

THE CATHOLIC SOCIAL TRADITION AND BUSINESS  
IN THE AGE OF THE WORKER-CAPITALIST

Giuseppe C. Ruggeri

Vaughan Chair in Regional Economics and Director of the Policy Studies Centre

University of New Brunswick

P.O. Box 4400, Fredericton, N.B. E3B 5A3, Phone (506) 447-3320, Fax (506) 453-4514  
E-mail [ruggeri@unb.ca](mailto:ruggeri@unb.ca)

This paper was prepared for the Fifth International Symposium on Catholic Social Thought and Management Education: Bilbao, Spain, July 2003. The author is thankful to Vaughan Dickson for helpful comments.

The Catholic Social Tradition and Business in the Age of the Worker-Capitalist

## I. INTRODUCTION

The Catholic Church has developed over the past 100 years a body of writings on social and economic issues arising from the industrialization of the modern world. Delivered largely through papal encyclicals and pastoral letters from episcopal conferences, these writings are firmly rooted in the scriptures, Christian and Hebrew. The Catholic social tradition may be viewed as “a bridge between heaven and earth” in the sense that it helps us live the gospel and provides a guide for building social and economic institutions that are supportive of God’s plan for humanity. This bridge is always under a process of re-building and renovation, through a two-way interaction between thought and action, as new challenges are generated by evolving economic and social structures.

The Catholic social tradition affirms the primacy of human beings over all creation, a notion which rests on the creation of men and women in the image of God and their position as “heirs” having been elevated to the state of brothers and sisters of Christ. This means that the ultimate purpose of all social and economic institutions is the full development of the whole human being, not as an individual but as a member of a local community and a world community. Full human development is pursued through a balanced fulfilment of the human needs that are consistent with God’s plan for a particular individual. The term needs is used deliberately in contrast to the term wants, which is used in traditional economic analysis. Economists make a distinction between basic biological needs, which are essential for our survival, and wants which express our desires for improved living standards. In this framework, however, wants are the expression of individual choices and are constrained only by the availability of the desired goods and services and the ability to acquire the desired amounts. For example, the consumption of drugs that destroy the ability of an individual to fulfill his/her potential satisfies a legitimate want as long as the individual makes that choice with full awareness of its consequences and without coercion. The catholic social tradition expands the scope of human needs and assigns a specific purpose to them: helping individuals fulfill the role assigned to them by God. This distinction has important implications for the role of business in society, as will be discussed later.

Four human needs are identified in figure 1: (a) physical,(b) intellectual, (c) emotional, and (d) spiritual. Two major aspects of this figure must be emphasized. First, there are specific activities and relationships associated with the satisfaction of each human need. For example, physical needs are satisfied through leisure activities and the consumption of goods and services. To satisfy the latter, individuals must engage in the production of goods and services, through direct production for their own use or earning the income necessary to acquire the desired goods and services. Similarly, spiritual needs are fulfilled through a direct relationship with God and through special relationships with other people. Second, each human need and the sources of its fulfilment are not placed in compartments separated from each other, but are connected through a complex web of interactions. For example, our physical conditions have effects on our

emotions and our intellectual development; similarly, the health status of our spirit is a precondition for the balanced fulfilment of human needs as it establishes the proper priorities among them.

Economic theory also recognizes that the process leading to the satisfaction of human wants involves complex relationships among various factors and is carried out in a social context. It assumes, however, that the various factors are all instruments for the maximization of utility of a given individual. Rational economic behaviour does not exclude acts of altruism. These acts, however, are motivated by the desire to increase the utility of the individual, regardless of the benefits that may accrue to other members of society. The Catholic social tradition replaces the principle of instrumentality with the principle of solidarity. In the words of Kennedy (2002, p. 53), “communities are not expedient artifacts that serve as more or less imperfect instruments for promoting human happiness; they are integral elements of that happiness.” In the catholic social tradition, the individual is inseparable from the community; as human development proceeds, the community is strengthened in that process; a stronger community, in turn, provides support to human development. Human activity is motivated by the desire to attain a person’s full human potential as it enhances the common good. The reward of that activity is the appreciation of one’s humanity as an inseparable member of society, not the satisfaction of a strictly personal desire. Quoting Kennedy again (p. 57), “ a more mature, more fully developed person would be committed to acting in such a way as to achieve or sustain the common good of any community of which he was a member. Such a person, in the language of the Catholic social tradition, would possess the virtue of solidarity.” In the Gospels, an example of the principle of solidarity is contained in the parable of the good Samaritan.

In the quest for the fulfilment of their human needs, individuals have formalized their human relationships through the creation and protection of a variety of institutions. Figure 2 identifies six such institutions, in addition to the natural environment: (a) the family, (b) informal circles of friends or people with common interests, (c) faith organizations, (d) organizations of mutual support, (e) business enterprises, and (f) civic institutions, largely in the form of government bodies. Three major points about figure 2 must be stressed within the framework of Catholic social teaching. First, all these man-made and man-serving institutions operate within a natural environment, which was not created by human beings but is continuously being shaped by their activity. This natural environment was created for the purpose of sustaining human development. Human beings were given “dominion” over this inheritance with the condition that it be used in support of human development, and not abused in the endless search for material gratification. Second, each of the man-made and man-serving institutions performs a unique function in the process of human development. Full human development will be hampered if the roles of different institutions are misplaced, for example, by assigning to business a function that it cannot be reasonably expected to perform at all or as well as other institutions. Second, the function of each organization is not fulfilled in isolation, but is inextricably linked to the functions performed by the other organizations. Analyzing business from a Catholic social perspective in isolation from the other institutions will not be very fruitful and may lead to erroneous conclusions. If we want to ensure that the Catholic social tradition plays a vital role in human development, we must recognize both the unique function of each organization and the

links among all organizations. We must also monitor the changes in these functions that may be required by social and economic developments over time.

Placing business in the circle of institutions built for the purpose of fulfilling human needs and supporting human development automatically gives business a special purpose. This point was recognized by Tawney (1921), even outside the framework of Catholic social teaching. In his view (pp. 12-13),

*“An industry, when all is said, is in its essence, nothing more mysterious than a body of men associated, in various degrees of competition and co-operation, to win their livelihood by providing the community with some service which it requires....Because its function is service, an industry as a whole has rights and duties towards the community, the abrogation of which involves privilege. Because its method is association, the different parties within it have rights and duties towards each other; and the neglect or perversion of these involves oppression.”*

Tawney goes on to state that (p. 15)

*“The purpose of industry is obvious. It is to supply man with things which are necessary, useful, or beautiful, and thus to bring life to body or spirit. In so far as it is governed by this end, it is among the most important of human activities. Insofar as it is diverted from it, it may be harmless, amusing, or even exhilarating to those who carry it on; but it possesses no more social significance than the orderly business of ants and bees, the strutting of peacocks, or the struggles of carnivorous animals over carrion.”*

In their efforts to provide the community with services demanded, firms make a variety of decisions such as (a) what to produce, (b) how to produce it, (c) how much to produce, (d) the selling price (if they have market power), (e) working conditions, (f) how many workers to employ, (g) what wages to pay (if they have monopsony power). The implications of some of these decisions have been evaluated by the catholic social tradition. In this paper, I will briefly analyze the relationship between catholic social teaching and selected business decisions under three broad categories of economic structures which lead to different roles of workers in society. The first is called *the age of the worker-owner* and refers to the pre-industrial age. The second is called *the age of the worker as labour input* and represents economic structures resulting from the industrial revolution. The third is called *the age of the worker-capitalist*, a definition that characterizes current and evolving economic structures. I recognize that, in making the above selection, I am drawing a picture with broad strokes, but I hope that the reader will be able to find the elements of a meaningful image.

My discussion is organized as follows. I start with a basic framework in section II, which identifies the roles of various instruments in the basic business decision common to all three economic structures, namely the decision as to what to produce. I then focus on the main features of the age of the worker-owner in section III. Section IV discusses the elements of the industrial

age, which effectively gave birth to the formalization of Catholic social teachings through the social encyclicals. I then elaborate on the features of the knowledge-based age in section V. Section VI discusses the main implications for catholic social teachings. In this respect, the catholic social tradition is still evolving, especially with respect to the role of business, therefore, some of the ideas introduced in this section may be speculative. The final section concludes.

## II. INSTRUMENTS AFFECTING A FIRM'S PRODUCTION DECISION

In this section I will identify the role of the Catholic social tradition in the fundamental decision of the firm, namely, what to produce, in order to highlight the major differences from standard economic theory. Under the assumption that the firm exists for the purpose of providing goods and services demanded by consumers but has no influence on the formation of this demand, moral issues arise only when the good demanded is detrimental to human development and community well-being. In this case two questions must be addressed: (a) can we impose this moral responsibility on the entrepreneur? and (b) how do we protect society from consumers who seek goods detrimental to human development and from the failure of producers to follow the moral choices expected of them?

From an economic perspective, no such moral obligation can be imposed on the entrepreneur. The only restrictions that constrain the decision of the producer are imposed either by law (it is illegal to produce and sell certain goods and services) or by the market (no demand for a product at a price that would earn a profit). If there is a demand for a certain commodity which can be consumed legally and it can be supplied at a price that generates a profit, a producer is free to offer such a commodity without consideration for the well-being of the consumer or of society as a whole. This statement does not imply that the effects of private decision on social well-being are entirely ignored in economic analysis. The possibility that free decisions by producers or consumers may bestow benefits or impose costs on society has long been recognized by economists. They have called these effects externalities and have developed analytical tools for devising and implementing the appropriate instruments for dealing with these externalities. These instruments generally involve programs in support of activities that generate positive externalities (such as subsidies for education) or restraints for activities that do harm to society (such as special taxes on tobacco and alcohol). In some cases, society takes action against certain activities strictly on moral grounds, as in the case of child pornography. The identification and measurement of these externalities is not a strictly economic exercise but involves moral judgements by the members of the relevant community. The remedies also involve community judgements which, in democratic societies, are formalized through the political process.

Catholic social teaching goes to the root of the problem and imposes explicit moral constraints on the behaviour of both consumers and producers. Consumers, being members of a community and being committed to promote the common good of that community, are morally obligated to avoid demanding goods and services that interfere with human development. Producers, also members of the community and committed to promoting its collective well-being, are morally

obligated not to produce and sell goods and services that are known to hinder human development, regardless of the profits that such production would generate. In some cases, producers searching for new business opportunities may develop and market new products, thus influencing consumer choice. The Catholic social tradition imposes a moral constraint on these activities: new products and services should be developed for the purpose of enhancing human development and community well-being. One may argue that in the case of spontaneous consumer decisions, the moral constraint is stronger on the consumer, as originator of the demand. In the case of induced demand, where consumers respond to products made available by producers before there is a market demand, the moral constraint is stronger on the producer.

Adding a moral dimension to the decisions of consumers and producers raises two fundamental issues. First, how do the members of a community determine collectively which private activities by consumers and producers are detrimental to human development, and second, how can these community standards be enforced. None of the institutions identified in figure 2 has a monopoly on these issues, but each one of them can make a contribution to collective action, in accordance with its proper role.

This brief discussion of the fundamental decision by a firm with respect to what to produce highlights the inter-relationships in the role played by the various institutions and helps identify the channels through which the various institutions may affect a firm’s production decisions. A brief outline of these inter-relationships is shown in table 1. In this table, a distinction is made between the instruments that can be used to influence the above business decision, the authority that may use these instruments, and the actions that may be taken. Table 1 identifies three instruments of influence: (a) moral suasion, (b) self-policing, and (c) external enforcement, and four institutions of authority: (a) the Catholic social tradition, (b) family and non-business, non-government institutions, (c) business, and (d) government. The presence of other social traditions, both religious and secular, is acknowledged, but since the focus is on the Catholic social tradition, the other traditions have been placed in the second group (family etc.). This framework applies, with appropriate adjustments, to each business decision that calls upon the influence of the Catholic social tradition. It will be used in later discussions of other decisions without reproducing the table for each case.

Three aspects of this table must be emphasized. First, business does not operate in a vacuum and even its fundamental production decisions are subject to external constraints, which extend far beyond the economic factors. Second, each of the four institutions of authority identified in this table have specific functions. Assigning to them functions that they cannot perform effectively will diminish social well-being. In this regard, it is important to stress that the orderly function of Table 1. Instruments Affecting A Firm’s Production Decision

Instrument	Authority	Action
Moral	Catholic social	Clear enunciation of the principles of human

Suasion	tradition	development
	Family, non-business, non-government institutions	Promote moral values that support behaviour conducive of human development and supportive of community well-being
	Business	Profit motive is voluntarily constrained by the desire to pursue human development and support community well-being
	Government	Collective decisions about the legal status of certain goods and services based on full democratic participation
Self-Policing	Catholic social tradition	Provides the moral foundations to self-policing by outlining the moral basis of human activity
	Family, etc.	Reinforce self-policing by consumers and producers
	Business	Extends the moral framework of economic activity to the entire business community
	Government	Facilitates the promotion of self-policing activities by consumers and producers
Enforcement	Catholic social tradition	Provides guide to governments in developing the legal framework of enforcement
	Family, etc.	Influence government decisions through voting and lobbying
	Business	Same as above
	Government	Uses economic and non-economic vehicles of enforcement

---

society cannot rest on the hope that private agents, consumers as well as producers, behave always in full accordance with some objective moral code. We cannot rely entirely on moral suasion and self-policing and must develop the suitable mechanisms of external enforcement. This function is more effectively carried out by governments. Analyzing the role of business from the perspective of the Catholic social tradition, therefore, cannot escape a critical evaluation of the relative roles of business and government. Finally, the Catholic social tradition

can influence private and public decision-making through all three instruments. From a practical point of view, it is important that greater research efforts be dedicated to identifying the most effective actions that can be taken in accordance with the Catholic social tradition with respect to all three instruments for the purpose of strengthening collective decision-making aimed at the enhancement of human development and community well-being.

### III. THE AGE OF THE WORKER-OWNER

This age covers most of human history and it includes the period during which the Old Testament, the New Testament and the writings of the church fathers were produced. The organization of business in this age was quite simple. In the production of goods and services, it largely involved production for use (subsistence farming and animal husbandry), and self-employment through a variety of trades (which also included the use of hired workers). The economic structure in the age of the worker-owner was characterized by the limited role of human capital and physical capital and the predominance of natural capital and social capital, where the latter refers to the combination of civic institutions and formal and informal organizations and networks that connect people in a community. In this type of society, survival depended largely on the wise utilization of natural resources, which provided all the sources of physical sustenance. The basic tools used in production were also shaped from natural resources, with limited technology in both their production and utilization. Even the transportation system was directly based on natural resources, primarily animals used for the transportation of people and goods and for farm-related activities. Aside from some basic tools, physical capital was almost exclusively in the form of land, animals and buildings. These forms of physical capital were often owned by the worker (hence the term worker-owner). Human capital was confined to basic skills passed on from generation to generation by parents to children and through some form of apprenticeship. Most of the work was done through muscle power, either by man or beast.

In these societies, human survival and development depended on a strong network of interpersonal relationships and the maintenance of traditions through formal and informal social institutions, which form part of what today we call social capital. In this type of society, physical survival was precarious, living standards were low, and opportunities for human development were limited. But man was not alienated from his means of sustenance and was integrated into a social structure that provided physical, emotional and spiritual support. His life received meaning from both his work and his community. In this society, the life of a businessman took a holistic dimension because he was fully integrated with himself as a human being and with society as a community of supportive human beings. Even as a hired worker, an individual could experience the meaning of his work because the product was something needed by the community and he was humanly connected with both the producers and the consumers. The focus of this brief discussion on the positive aspects of this age is not to cast a nostalgic look at the distant past, but to stress the relevance of natural and social capital, two forms of capital that in the modern age are being increasingly viewed as fundamental determinants of sustainable development.

#### IV. THE AGE OF THE LABOUR INPUT

An economic system based largely on the worker-owner could not withstand the economic pressures unleashed by the industrial revolution. As suggested by Hicks (1969), the fundamental difference between the pre-industrial and the industrial society is in the form and role of capital. In pre-industrial society, the worker-owner also acted as a producer-trader because he sold directly to consumers the portion of production not used for household consumption. Physical capital was “peripheral” to the process of production and trade (some tools and a shop or a warehouse). The capital of the producer-trader was largely in the form of “working or circulating capital- capital that is *turned over*” (p. 142). The industrial revolution changed all that. Powered by new technological discoveries, physical capital expanded to take a central position in the economic structure. In Hicks’ (1969, pp.142-43) view

*what happened in the Industrial Revolution,...is that the range of fixed capital goods used in production, otherwise than trade, began noticeably to increase. It was....not simply an increase in capital accumulation, but an increase in the range and variety of the fixed capital goods in which investment was embodied, which I maintain to be the correct economic definition of the change we are considering.*

This expansion of the range and variety of capital goods was made possible by development of machine tools which allowed the production of machines by machines. Quoting Hicks again,

*the first generation of machines were made by hand, with some assistance from water power; they were expensive, because of the scarcity of the highly skilled labour needed to construct them, and they were not very accurate, because of their continued reliance on this human factor. Cost was reduced, and accuracy improved in the second generation - the machines that were made by machines (p. 146).*

The Industrial Revolution re-ordered the relative roles of the various forms of capital. Natural capital maintained its important role as provider of raw material for the production of both consumer and producer goods, but was not as essential as in the pre-industrial age when final goods incorporated minor modifications from their original natural inputs. Physical capital acquired a pre-eminent role, but in this process it also raised the contribution of human capital since technological change and the production of new machines required a higher level of skills. The existing social capital was degraded as the traditional networks and institutions of social cohesion were undermined by the new economic forces. At the same time, new forms of social capital were created, such as workers’ organizations.

A fundamental effect of the industrial age was a dramatic change in the economic role of individuals whose status as workers-owners was transformed into that of labour input. The first

effect of this change was the separation of the worker from his tools of the trade. These tools were transformed into the machines of the industrial age and the worker was transformed from master of his tools to servant of somebody else's machines. The second effect was the loss of control over the working conditions which now were determined by the owners of the machines. The third effect was the separation between producer and seller because the worker as labour input could no longer function as producer-trader. The fourth effect was the loss of control over one's means of livelihood and standard of living because the work-week was determined by the producers and the wages paid to the labour input were determined either by the producer (in the presence of market power) or by anonymous market forces. Finally, the worker lost some of the control over the place of work as job opportunities followed the convenience of production by machines.

All these changes shattered the holistic structure of the economic system based on the worker-owner. As the tasks to be performed by the labour input were determined by the requirements of the machines, work provided the means of physical sustenance but no longer added meaning to life through the expression of individual creativity. Instead of being a producer-trader of final goods, the worker simply became a trader of his own labour. At the same time, the new mode of production separated the direct contact between the worker as producer and the final consumer, thus weakening one of the social links in the chain of community relationships. While curtailing the role of work as a source of meaning and weakening some social links, the industrial age generated the conditions for the rise of "class consciousness" and the birth of a new type of social link, the workers' unions. Production by machines needed regularity of activity in order to generate profits for the owners of capital. The steady use of machines, in turn, required the steady employment of the labour input. Thus, a new class was created, the class of the urban proletariat. In Hicks' (1969) words

*the industrial worker was not rootless; he was a member of a group. It was a group that would soon be demanding a place in wider society....he would then discover that he was in a position to exercise a bargaining power that had previously been lacking....it is obvious that Trade Unions, and even Labour Parties, are among the consequences of industrialism (pp. 155-56).*

In the process of industrialization, the separation of man as an individual from his function as a labour input at the micro level was paralleled by the division of society into two adversarial groups: the owners of capital and the suppliers of labour services. The Catholic Church recognized that the conflict between these two "classes" would have far-reaching consequences for social stability and human development and realized that it could not be a passive observer of events. Thus, the Catholic social tradition in the formal sense was born through the encyclical of Pope Leo XIII entitled *Rerum Novarum*. While recognizing the right to private property and to the fruits of that property, the Catholic social tradition has generally sided with workers. It explicitly gives priority to labour over capital, demands that workers be treated with human dignity, are provided with safe working conditions, receive a just wage, have freedom of association, and can count on economic security in retirement and when they are unable to work. These principles of Catholic social teaching were expounded in four encyclicals: *Rerum Novarum* (Pope Leo XIII, 1891), *Quadragesimo Anno* (Pope Pius XI, 1931), *Populorum*

*Progressio* (Pope Paul VI, 1967) *Laborem Exercens* (Pope John Paul II, 1981), *Sollicitudo Rei Socialis* (Pope John Paul II, 1987), and *Centesimus Annus* (Pope John Paul II, 1991). These encyclicals have been supplemented by pastoral letters from organizations of Catholic bishops, such as *Economic Justice for All* (1986) by U.S. bishops.

The Catholic social tradition took shape within an economic and social environment where labour and capital were sharply separated as factor inputs, labour was subordinated to capital, and workers and management occupied adversarial roles. These arrangements have been disrupted by the dawning of the post-capitalist society (Drucker, 1993). The Catholic social tradition must be re-interpreted to meet the challenges of the economic order. Because we are currently in a transition period, the end result of this process of transformation is not yet in sight. All we can do is evaluate what has already happened, identify the most likely trends, and explore their implications for the Catholic social tradition. An effort in that direction is contained in the next section.

## V. THE AGE OF THE WORKER-CAPITALIST

The industrial age, as described in the previous section, is coming to an end. This does not mean that we no longer need manufacturing products or that machinery and equipment are no longer required in the production process. Rather, the shift to a new economic order involves a re-ordering of the functions of the four types of capital and associated changes in the organization of business enterprises. The post-capitalist society, to use Drucker's (1993) terminology, contains a mix of the main features found in the age of the worker-owner and the age of the worker as labour input. As in the case of the worker-owner society, natural capital is still important. Its function, however, is more in the form of setting environmental limits to the economy's ability to grow than as the main source of economic activity. Physical capital has ceded its dominant position to human capital, and social capital is emerging as a powerful social and economic force. For the purpose of this paper, the role of natural capital is not very relevant, therefore, I will confine my comments on the other three forms of capital.

In the industrial age there was a clear separation between workers and capitalists. The former provided the labour input and received wages which supported physical survival and in some cases a decent standard of living, but did not permit the acquisition of physical capital beyond a residence. Factories, machinery and equipment were owned by a separate group which represented a very small portion of the population. In the post-capitalist age, the worker has become the capitalist for three reasons. First, the dominant role of human capital has resulted in the physical embodiment of capital into human beings. They own the means of production through investment in their knowledge and skills, often heavily subsidized by society. Second, the higher wages and the increased proportion of two-earner families have allowed widespread ownership of businesses through the purchase of company shares or mutual funds. Finally,

workers as a group are major investors by deferring wages through the vehicle of pension funds. These pension funds are becoming the major source of financing in developed economies.

The emergence of the worker-capitalist has revolutionized the governance of the corporation by severing the relationship between ownership and control. As suggested by Drucker (1993), since financing a modern corporation now requires investments from a variety of sources, no single owner or small group of owners can exercise control over the corporation. Instead, this control has been delegated to professional managers whose decisions tend to be rubber-stamped by a board of directors. Because there is no single source of control, however, the managers do not have a single reference for reporting and, as pointed out by Drucker (1993, p. 79), “there (is) no attempt to make management accountable to anyone.” The separation between ownership and management and the issue of accountability are not new, but they take new forms in the age of the worker-capitalist. The novelty is in (a) the combination of the dispersion of ownership and the concentration of managerial power, (b) the absence of a reference point for accountability, and (c) the shift in the position of the professional managers from a privileged component of the labour input into a class set apart by the concentration of power.

This lack of accountability has led to a refocusing of business planning from a balance of short-term and long-term results, which is necessary for growth and stability of both the firm and the economy as a whole, to short-term results directed at enriching speculators. The short-term focus has also been facilitated by a goods-based economy to a service-based economy. Firms that produce goods through a process dominated by physical capital must be concerned about long-term viability and growth in order to maintain steady returns over the long-run. In the case of family-owned firms, supplying goods or services, the long-term horizon is necessary for maintaining the economic prosperity of the family over a number of generations. The need for a long-term view is not necessary when the firm supplies services produced in a process that utilizes very little physical capital, especially in an age when the demand for those services can shift dramatically within short spans of time. These changes may create a conflict of interests which undermines the foundations of long-term prosperity. Since the ownership of capital is widespread and the returns to capital accrue largely to the worker-capitalists as a group, short-term gains bring benefits to workers. However, if the short-term focus destroys the wealth-generating capacity of firms, it will reduce the returns to human capital over the long-term. And there is no built-in mechanism to correct this myopic behaviour.

The post-capitalist age has turned upside down the relationship between man and machine. In the previous economic structure, man served the machine. In that economic structure there were specific tasks to be performed, such as bolting parts of a car together, and the pace at which the tasks could be completed by a worker were pre-determined by the settings of a machine. In the post-capitalist economy, the machine serves the worker for two reasons. First, a given machine serves as the basic framework for the flexibility of human capital application. Take the computer, as an example. What this machine can produce is not fixed by its hardware structure, but is determined by the software it can handle and by the ability of the human capital to apply

that software in innovative ways and to create new software. Second, tasks are not firmly pre-determined, but are often created by workers in the process of performing their tasks. This means that labour productivity no longer rests on the technology embodied into machines and how close workers follow the requirements of machines. Instead, productivity now depends on the organization of the activities of human capital and the efficient operation of teams. And these teams change with the changing of the tasks. What matters now is not the relationship between man and machine, but the relationship between man and man within each team specially selected for the given task.

The efficient operation of teams and of organizations is affected by two special qualities of human capital: (a) its embodiment into human beings, and (b) its social nature. Unlike physical capital, which is physically separated from labour and whose services can be acquired by purchasing the machine, human capital is embodied into human beings. As such it is inseparable from the person who acquired it. Thus, the traditional dichotomy between labour and capital is eliminated because the capital component of a human being is the equivalent of a machine, but this capital component is inseparable from the human component. A business cannot purchase the capital component of a worker; it can use the capital services of a human being by offering employment to the person. That person brings to the job not only the acquired skills, but also his/her genetic make-up, psychological profile, a baggage of past experiences, a set of moral values and a soul. The employer acquires the whole package when he/she hires the employee. This means that what the employer gets out of the capital side of the employee depends both on the skills of the employee and the associated package of values and attitudes. The knowledge and skills that form human capital are not acquired in a vacuum, but are developed within a social context and through both formal and informal institutions. Moreover, values and attitudes are passed on primarily through the social network that encompasses families, clubs, religious organizations, the media, and even casual interactions with other human beings. Finally, human capital is utilized within a social context - the business organization and the teams to which a worker is assigned for the various tasks - and values and attitudes are continuously tested in the social arena. Because of their importance for economic progress as well as human development, these networks and non-government, non-business institutions are treated as a separate form of capital, namely, social capital. The fact that human capital is produced, acquired and utilized within a social context implies that, as in the pre-industrial age, social capital plays an increasingly important role in human affairs.

The changes that are shaping the post-capitalist age have the potential to improve the conditions for human development for a variety of reasons. First, the widespread ownership of capital and the separation between ownership and control have eliminated the causes of the class conflict between capital and labour. They can, therefore, provide the foundations for greater social stability to the extent that the gains from human capital improvements are shared in a socially-responsible manner among all members of the wider community. Second, the transformation of labour as subordinate to machines into human capital as the master of the machines has weakened the forces of alienation between the individual and his work. The individual is now in control of his destiny not only through the higher earning power that can be obtained through the acquisition of human capital but also due to the choice of turning earning activities into

vocations. Finally, the combination of skills and values within a single human being and the acquisition of both within a social context implies that the proper functioning of markets - which expands business opportunities - requires strong civic institutions that promote democratic processes, public participation and values that support them. Therefore, it is in the interest of business to support human development not only within the firm but at the national and international level.

It is also in the interest of society as a whole to provide support for the widest possible participation of its members in human development activities and democratic processes, and to promote policies that prevent socially-harmful economic inequities.

In practice, however, the post-capitalist economy has generated a variety of conditions inimical to human progress and social harmony. First, the flexibility of tasks and the needs for flexible teams cannot be accommodated by the old inflexible arrangements negotiated periodically by management and labour unions. As a result, the labour market has been “de-regulated” so that an increasing number of workers no longer has the protection of the bargaining group. Thus, one of the parties to the social contract that took shape during the industrial age, saw its role diminished. As union participation has declined and jobs have become less permanent, personal security and social cohesion have fallen. At the same time, the higher labour mobility required by the new flexible production arrangements has reduced the attachment of workers to companies and the communities where they live. Personal insecurity leads to lower community commitment. This, in turn, reduces the effects of shared community values on individuals who are temporary members. Second, as suggested by Drucker (1993), the separation of ownership from control has provided unprecedented power to the managers of corporations. As mentioned earlier, the exercise of this power has led to a re-ordering of the time frame of business decisions from a mix of short-term and long-term to strictly short-term for the purpose of maximizing the wealth of shareholders, of which they are a part through stock options, in a manner that often involves pure speculation.

It has also led to a separation between a firm’s performance and the remuneration of the management class and has provided novel opportunities for criminal activities aimed at the enrichment of those in control of the firm’s decision.

The same power that has been assigned to professional managers coupled with the reduced bargaining power of employees in many of the new firms has generated a new conflict among different classes of worker-capitalists: the managers versus the employees. In the industrial age, all employees were treated as one class (labour) and the struggle between capitalists and workers was settled through their powerful organizations in a manner that did not allow extremely large differences in wages between management and basic workers. The capital-labour conflict has now been replaced by a class conflict with two dimensions. The first dimension involves the conflict between the large class of “the managed”, who own the human capital and a large portion of the physical capital, directly or indirectly through pension funds, and the small class of “the managers”, who control the distribution of the fruits of human capital. The second dimension is the conflict between “high human capital workers”, who have acquired substantial economic and political power and “low human capital workers”, who earn low wages and have

no bargaining power. The major challenge for the future is how to re-establish socially responsible governance of corporations and how to share the productivity gains from the expansion of human capital among all workers, regardless of their level of human capital, in a manner that enhances social cohesion without creating strong obstacles to economic growth. There are no automatic market mechanisms or magic government programs that can deal effectively with these challenges. What is needed is co-ordinated collective action involving a new form of social contract appropriate for the new economic age, an issue that will be discussed in the rest of this paper starting with the implication of the above changes for the Catholic social tradition.

## VI. THE AGE OF THE WORKER-CAPITALIST AND THE CATHOLIC SOCIAL TRADITION

The implications of the post-capitalist society for the Catholic social tradition will be examined within the framework outlined in table II-1 in section II, which identifies four sets of agents that may affect business decisions.

Let us start with the government. In the industrial age, in addition to providing essential services - such as protection of persons and property and the physical infrastructure needed for the movement of people and goods - the government was part of a triumvirate engaged in a social contract aimed at maintaining a stable relationship between labour and capital and social harmony through redistributive policies. It was viewed as a friend of ordinary citizens and protector of their rights against the economic power of business. With the end of the capital-labour conflict, the role of government has come under attack and the government is increasingly viewed as an institution inimical to the interests of citizens. There is a widespread notion that government must be downsized as much as possible in order to eliminate its negative influence on individual initiative and economic growth and that social welfare will necessarily be improved when a dollar of public spending is replaced by a dollar of private spending. What has been overlooked in this attack against public institutions is that both business and government exist because they serve explicit demands. Business provides goods and services demanded individually by consumers while government provides mostly services demanded collectively by society. Aside from potential inefficiencies that exist in any organization, government at any given point in time is neither too big or too small. In a well-functioning democratic society, government performs the role that has been assigned by the collective will of the people. The issue is not whether government is big or small, but whether the role assigned to it by the collective will is performed efficiently and fairly, and whether the collective will results from widespread participation in democratic institutions or whether it largely reflects the demands of selected interest groups. The post-capitalist society will change the role of government, but will not necessarily make government smaller, and the focus on size rather than function may undermine economic growth and human progress. There are at least three areas where government involvement is expected to increase. First, the increased degree of urbanization that has followed the new economy will likely require greater expenditures on the protection of

persons and property. Second, additional expenditures will be required to fight terrorism worldwide. Third, governments will be more involved in issues of environmental protection.

The role of government will change, and may even expand, in the area of re-distribution. In the industrial age, the government developed a variety of redistributive programs to correct outcomes from the market economy that were not desirable within the established social contract. Ruggeri, Van Wart and Howard (1996) called this *corrective redistribution*, an approach that corrects, *ex post*, socially undesirable outcomes largely through government cash transfers to individuals and families. This approach has generally been associated with the emergence of the welfare state and has recently been the subject of strong attacks by those who propose a minimum role for government. In fact, one may argue that the anti-government crusades are largely based on anti-redistributive policies and are developed on the basis of economic efficiency considerations. It is argued that cash transfers reduce economic efficiency through two channels. First, they weaken the desire to work on the part of the recipients of cash payments, and second, by requiring higher taxes, they distort the economic decisions of those who bear the burden of the additional taxes.

The anti-government groups want less redistribution. Some authors (for example, Ruggeri, Van Wart and Howard, 1996) have argued that what is needed in the post-capitalist age is a shift from corrective to preventive redistribution. They define the latter as involving

*policies that reduce inequalities of opportunities, thus generating a more level playing field and less disparity in private earnings. It is delivered through the public provision of social goods and through non-fiscal instruments. Social goods include such goods and services as health care and education....Examples of non-fiscal instruments of preventive redistribution include the elimination of barriers to employment, an independent judicial system, human rights legislation that prevents discrimination, active labour market policies, and legislation that curbs market power (p. 92).*

Similar ideas have been expressed, within a different context, by Courchene (2001). Arguing that what Canadians want most is that “this new order generate not only economic competitiveness but also societal cohesion,” Courchene developed the following mission statement for Canadians in the 21<sup>st</sup> century

*Design a sustainable, socially inclusive and internationally competitive infrastructure that ensures equal opportunity for all Canadians to develop, to enhance and to employ in Canada their skills and human capital, thereby enabling them to become full citizens in the information-era Canadian and global societies (p.154).*

Pursuing equality of opportunity for all citizens requires the implementation of measures of preventive redistribution, especially universal and publicly funded education and health care, a step that requires more rather than less government involvement. Whether this involvement is associated with public funding and private provision or includes both is a separate issue.

The attack on the role of government has been accompanied by the elevation of the role of business to a role which, in my view, is unattainable. Some authors (for example, Madden (1980) and Novak (1996) see business as a *mediating institution*, which has been defined by Berger and Newhaus (1977, p. 2) as “those institutions standing between the individual in his private life and the large institutions of public life.” And so, in the minds of some, the post-capitalist age has reversed the roles of business and government. In the industrial age, the conflict between capital and labour made business the enemy of ordinary people. Government was then the mediating agent as the third partner in the social contract. With the end of the capital-labour conflict, the government has become the enemy, and business has been elevated to the role of defender of individual rights, particularly of those with the means to fully exercise them, against collective decisions, which tend to benefit those whose lack of individual power requires collective action in defence of their rights.

I suggest that this elevated role of business is the unrealistic outcome of irrational expectations. As outlined in table II-1 in section II, the best that business can do, in addition to producing goods and services, is to provide self-enforcement of norms that enhance human development and community well-being. In this respect, they serve a social function, not by being charitable, but by subordinating the pursuit of short-term profits of a company to the common good of the community. The changes in the organization and function of business discussed earlier indicates that the power of self-enforcement within business has been weakened in the post-capitalist society. Faced with no clear channels of accountability, professional managers have shown to act as “homo economicus” in pursuing individual self-interest against collective well-being and the long-term interest of the firm itself through legal means, such as short-term planning horizons, illegal means, such as criminal manipulation of accounts, and actions of dubious morality, such as voting large bonuses for themselves in the process of requesting large wage concessions from workers. The experience of the past couple of decades suggests that, to paraphrase an old Sicilian proverb, placing business in sole charge of wealth generation and human development over the long-term, we may run the risk of putting the cat in charge of the larder. Does this mean that we cannot dream up business organizations that contribute to human development and social well-being while pursuing higher profits? Certainly not. However, as human history makes it abundantly clear, it is not prudent to assume that, in reality, these institutions can be wished into existence. In my view, we will do social harm if we let the Catholic social tradition succumb to the illusion that individuals will necessarily behave in the common interest simply because it is the moral thing to do and that organizations carrying activities that involve self-interest will automatically pursue the common good.

The post-capitalist society will also have important implications for the networks and relationships that have come to be known as social capital. The increased mobility of labour and the potential for a decline in the stability of employment will tend to reduce social cohesion and the closeness of community ties. They may also have negative effects on personal identity. As suggested by Fort (2002, p. 253), “we form our identities, develop our affections, and internalize our responsibilities” within communities “in which we meet others face-to-face and thereby learn the direct consequences of our actions on them.” While traditional networks of social interactions are being weakened, others are being created or re-structured. For example, the

social nature of the employment of human capital has given rise to new networks of employees, especially in the larger urban centers. These networks serve the dual purpose of social organizations, thus replacing the ties of birth and friendship established in the earlier years, and business-type organizations helping with information exchange about job opportunities. Being mostly oriented towards labour market dimensions, these new networks will not necessarily strengthen community ties. The post-capitalist society is in great need of the restoration of strong communities through a new sense of citizenship, which in the words of Drucker (1993, p. 172) involves “active commitment.... responsibility....making a difference in one’s community, in one’s society, in one’s country.” This sense of citizenship, as a voluntary choice and not by necessity, is expressed in community activities through volunteerism. We have already witnessed the expansion of non-profit, non-governmental agencies both locally, nationally and internationally. These community-building organizations are likely to become more important in the future partly because of increased social demands and partly because of government retrenchment from policies of corrective redistribution. These organizations will also provide opportunities for business to perform a social function, while pursuing profit-oriented activities, in three areas: (a) the creation of a work environment conducive to human interactions, (b) encouragement of volunteer activities on the part of employees, and (c) direct financial support.

The above changes will create new challenges for the Catholic social tradition. In meeting these challenges, it is essential to stay rooted in reality while remaining faithful to the scriptural foundations of the tradition. I suggest that the Catholic social tradition take on a leading role in forging a new social contract among the main forces that will shape the economic and social order in the age of the worker-capitalist. This new social contract will restore balance among competing interests and institutions while taking into consideration the changing roles of public and private sector agents. In the formulation of this new social contract, the Catholic social tradition can help, as it did in the previous contract, through both teaching and action.

On the teaching side, the objective is to strengthen the moral fibre of individuals so that they can maintain a sense of citizenship and personal responsibility to the well-being of the community while enhancing their stock of human capital and their earning power. In these teachings, it is important to stress again the sacredness of human life, the priority of full human development over the acquisition of material things, the importance of community as a source of personal identity, the moral obligation to equality of opportunity for all, and the need to avoid levels of inequality in the distribution of resources that would undermine social cohesion. They must also emphasize that dominion over nature means responsible stewardship so that this gift that was bestowed on all generations will be enjoyed by all generations. Catholic social teachings must also focus on the new responsibilities of business to restructure governance in order to restore business and social accountability, to take a long-term view of business plans and to promote human development both within the firm and the community in general. It must re-emphasize that greed is not a socially acceptable driver of human action and that, while recognizing individual property rights, the wealth of the nation is a common good.

Teaching alone will not be sufficient, especially in an age when only a small portion of young adults attends church services regularly. It will be necessary to intensify active participation on

the social, economic and political fronts. Activity on the social front involves participation in non-profit, non-government organizations that foster personal development and community building, strengthen social cohesion and enhance the sense of citizenship as commitment to the common good. On the economic front, efforts must be made to promote business organizations and a business culture which recognize that, in the long-term, giving priority to human development will increase company profits and national wealth. Political action requires direct participation in activities that strengthen democratic institutions, tear down barriers to participatory democracy, and lead to decision-making processes that foster social cohesion and social well-being. In particular, action must be directed towards changes in the role of government to strengthen its commitment to equality of opportunity for all through programs, such as universal and publicly-funded health care and education, that offer equal access regardless of economic status.

## VII. CONCLUSIONS

This paper identified the major changes associated with the dawning of the post-capitalist society. It showed, in particular, that these changes have altered the relative importance of the four types of capital (natural, physical, human, and social). For the purpose of this paper, the most important changes are the emergence of human capital as the main vehicle of economic progress, the re-organization of corporations, and the relative roles of business and government. The rise in the economic importance of human capital has minimized the conflict between capital and labour that existed in the industrial age because the main component of capital is now incorporated into labour. The new role of human capital has also raised the economic importance of formal and informal institutions that strengthen social cohesion because human capital is produced, acquired and utilized within a social context. The function of corporations has also changed as the separation between capital and labour has been replaced by the separation between dispersed ownership and concentrated managerial control, a separation that has failed to provide proper channels of accountability. These changes undermined the social contract that has been developed in the industrial age to maintain social harmony and brought into question the role of government, especially its role in using the tax-transfer system to reduce income inequality. It also reduced the demand for collective bargaining organizations in a “de-regulated” labour market where bargaining power is in the hands of individuals with the human capital sought by firms.

In this process, the roles of the three partners in the social contract - business, government and labour unions - have been reversed. From defenders of workers’ rights, labour unions have increasingly been viewed as obstacles to change. From mediator between capital and labour and guarantor of the social contract, government has been thrust into the role of a villain that robs citizens of their hard earned income through excessive taxation and wasteful spending. The view of business, in turn, has shifted from exploiter of workers into mediator between government and citizens. This paper argues that this turn of events is not conducive to long-term human progress and social stability because it lacks the checks and balances among the major players that are needed for stable economic and social structures in the long-run. In particular, it argues that business has been assigned a role that it cannot reasonably be expected to fulfill in an age where

internal and social accountability cannot be assumed to result from automatic mechanisms of self-enforcement. What is needed is a new social contract aimed at eliminating the new conflicts among the different classes of worker-capitalists - the managers and the managed on the one hand, and the low and high income earners on the other - and strengthening the economic and social foundations of society through co-ordinated co-operation among the major private and public institutions so that all citizens can have equal opportunity for human development.

The suggestion for a new social contract is based on the view that no single sector or institution has the capacity to deliver, in an efficient and equitable manner, economic and social progress. Only in textbooks market forces may deliver efficient allocation of resources and government may act to maximize social welfare. Instead of placing excessive responsibilities on a single institution for promoting economic and social progress, a social contract acknowledges the limitations of each institution and creates strength from the checks and balances generated by co-ordinated co-operation. A social contract would explicitly identify a common goal, sustainable progress through human development, and would clarify the appropriate roles that the major private and public institutions would play towards the achievement of that goal. This paper suggests that the Catholic social tradition should take a leading role in the formulation and implementation of this new social contract.

## REFERENCES

Berger, P. and R.J. Neuhaus (1977), *To Empower People: The Role of Mediating Institutions*, American Enterprise Institute.

Courchene, T.J. (2001), *A State of Minds: Towards a Human Capital Future for Canadians*, Institute for Research on Public Policy.

Drucker, P.F. (1993), *The Post-Capitalist Society*, HarperCollins Publishers.

Fort, T.L. (2002), "Business as a Mediating Institution," in S.A. Cortright and M.J. Naughton, eds., *Rethinking the Purpose of Business*, University of Notre Dame Press, pp. 237-58.

Hicks, J. (1969), *A Theory of Economic History*, Oxford University Press.

Kennedy, R.G. (2002), "The Virtue of Solidarity and the Purpose of the Firm," in S.A. Cortright and M.J. Naughton, eds., *Rethinking the Purpose of Business*, University of Notre Dame Press, pp. 48-64.

Madden, R.B. (1980), "The Large Business Corporation as a Mediating Structure," in M. Novak, ed., *Democracy and Mediating Structures: A Theological Inquiry*, American Enterprise Institute.

Novak, M. (1996), *Business as a Calling: Work and the Examined Life*, Free Press.

Ruggeri, G.C., D. Van Wart and R. Howard, *The Government as Robin Hood: Exploring the Myth*, School of Policy Studies, Queen's University.

Tawney, R.H. (1921), *The Acquisitive Society*, The Thetford Press (1982 edition).