PROMOTING LEADERSHIP IN THOUGHT
THAT LEADS TO ACTION

THE WEALTH OF NATIONS REVISITED

CADMUS

A papers series of the South-East European Division of the World Academy of Art and Science (SEED-WAAS)

Volume I, Issue 2 **April 2011** **ISSN 2038-5242**

EDITORIAL BOARD

The CADMUS Journal

The acronym of the South-East European Division of The World Academy of Art and Science – SEED – prompted us to initiate a journal devoted to seed ideas - to leadership in thought that leads to action. Cadmus (or Kadmos in Greek and Phoenician mythology) was a son of King Agenor and Queen Telephassa of Tyre, and brother of Cilix, Phoenix and Europa. Cadmus is credited with introducing the original alphabet – the Phoenician alphabet, with "the invention" of agriculture, and with founding the city of Thebes. His marriage with Harmonia represents the symbolic coupling of Eastern learning and Western love of beauty. The youngest son of Cadmus and Harmonia is Illyrius. The city of Zagreb, which is the formal seat of SEED, was once a part of Illyria, a region including what is today referred to as the Western Balkans and even more. Cadmus will be a journal for fresh thinking and new perspectives that integrate knowledge from all fields of science, art and humanities to address real-life issues, inform policy and decision-making, and enhance our collective response to the challenges and opportunities facing the world today.

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Published under Open Access policy guidelines. See Cadmus Editorial Policy for details.

Websites:

www.seed-ideas.org - www.cadmusjournal.org - www.newwelfare.org

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Printed by:

Akaram, Plot No.1, Nirmala Nagar, Thanjavur, India

Available online at http://cadmusjournal.org/

Cadmus

Promoting Leadership in Thought that Leads to Action

Volume 1, Issue 2 - April 2011

Capital Needs Labour

Patrick M. Liedtke

Secretary General and Managing Director, The Geneva Association, Switzerland.

The past three and a half years have seen a very rough ride for the world's financial markets. Not only did the credit crisis (which The Geneva Association has studied intensively) directly impact the value of many real world assets (especially U.S. real estate) and stock markets with particular bearing on bank stocks, many derivatives and structured financial products; it has also led to a deeper rethinking of how we deal with financial risks and what role the provision of capital plays for the proper functioning of modern economies. In recent days,* the disasters in Japan have triggered further concerns about the available capital stock and its future productivity, bearing heavily on global stock market valuations. Much has been written about overcoming the crisis and (re)positioning those parts of our economic and financial system that suffered most to generate future growth. Unfortunately, less prominent in these discussions are the aspects that relate to an intelligent use of labour in an economic system that is leaving its deterministic origins – dating back to the important work of Adam Smith and the industrial revolution – even further behind it.

Many economies have made great strides to turn themselves into stock market economies. Even nations that until two decades ago had very different traditions have embraced an approach to producing wealth and welfare for their people based on activating capital to a maximum, often resorting to leveraged structures that would allow a greater exploitation of increasingly thinner layers of capital. Faced with historically unprecedented levels of stock market capitalization and a fundamental belief in (if not ever-lasting, at least) ever-returning bull markets (like those seen in the 1990s), only confirmed pessimists or incorrigible killjoys would consider possible sustained crash scenarios seriously. According to the disciples of the new financial age, even the last remaining sceptic must become convinced of the wonders of the new approach: lasting, almost limitless growth, high returns on capital (fuelled by increased leverage), no inflation – an investor's paradise.

If that is the case, where does the issue of labour come in? Under the traditional understanding, capital is supposed to be a complementary production factor to labour. But why work at all, when correctly invested capital is expected to produce returns that lead one to believe in the existence of a new form of perpetual motion? Capital, rather than being the complementary factor of production just mentioned, is now often perceived as an increasingly substitutive one. We are experiencing a new phenomenon in economic theory in the form of the automatic multiplication of capital's productive function. According to this

* The last revision of this article was on 16 March, 2011, just five days into the earthquakes, the tsunamis and the problems with the nuclear reactors and already the world's stock markets are searching for a new equilibrium in the face of a shifting risk landscape.

approach, every stock market investment will be rewarded by a further, self-perpetuating increase. Capital creates more capital - the multiplier effect of compound interest. Labour is becoming increasingly irrelevant and, if one extrapolates this trend, will at some point no longer be necessary to achieve prosperity.

Even if this scenario is clearly exaggerated, its central tenets are present in the current debates about the functionality and organization of our economic systems. Governments everywhere are preparing the financial markets to meet the requirements of global capitalism. The 'new market' has ensured itself a permanent place in the operations of capital procurement and investment. The recent setbacks and the shortcomings made so obvious during the credit crisis and the now following sovereign debt crisis have mainly triggered a reconsideration of the resilience of the current system, but not a thorough questioning of at least some of its fundamental tenets. While one would expect that a near-death experience for the global financial system, such as the one the world witnessed at least once during the crisis, would trigger deeper rethinking, the energy of the leading actors has been targeted at symptoms rather than root causes:

- If "too big to fail" is the problem, why not seriously consider avoiding "too big" in the first place?
- If "too interconnected to fail" is the problem, why not think about reducing interconnections between actors and through various conglomerate structures?
- If "wrong incentives for capital deployment" are the problem, why not try to make the system self-correcting rather than self-exploiting?
- If "inadequate global supervisory structures" are the problem, why not tackle them directly?

It seems that too little of the resources aimed at correcting our economic and financial system is directly trying to solve the underlying setup. And in all of this, the role of labour, which is so crucial not only as a production factor but also for the social cohesion and stability it provides, is being forgotten. Threats to financial stability do not exclusively emanate out of capital markets. As the unrest in several Arab countries demonstrates yet again, without social stability there can be no financial stability. To underestimate the influence and importance of labour would be a serious error. However clear the complementary nature of labour and capital appears to be to the economist, it is often lost on the financial technocrats who are shaping the current discussions about financial stability. Unfortunately, it remains extremely difficult to quantify their relationship and relative importance. Estimates of the human capital of the USA, ranging between 50 and 90 percent of total American capital, thus are not only peculiar (not only due to their high degree of inexactness) but disconcerting as we implicitly admit that we do not know how our wealth is truly produced. Nevertheless one thing is certain: although the status of labour in a society is, to a major extent, determined by its relationship to capital, its role as a monetary factor of production is only of partial significance. It is therefore necessary to identify the various functions of labour:

- The production function: Labour enables people to earn their living. Since the emergence of Homo Oeconomicus against the background of Calvinism and Capitalism, this particular function has ensured that labour is mainly equated with remunerated employment.

- The allocation function: By using redistribution mechanisms, labour reallocates the resources available to the community. This function has been less comprehensively studied than the production function and analysis has principally focussed on monetary redistribution rather than on the allocation of unremunerated services.
- The solidarity function: The social components of labour further the organization of communities and ensure social cohesion. The exclusion of e.g. the long-term unemployed by and from society provides evidence of the strong correlation between labour and social integration.
- The sense and purpose function: Labour allows people to develop and express the values they believe in - 'we are what we produce/do'. This was an important theme in the report to the Club of Rome: *The Employment Dilemma and the Future of Work* that Orio Giarini and I wrote together.

The focal points of the four functions of labour are shifting. Whereas remunerated labour used to be almost the sole focus of interest, in more recent times labour researchers, economists, philosophers and institutions (for example the Catholic Church in Pope John Paul II's 'Laborem Exercens') have investigated the concept of labour from different viewpoints and attempted to distinguish it from that of remunerated employment.

It is clear that even a comprehensive reorganization of access to capital in our society - for instance in the form of workforce participation in productive capital (an idea which has frequently been advanced in the past and failed almost as often), or the encouragement of the 'cult of equity and leverage' or the use of investment earnings to supplement pensions - cannot replace all the functions of labour. The concept of capital assets as a physical store of value in respect of labour expended which can later be released is an oversimplification. In our money-based economy, capital is an instrument which stimulates human and entrepreneurial activity. The future value of capital is thus strongly correlated with both these factors and is a clear indicator why, ultimately, any future standard of living does not depend on any accumulated (savings, pensions or other) rights, but on the willingness of society to keep activating its productive capacities.

Today we must take into account the increasingly complex processes in the organization of labour and capital, which are evident from the increased demands made on the persons involved and on modern risk management. Each technological advance raises the interaction of labour and capital to a new level, manifesting different risk structures and usually placing greater demands on people and their work. The capital investment required by a pedestrian in order to move around is virtually nil and the worst that can befall him is a sprained ankle. Motor vehicles involving greater capital investment drastically reduce journey time, but their use requires a more qualified type of labour and in the worst case they can kill people. As airplanes attain even higher speeds, the pilots have to undergo extensive training and a crash can cost the lives of several hundred people. However, more complicated demands are not limited to the use of technology, but extend over every stage from planning, design and production to disposal or processing. The application of atomic energy or biotechnology furnishes more extreme examples of these new structures. The problems in properly harnessing extreme technologies such as nuclear energy generation have become apparent long before the current Fukushima or the earlier Chernobyl disasters.

It is virtually impossible to quantify the interaction of labour and capital in the aforementioned examples realistically enough to allow generally valid (mathematical) production functions to be determined, which also remain fully suitable in the event of large technological and organizational advances. As complexity and capital intensity increase, society faces changes in the organization of work which require not only a more highly qualified workforce, but also people being able to adapt their qualifications to changing circumstances more readily. Existing knowledge must be renewed and updated ever more quickly. In this respect we can talk of an accelerating and regenerative society and economic system.

Society is regenerative, not only because it must ceaselessly bring its knowledge base up to date, but also because organizational forms are generally becoming more 'organic' and thus more sustainable and compatible with each other. Since the Club of Rome's first report on the limits of growth, this realization has gained acceptance in the environmental sector and is now spreading to others: medicine and biotechnology allow us to regenerate our bodies by means of operative and non-operative intervention and to stay active longer, the working world encourages life-long learning and thereby seeks to create the preconditions for the efficient use of an adequately qualified workforce over a longer period of time.

Further, we should not forget that in recent years advances in the techniques of capital management have themselves grown in complexity, being partially responsible for more volatile financial markets and, in consequence, also for the recent crisis. In the creative centres of the financial world in London and New York, the specialists who design, implement and supervise these complicated new financial instruments are called the 'rocket scientists' of finance, thus linking them to those pioneers of space travel entrusted with the responsibility for highly complex processes. The financial debacle that has still not fully released the world from its grip has also shown that Nobel Prize winners of the modern economy can trigger catastrophes in the financial markets, when they make mistakes in their own specialist areas.

Capital instead of labour is utopian – capital needs labour, as much as highly productive labour needs capital. If our attention is currently focussed on the world's stock exchanges and financial markets, this is only the swing of a pendulum looking for the next element capable of bringing another increase in the standard of living. Although we may currently be intent on the possibilities offered by capital, trying desperately to repair the damages done to our markets and introducing new rules and regulation to guarantee proper functioning of financial operations, tomorrow labour will once again dominate the agenda. In the long term, in our society labour will always enjoy a superior status to capital and will exceed its characteristic as a function of production, because labour is characterized by other and more qualities, which capital does not possess.

The monetary value of labour will continue to be based on the interaction of the markets and competition between the supply and demand sides of labour and subject to an imperfect selection process. The social value of labour must however be determined by the society concerned, for labour is more than monetary production.

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Those who are engaged in building democracy in their countries and who are animated with a fresh spirit like in Egypt will have to ask themselves: What purpose does building a democratic nation have if it is embedded into an undemocratic and non-transparent international system? In a globalized world the confinement of democratic participation of citizens to the institutions of the nation-state is almost equivalent to disenfranchisement. True democratic emancipation cannot stop at national borders.

Andreas Bummel, Chair, Committee for a Democratic UN

Politics is the whole of which economics is a part and employment is a small part of the wider domain of economic life. Ushering in a global government generates the power of solving these minor problems. Government is the context that activates the politician. Politicians can cure the ills created by economists. A wider vision of economics solves the problems created by narrow inspiration.

T. Natarajan, President, The Mother's Service Society

The role of labour is crucial for the social cohesion and stability it provides. Threats to financial stability do not exclusively emanate out of capital markets. As the unrest in several Arab countries demonstrate yet again, without social stability there can be no financial stability.

Patrick Leidtke, Director, Geneva Association

Economic thinking is still very largely related to traditional Cartesian (and Newtonian) concepts of science. The notion of equilibrium is not really a concept or an explanation, but rather a tautology, which has been given the value or status of an axiom. Understanding this notion of equilibrium, where supply is equal to demand, is essential because it explains why economic theory has from the beginning always tended to be one-sided...Once we enter real time, uncertainty and disequilibrium become the reference criteria of reality. Introducing the notion of real time into the economics of supply and demand (in modern terms, service based production and consumption) is a radical alternative to the view of the economic process as being based on timeless (instant) equilibrium.

Orio Giarini, Director, The Risk Institute

According to Roosevelt, "necessitous men are not free." The narrow conception of individual freedom founded on prisvate property rights advocated by neoliberalism neglects a much wider, more humane conception of social democracy, freedom from want and human security affirmed by the New Deal, the Atlantic Charter and the UN Charter.

Winston Nagan, Director, Inst. for Human Rights, Peace & Development

A human-centered theory of economy and employment needs to be founded on the realization that human beings – not impersonal principles, market mechanisms, money or technology – are the driving force and central determinants of economic development.

Garry Jacobs & Ivo Šlaus,World Academy of Art & Science Global Employment Project

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Inside This Issue

Our world is headed into a Perfect Storm of an interconnected financial, ecological and social crisis. Almost all forward-looking assessments demonstrate that business as usual and incremental improvements will not be sufficient to take us to a future world blessed by equitable prosperity, safety, security and contentment.

Ian Johnson,
Secretary General of the Club of Rome

The three organizations – WAAS, Club of Rome and the Pugwash Movement – should sincerely join forces and act together, so that we can fully utilize use our collective experience, intellectual capacity and foresight. Together, we will have a much stronger voice to get our good messages out to the world and be listened to by policy makers, parliaments, governments, academics and all societies in general, in both the industrialized and developing economies.

Heitor Gurgulino de Souza,
Former Rector of United Nations University

Decisions on our common future should no longer rest solely on world leaders, who can evade or even obstruct meaningful change. A simultaneous electronic ballot on saving bios is a brilliant opportunity to demonstrate that, as citizens of the world, we can all agree on safeguarding the Earth for the generations to come. By giving priority to individual voices to be heard, the World Referendum can elicit the personal involvement of every citizen in the race to save the environment and help to bridge the gap between the rich and poor.

Agni Vlavianos Arvanitis,
President, Biopolitics International

The greatest global challenge that faces the international community today is that of the current trans-national revolution in human affairs, which in turn is triggered by the combination of three revolutions: a revolution of rising expectations, the information and communications revolution, and a broader industrial-technological revolution.

Jasjit Singh,
Director, Centre for Air Power Strategy

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