

## **A REFORMED MARKET ECONOMY**

If we take a long term view of what has happened in the last twenty – five years, we note that the communist system collapsed. However we would also note that the free market system did not live up to expectations with the international financial crisis in 2008 and the recession that followed it. In the meantime, the emerging economies have acquired for themselves a stronger role in the global economy, thereby weakening the hegemony of the US and the EU. So in a sense there is no going back. We are at a cross roads and a reformed market economy is a must.

A recent publication of the OECD, “In It Together: Why Less Inequality Benefits All”, it was reported that income inequality has reached record highs in most OECD countries and remains at even higher levels in many emerging economies. The richest 10 per cent of the population in the OECD now earn 9.6 times the income of the poorest 10 per cent, up from 7:1 in the 1980s and 9:1 in the 2000’s. The study also shows that wealth is even more concentrated at the top than income, exacerbating the overall disadvantage of low-income households. In 2012, the bottom 40% owned only 3% of total household wealth. By contrast, the top 10% controlled half of all total household wealth and the wealthiest 1% owned 18%.

The OECD claimed that high inequality is bad for growth. By not addressing inequality, governments are cutting into the social fabric of their countries and hurting their long-term economic growth.

The report highlights the need to address working conditions. The increasing share of people working part-time, on temporary contracts or self-employed is one important driver of growing inequality. Between 1995 and 2013, more than 50 per cent of all jobs created in OECD countries fell into these categories. Low-skilled temporary workers, in particular, have much lower and unstable earnings than permanent workers.

Youth are most affected: 40% are in non-standard work and about half of all temporary workers are under 30. They are also less likely to move from a temporary job into a stable permanent one.

Beyond its impact on social cohesion, the OECD report stresses that growing inequality and weak opportunities in the labour market are harmful for long-term economic growth. As inequality rises, families with lower socio-economic background experience significant falls in educational attainment and skills, implying large amounts of wasted potential and lower social mobility.

I believe that here we have a real example of the economy of exclusion to which His Holiness Pope Francis has referred to so many times.

The answer to the various scandals that have been perpetrated has been a more robust regulatory system. Moreover the answer to the increasing level of poverty has for decades, been more social welfare. Both are positive developments. However are they enough?

These two solutions – that is more regulation, more welfare – imply an increasing dependence on the state. Shouldn't we be looking at other solutions, such as more responsible economic behaviour and a sustainable use of resources? That is shouldn't the solution be driven by us as individuals and the collective, rather than by the state.

I pose one question which may sound provocative – Has the welfare state developed to such an extent that it has acquitted us from our responsibility to show solidarity towards others? Do we seek to keep our conscience quiet by paying the taxes due and then leave it to the state to look after the vulnerable members of society?

The ethical dimension emphasised in the paper prepared by the Centesimus Annus Pro Pontifice Foundation, “A reformed market economy – entrepreneurship for human development”, challenges us to think in this direction. If we accept that the human being is to be the focal point of economic policies, then we should also accept that the human being be empowered to achieve this goal. Public institutions, robust regulations, welfare initiatives are important and are required; but they should be there to support the human being and not to disempower him. In this regard there is a reference in the Centesimus Annus document to development projects starting from the bottom of local communities, which captures this need to empower the individual very well.

The document highlights a number of areas where action is required – inflexible labour laws, wrong education policies. And I would add the lack of protection of the environment and wastage, especially of food.

What I liked about this document is that more than 50% of its content is about solutions, grouped under three main headings – solidarity in business decisions, finance and the common good, and the responsibility to protect others.

I would like to take some of these solutions and comment about them. The first is the need to develop a corporate culture of service to society. Corporate social responsibility will need to stop being the exception but becomes the only accepted way of doing things. Not because the law says so but because this is what society expects.

Connecting entitlements with duties. Some countries are running the risk of having a generation of persons who have got used to living on benefits. Such persons find it difficult to understand and accept the virtue of work. Businesses must support governments in ensuring that the percentage of persons not in education, employment and training be reduced significantly.

Building co-responsibility at the corporate level. The economic crisis has forced employers and employees to cooperate more and have a less adversarial attitude. This level of cooperation should not stop once the crisis is over, but rather should be used as a model to extend it to other sectors, to include other relationships such as that between the financial sector and the productive sector (or as the documents puts it between lenders and borrowers).

Developing inter-generational solidarity systems. There is the need to understand fully the implications of a number of developments. These include the high level of debt that is being passed on to generations, the ageing population in a number of developed economies, the increasing life expectancy, the lack of sustainability in the use of resources. There is an individual responsibility to protect the rights of future generations.

Fighting fraud, corruption and abuse. The lack of action by governments in addressing these three ills has led to a disenchantment with the political class in a number of countries. This is undermining democracy as it is not encouraging the active participation by the individual in the political sphere. The drop in voter turnout experienced by several countries is a proof of this. However we can fight fraud, corruption and abuse only if we as individuals decide to fight it. We cannot expect to fight fraud, corruption and abuse, as long as we insist on finding means of evading tax, we expect favours from persons wielding power, we expect to get a higher pay for as little work as possible. The issue needs to be addressed not only at the top but also at the grass roots level.

Supporting long term investment. We often blame politicians for being too short termist and for thinking only in terms of how to get themselves re-elected while ignoring the long term implications. I think that the business sector is not much better. The obsession with the share price and interpreting shareholder value only in terms of that share price or this year's profits, discourages long term investment.

The responsibility to protect. In this regard we are called to support not only the traditional poor, but also the new poor which excessive consumption and the weakening of Christian values have created. With regard to the responsibility to protect the vulnerable segments of society, one needs to note the issue of hunger. A report by the Food and Agriculture Organisation claims that 30% of the food produced ends up being thrown away.

Two areas that I would like to link to all of these solutions are the need to support family businesses and the promotion of the third sector. We are fully aware of the strong contribution that family businesses make to an economy, especially the developing economies. We are also aware of the benefits of family values to society. Supporting family businesses is a means of empowering the individual in the economic sphere.

The state should leave as much space as possible for the third sector to operate. It is a model that can be applied not only to charitable and philanthropic activities, but also to business activities. The not-for-profit concept is an important element of solidarity.

As the Centesimus Annus document rightly points out "development and the market with sound economic policies are the only contexts in which poverty has been effectively reduced in large numbers". It also says that it is important for entrepreneurship to be given the space to develop freely, but it needs to apply itself to human development.

Within this context there is no doubt that we must create a new economic model whereby the market economy is reformed by empowering the individual to operate for the benefit of the common good.