

How to promote a more ethical services sector in a globalised world?¹

Contribution of Uk group to the International Conference 2015

Introduction

One key feature of contemporary economic and social life – the theme of the Foundation’s 2015 International Conference – is the increasing importance of the services sector, in particular global finance. The services sector, including the financial industry, provides employment for millions and is the source of great human creativity and innovation that benefit both the economy and society. However, the growing opportunities and freedoms for many also coincide with the exploitation and exclusion of others, above all workers, suppliers and consumers. The scandals in banking and finance that have come to light since the 2008 financial crash were everyday occurrences, and they highlight an imbalance of power between estranged interests.

Catholic Social Thought reminds us of the connection between a relational understanding of the person and the institutional arrangements required for the reciprocal development of persons and associations. Linking them together is the idea that work is transformative of both nature and humanity. “By your sweat shall ye live” is our fallen fate. The dignity of labour and labourers is vital for the common good that enables people to achieve personal fulfilment and societies to flourish. Central to this vision is the priority of the value of labour over capital. As Pope John-Paul II wrote in *Laborem Exercens*,

Man is a person, that is to say a subjective being capable of acting in a planned and rational way, capable of deciding about himself and with a tendency to self-realisation. As a person man is the subject of work [...] these act to realise his humanity, to fulfil a calling to be a person that is his by reason of his humanity [...]. Labour is a primary efficient cause, while capital, the whole collection of means of production, remains a mere instrument or instrumental cause.

The centrality of capital to the services sector, especially global finance, raises fundamental questions about value in our economy, about the status of work and workers and also about the relationship between risk and reward. Catholic Social Thought is a precious resource to understand the incentives to vice, which encourage unethical behaviour, and to conceptualise incentives to virtue, which can nurture good practice and restore the integrity of business.

Incentives to Vice

Examples of vice in the services sector abound. In the financial sector, high-street banks and their investment banking arms have effectively ripped off ordinary clients by selling subprime mortgages to vulnerable customers, rigging inter-bank lending rates, fiddling foreign exchange transactions, levying usurious interest rates on loans and credit cards and imposing extortionate charges for overdrafts. Moreover, banks and other financial institutions have engaged in money laundering, tax avoidance, reckless risk-taking and gambling with peoples’ savings, which casts doubt on the idea that on balance their activities benefit society through taxation and trickle-down wealth.

Nor is vice confined to finance. Other service sectors are similarly characterised by greed, selfishness, exploitation and exclusion. Moreover, most service sectors do not have labour self-organisation, representation of key stakeholders on company boards (especially workers’ representatives) and just reward for all – as evinced by the growing gulf between top executives and institutional shareholders on the one hand, and ordinary employees and the lowest paid staff on the other hand.

¹ This text is meant to be a humble contribution to the 2015 International Conference of the *Fondazione Centesimus Annus Pro Pontifice* on “Rethinking Key Features of Economic and Social Life”. It was written by a group of members and friends of the Foundation who live and work in London. The aim of the text is to contribute some ideas to the conference discussions and to help build up the Foundation’s London chapter.

Of course all existing rules and regulations should be enforced, but this does not necessarily lead to greater fairness. On the contrary, it can sometimes exacerbate injustice, as illustrated by the fact that fines for criminal behaviour are often classified as ‘operational costs’ and passed onto investors in the form of low or no dividends. Nor is it a case of a ‘few rotten apples’ in an economy that is otherwise moral. Rather, the dominant system is based on incentives to vice that induce unethical behaviour such as greed, selfishness, deception and dishonesty.

Incentives to virtue

Even where individuals have honourable intentions, they are often unable to act according to ethical principles in their professional lives. Vincent Cardinal Nichols, the Archbishop of Westminster, puts this paradox well:

One striking theme to emerge is the disconnection many business people feel between the way they behave in their ordinary social and family lives and how they feel obliged to behave when engaged in business. There is even a name for it – the "divided life". To be accepted as a good business manager or executive, they may find themselves adopting a reduced or truncated version of their real rounded selves. They may find they leave that part of themselves, which they think of as the better part, at the door.²

Faced with this fragmentation of our social and moral life, Catholic Social Thought helps us to imagine a politics of the common good that is pro-business *and* pro-worker precisely because it views capital and labour in more relational and personal terms. It sees them as estranged interests that can be brought together in a negotiated settlement through new civic institutions, for example city corporations that are elected by both resident citizens and members of professions.

In turn, this would involve a greater role for professional associations alongside legislators and regulators. The aim is to improve the regulation of professions and to try to instil a culture of ethos and excellence that fosters the pursuit of virtuous ends, i.e. the goods that are internal to each human activity. Of course there will always be a never foreclosed debate as to what constitutes such goods. Discernment is the work of centuries and endlessly subject to further debate. Associations offer professionals a robust framework in which they can negotiate rival ideas and interests and also agree on written codes of conduct as well as unwritten norms, which are reflected in good practice.

In a globalised economy, a more ethical services sector needs strong (cross-border) ties not only between legislators and regulators but above all between labour movements and trade unions that serve the needs of their members. These and other organisations can better contribute to the common good when they work according to the Catholic principles of solidarity (defined as self-help and fraternity), subsidiarity (defined as self-government at the lowest appropriate level) and status (defined as the value of work and the dignity of workers).

In short, Catholic Social Thought seeks to broker cooperation based on the shared self-interest of legislators, regulators and all the stakeholders involved in business: owners/investors, managers, workers, consumers, suppliers, creditors and local communities. In each service sector there is a need to build such new coalitions of interest and to rediscover the virtue of institutions, local tradition and relationships rather than an exclusive concern with maximisation of returns and quarterly balance sheets. The global economy has been voided of value and fuelled by debt. A good society and a common good require a commitment to virtue (defined as ‘good doing’ rather than ‘do gooding’).

To promote a more ethical service economy in a globalised world therefore requires minimising the incentives to vice and putting in place more incentives to virtue. This involves not only inducements that shape motivation and behaviour but also rewards for particular action.

² Vincent Cardinal Nichols, ‘Introduction’, in *A Blueprint for Better Business? Uniting corporate purpose and personal values to serve society* (London, September 2012), p. 1.

Concretely, there is a need

- to address the perverse situation of incentivising greed and selfishness and rewarding reckless risk-taking and failure as a result of the dominant pay structure and bonus system, e.g. measures to rebalance short and medium-term profit targets;
- to rethink incentives and rewards that privilege purely private self-interest and that view social benefit merely in terms of indirect, unintended outcomes; linked to this is the need to devise incentives and rewards that encourage *shared* self-interest, e.g. risk- and profit-sharing models;
- to encourage incentives and rewards for virtuous action that blends self-interest with social purpose, e.g. paying the ‘living wage’ that allows workers to feed their families, gives them recognition and status as well as increases their productivity (as a result of higher motivation, greater job satisfaction, more innovation and better staff retention);
- to reward businesses that act virtuously by giving them public awards and even material rewards for their action, e.g. tax breaks, preferential treatment in terms of government procurement or public service tenders;
- to strengthen written and unwritten codes of conduct to which all participants in different professions are required to adhere as part of compulsory membership in professional associations
- to introduce within professional associations greater scope for the voluntary upholding of more stringent standards; this could in the long term give a market advantage and thereby encourage competition in quality, excellence and ethos; over time, this could involve publicly recognised ethical certification in order to promote a ‘global race to the top’ (e.g. Fair Trade schemes adapted to the services sector)
- to devise a global charter for include finance and business that can be applied across national borders irrespective of culture or creed; among some of the fundamental principles could be the following:
 - (1) private property is necessary for stable investment, production and trade
 - (2) the integrity of business rests on virtues such as honesty, courtesy and courage
 - (3) free and democratic trade unions are necessary for civilised societies;
 - (4) labour is a source of value; creativity and innovation are central to human life;
 - (5) human beings and nature are not commodities and should not be treated as such;
 - (6) the common good is built on tension and on reconciling estranged interests;
 - (7) beneficial constraints are necessary for civilisation;
 - (8) accountability should be internal to corporate governance arrangements;
 - (9) self-interest broadly conceived is different from individualism and collectivism;
 - (10) quality and equality are mutually supportive;

Conclusion

Catholic Social Thought teaches that virtue is pursued for an intrinsic reason, and not for the sake of personal reward. Yet at the same time, virtuous behaviour may yield profit while also making a contribution to the common good. Thus there are good ethical *and* economic reasons for practising virtues – good doing. In turn, this means that virtue is an integral part of a properly functioning market economy that produces prosperity for all.