are no longer even a part of it”.

During and after the crisis, welfare systems of developed economies proved to be highly resilient and contributed to mitigate inequality in disposable income through direct taxes, social contributions, and net inter household cash transfers.

A high probability of being harmed by negative uncontrollable events (unemployment) started to be widely perceived, appearing in the form of an aggregate risk common to large segments of the labor market, one which was not privately insurable and was relatively homogeneously distributed across otherwise different groups.

As a consequence, a deeper awareness of the function of redistribution through taxation and social insurance schemes has emerged, contributing to a more diffuse social preference towards equality and social justice.

The global economic crisis seems then to have contributed to a higher preference for the reduction of inequality, with a widespread recognition of the nexus between income redistribution, social spending, and wiser social insurance schemes.

However, an exclusive reliance on centralized and rather impersonal universalistic public programs, together with the clear perception of an economic decline of entire regions and industrial sectors, would contribute to the diffusion of a sense of resignation and dependency, inducing a “welfare trap”, which would keep people in poverty, condemning them to persistent unemployment and to social exclusion, while undermining both the long term sustainability of welfare systems and the awareness of an ethos of work, saving, and caring.

In addition, given the already high level of taxation on labor, a further expansion of redistribution through public programs is not realistic, not to mention that redistribution and assistance do not necessarily create more equal opportunities per se.

Moreover, high unemployment rates and the ageing of the population already induce an excessive burden on labor, through taxation and social contribution.

New distances and potential conflicts, between the young and the old or the employed and the unemployed, the highly skilled and the unskilled workers, have emerged, with a deep divide between those that demand either a further expansion or a retrenchment of the welfare state.

Against this complex and somehow fragmented scenario, to progress towards “a good society” we must rethink the economic causalities and processes within a richer framework of understanding of human nature. In such a framework, the human person is conceived in its totality as part of a complex relational reality. From this standpoint, the inclination towards gratuitous gift and fraternity in fact co-exist with the natural yearning for individual satisfaction (“You shall love your neighbor as yourself”, Matthew

22, 39). The effort towards rethinking the economy means an open and realistic perception of the conditions needed for true initiative and innovative “flourishing”, as well as a courageous diagnosis of the damage inflicted upon those hurt or paralyzed by the vicious spirals of poverty. Such a rethinking will yield a new set of positive views concerning individual effort, economic outcomes, and the nature of social insurance, so that different groups can share a renewed view of justice, and practice solidarity.

## **Labor and Virtue**

Asymmetries in wealth and income are shaped by inheritance of talent and wealth, as well as by differences in effort and virtue.

Given the casualties of inheritance of wealth and talent, meritocracy per se is not the *summum bonum*, since it rewards individuals also for traits that they have acquired by the luck of birth.

Inclusion of the unfortunate becomes then a key priority, on the one side recognizing the centrality of labor for the person and at the same time avoiding the domination of an economics of exclusion, in which economically unproductive people are treated as ‘outcasts’ and ‘leftovers’ (Pope Francis).

Labor and virtue must be recognized as key constitutive elements of the person, and redistribution of resources should be deeply connected with individual responsibility and interpersonal relations. It is the exercise of effort and virtue, together with reciprocity, which are key “to give people a sense that life is worth living with energy and can provide them with fulfillment” (Adrian Pabst) (1).

In contrast to the two extremes of market individualism and state collectivism, this view of solidarity relies on labor as a constitutive element of the person, and on subsidiarity, through the devolution of power “to the most appropriate level consistent with human flourishing”, as well as on responsibility, and self-rule.

Mutual assistance and sacrifice, especially for the poor, and solidarity between members of the community, whether as either individuals or organized in groups, can

sustain a welfare system that rely on civic institutions and on the mutualization of risk and benefit: a welfare strongly reconnected to labor, to contribution to society, and to shouldered responsibilities.

Such an open and dynamic solidarity emphasizes the role of autonomy and effort, and fosters a culture of virtue, personal responsibility, civil courage, and social commitment. Awareness and empowerment become the key ordering principles, together with commitment and gratuitousness, to build fraternity and harmonize the individual and the social dimensions.

### **Solidarity Requires a Vision and Specific Institutions**

This vision on responsibility, community, vocation, reciprocity, and dynamic solidarity (2) must inspire not only the design of our welfare systems, abut also the architecture of corporate governance solutions in business firms, aligning ethical and economic values and promoting virtuous and positive dynamics in productivity, jobs, trade, and finance.

First, coherent with the tradition of the Catholic Social Thought, a balance of interests and representation is necessary to promote a shared sense of belonging and a stable co-operative working atmosphere favoring empowerment as a process of individual growth which can foster a culture of virtue (vs. corruption) and generous gift also within the economic life.

Corporate governance and specially designed ownership structures can be of help in allowing long term business policies serving society as a whole. However, putting business enterprise in the service of common good is not primarily a question of legal structures, but rather is something which permeates all corporate policies from investment to product design, from the use of resources to sales policies, from personnel management to financial plans.

A business policy based on the idea of contributing positively to society is of course compatible with profit and capital remuneration targets; once seriously adopted – not

as a “window-dressing” exercise – this basic orientation instills a sense of societal contribution in all areas of management and deeply influences the companies’ present and future. It necessarily leads to a significant participation of company “stakeholders”; thus transparency and relational accountability promote the creation of shared values, increase participation, commitment, and cooperation, establishing a sense of proximity and corporate citizenship.

Mutual responsibility, just reward, and transparency must be key guiding principles of a partnership between capital, labor and society, to establish trust and cooperation. Again, central to this is the concept of a vocation, in which work is defined not only by its external rewards or demands, but also by internal goods that are “rooted in a tradition of practice”. In this perspective, work is not just “the immediate fulfillment of a task driven by the expectation of external reward, but also as the production of internal goods, as something that is received from the past and oriented toward the future” (Glasman).

It is relevant here to focus on some of Maurice Glasman’s practical suggestions, made at the Foundation’s 2013 international conference, inspired by his observation of the German speaking countries in Europe (3):

- a) Organization of a systematic relationship between various stakeholders at board of directors/supervisory boards of companies;
- b) Investment in young people through programs of vocational training and labor market entry, which can connect academic knowledge to technical training;
- c) Diffusion, also through dedicated tax breaks and lower contribution to social security, of programs of apprenticeship and transitional mentoring for the youth, where young employees are hired at lower salaries and paired up with elder employees, who can provide mentoring and training to the next generation before going to retirement.
- d) Promotion of a culture of fair wages by creating ‘living wage’ cities and regions and realizing a systematic alignment between salary increases and productivity growth;
- e) Introduction of contracts of solidarity, under which, during a period of crisis, employers and workers are ready to share a portion of their earnings to allow all the members of the community to have a salary and to maintain a long term relationship with the company;

f) Development of fully funded pension funds, which are determined and managed jointly by capital and labor, so that the two components share a mutual interest in the long-term future of their sector and activity;

g) Development of national networks of locally oriented financial institutions, which are constrained to lend within particular areas and provide stable access to credit for small and medium firms.

All these institutions need to develop a strong, independent business ethos, especially through accountability rules and processes, in order to prevent corruption when in contact with local, regional or wider political entities. They are an expression of proximity as an ethical value.

## **8 Steps Toward the Good Society**

To face the challenges of inequality, jobless recovery, and the increasing complexity of economic and financial systems, a few principles and priorities were outlined in the context of the Conference.

1. Coherent with the Catholic Social Thought tradition, virtue, vocation, value, and labor are key constitutive elements of the person, which shape economic life and influence the evolution of institutional arrangements in our society. Only people, ideas, and ethos can mobilize intermediate institutions, sustaining engagement and solidarity, and promote a positive moral attitude towards unemployment, exclusion, and poverty, centered on the dignity of the person.
2. This anthropological view calls for a greater institutional recognition of communities, groups, and associations. Subsidiarity and intermediate, distributed, self organized and autonomous bodies, can harmonize concepts, institutions, and interests that would be otherwise in conflict due to contradictory intentions: tradition and innovation, labor and capital, participation and responsibility, state and market, contract and gift.
3. Economic development, driven by entrepreneurship, responsibility, and innovation, is the key driving force to reduce poverty, increasing income per capita in poor

countries. A culture of innovation and respect for new ideas are key preconditions of any model of dynamic solidarity. As it has been demonstrated by the history of science and technology, technological innovation, economic growth and religious faith can coexist and progress hand in hand, contrary to any secularization hypothesis.

4. Economic growth inherently generates new asymmetries, with winners and losers, due to the unevenness of rewards between more and less successful new ideas. While it is crucial to connect individual rights and entitlements with obligations and duties, those who are more unfortunate are part of our society and we need to develop a positive moral attitude to address unemployment, exclusion, and poverty, “helping them both to meet their needs and to help themselves”. At the same time, it is important to develop a culture of welfare conditionality, by linking work and training as a condition for receiving benefit to contributions to society.
5. In an increasingly interconnected and globalized capitalist system, economic growth in low/medium income countries is inducing an increase in unemployment and poverty for low and medium skilled workers in developed economies. Redistribution of income flows is an essential component of contemporary welfare systems, and the way in which income tax and social insurance contributions are structured has important consequences on income distribution. However, welfare and solidarity should not be conceived as paternalistic redistribution and dependence on the public sector. A renewed emphasis on the principles of reciprocity and mutuality is a necessary ingredient of a sustainable, selective, and solidarist welfare, promoting decentralized models of mutual help and combining universal entitlement with localized and personalized provision;
6. Industrial and financial institutions should rely more on concrete solutions that realize the aim of creating human communities through the inclusion and participation of all people working in or around a company, relational accountability, and sharing of risks, responsibilities, and rewards among different actors: investors and owners, shareholders and managers, lenders and borrowers, employers and employees, producers and consumers. This is exemplified by many firms, where contracts of solidarity and accepted shared sacrifices are allowing the whole group to avoid failure or catastrophic restructurings. This attitude also leads companies to rethink competition in terms of fairness and co-operative efforts.

7. Unevenness and instability of economic systems should not be amplified by complex and obscure financial products, which concentrate exclusively on short term gains, misprice risk, and inflate the debt. As a concrete answer to the current pressure towards centralization, opacity, and anonymity of financial systems and transactions, the creation of community-based investment trusts can support grass root initiatives and diffuse entrepreneurship. However, these institutions must rely on a solid common infrastructure able to provide financing, compliance, and risk-management in accordance with prevailing standards. The Foundation is organizing a separate program relating to financial reform, which will discuss these ideas in detail.
8. Political institutions such as Democracy are essential in creating and preserving the conditions to achieve the connected goals stated above. That is: an equitable distribution of income, a working social and economic system which succeeds in being both inclusive and dynamic, and a just human society.

## Notes

The author would like to thank Domingo Sugranyes Bickel, Alberto Quadrio Curzio, Andrea Vindigni, and Alexander Petersen for their comments to a first draft of this document.

- (1) Adrian Pabst, "Prosperity and Justice For All: why solidarity and fraternity are key to an efficient, ethical economy", address to FCAPP International Conference *The good society and the future of jobs: Can solidarity and fraternity be part of business decisions?*, 8-10 May 2014
- (2) Giovanni Marseguerra-Alberto Quadrio Curzio, "Introduzione: Lavoro, Responsabilità, Partecipazione", *Rethinking Solidarity for Employment: The Challenges of the Twenty-First Century* - Fondazione Centesimus Annus Pro Pontifice, Libreria Editrice Vaticana, 2014, pp. 31-44.
- (3) Maurice Glasman, "Politics, Employment Policies and the Young Generation", *Rethinking Solidarity for Employment: The Challenges of the Twenty-First Century* - Fondazione Centesimus Annus Pro Pontifice, Libreria Editrice Vaticana, 2014, pp. 255-270.