

***A New Paradigm for Labor and Capital: Moral Interdependence***

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We have come to the end of an era in the economic history of humanity. Accordingly, we must adjust our understanding of business reality and change our thinking about what works best for our companies. In short, the institutionalized rivalry between workers and the owners of capital that grew up with immature and then adolescent capitalism has outlived its usefulness in the current era of globalization.

Many complex questions and few answers confront us in this era of globalizing production, consumption, and financial intermediation. For example, with outsourcing to emerging market countries, why should it be in the best interests of shareholders to ensure that citizens of the industrialized world have a fair share in new job creation and will have enough workers earning sufficient wages to support growing populations of retired people? Under new conditions, what is the optimal and most fairly balanced division of rewards and responsibilities between labor and capital? Is there still a role for industrial unions? Does globalization require a race to the bottom in terms of wages and other terms of employment? What responsibility does business have to create jobs that pay more than a living wage? What role should states play when some global companies are arguably more powerful in many ways than most national governments and certainly are more wealthy than many?

Under these conditions of new uncertainty, what should be the role of the good company?

One topic that provides answers to many of these questions and that can provide a focus for our thinking is how and why business leadership should create corporate cultures that foster working environments of high motivation, innovation, a change mentality up and down corporate ranks, and consistent levels of high performance. To achieve such corporate cultures, our thinking about the relationship between labor and capital, between workers and managers, must undergo significant revision. A reformulation of the relationship from one of conflict to one of partnership is needed.

For nearly 200 years the vision of an inevitable struggle between labor and capital for the proceeds of industrialization has shaped the business institutions, management philosophy, labor relations, the politics and the culture of capitalism. Shaped on the one hand by the early romantic socialists and anarchists such as Proudhon (who asserted that “Property is theft.”) and, on the other, by owners of enterprise who looked upon workers as a fungible and expendable raw material, as no more than a cost of production, capitalism was largely assumed to be a system of exploitation. What capital extracted in profits through ownership of the means of production, labor lost. And vice-versa.

Karl Marx and Friedrich Engels sought to give this understanding of market capitalism a scientific grounding with their labor theory of value. For Marx and Engels all value arose from the work of labor. Thus, capital was parasitic on the suffering of the workers and, accordingly, morally suspect. The only course for Marx and Engels was to have the workers unit and, through the state, seize the means of production. Their Communist slogan of 1848 was “Workers of the World, Unite! You have nothing to lose but your chains!”

Many capitalists came to the same conclusions as Marx and Engels regarding the necessity for labor and capital to struggle over how best to divide the earnings of enterprise. Following Herbert Spenser’s arguments, they became Social Darwinists, venerating above others the rugged and determined individuals who mobilized capital, took risks, and put people to work.

For 100 years the political history of Western Civilization was driven by the efforts of workers to organize themselves against the owners of enterprise and the countervailing efforts of those who owned capital to hem in the power of organized labor.

By 1950 the modern world (now including a reindustrializing Japan) had achieved a balance of power between labor and capital in the welfare state where a triumvirate – unions, business associations, and state bureaucracies – negotiated among itself the terms of capitalist production. In the Communist states, a Communist Party dictated terms for labor and used the state to raise investment capital.

But as Marx and Engels argued, history never rests. The engine of economic change runs continuously, eventually making obsolete all technologies and means of production. The primitive capitalism of the 1830's and 1840's that indeed somewhat justified the simplistic notions of both the early Socialists and the Social Darwinists became thoroughly extinct by the 1970's.

By the 1990's Communism had collapsed, the age of the internet had arrived, and the dynamic of a single global marketplace brought prosperity to more and more people around the world. In the waning decades of the era of adversarial, zero-sum, capitalism, as Communism headed towards its demise, membership in American unions began to decline as a percentage of the American labor force. At the same time, the percentage of Americans who owned stock in capitalist enterprise (directly or indirectly through various kinds of investment funds) rose dramatically, turning a majority of Americans into "capitalists". This startling development was in no way predicted by the scientific socialism of Marx and Engels.

Little by little, union growth in the United States came more and more from the organization of public sector employees – workers not at all in the capitalism system of production. Even with the organization of government employees, union rolls dropped to just 12.5% of the US workforce. In 2004 just 8% of private sector workers were union members. In other words, 92% of private sector workers did not feel any pressing need or

see any advantage to union membership. In a democracy, the majority always speaks with authority, so the political power of unions has suffered a real decline.

One commentator laid the blame for a weakened union movement in the United States on changes in the cultural sub-strata of the society: “The American people seem stuck in a dialect of “whatever.” Satiated with celebrity gossip and Wal-Mart products and a “me-first” patriotism ... when and how will people act, even when action seems obviously to be in their own interest?”

The decline of union strength reached a crisis in the summer of 2005 when one third of the AFL-CIO unions broke with the leadership of that federation and went off on their own.

The rival groups argued to mutual rejection over the tactics of how best to organize more workers in the contemporary American economy. One group argued for a political alliance with the Democrat Party, to use the state to tilt the laws in favor of traditional unions. The break-away group demanded more effort being spent on the direct organizing of workers themselves.

Sadly for the tradition of organized labor as a major economic power, seven of the 10 occupations with the largest expected employment growth in the United States by 2012 are in low-paid local services such as customer services, food preparation, nursing aids, retail sales, waiters/waitresses, and cashiers.

The splitting asunder of the AFL-CIO labor federation is a watershed in the history of democratic capitalism.

In France, where opposition to “*capitalism sauvage*” is a long established political and cultural tradition, union membership rates are lower than in the United States and unions are concentrated in the public sector.

In the United Kingdom, 13.2 million workers were union members in 1973. Today the number is only 7.5 million. Unions are only 17.1% of those in private sector employment, but they constitute 58.2% of those in public employment. In the private sector, management reaction to a strike is very likely to be outsourcing of those tasks.

In Germany, membership in the unions constituting the *Deutsche Gewerkschaftsbund* has fallen to the level of the early 1970s. Of the 6.8 current members of these unions, nearly one-third are retired or jobless. Those in the service sector, female employees and part time workers are not joining unions. If this declining trend in membership continues, the last German union member will retire in 2020.

Unions versus management; labor versus capital; workers versus owners: that was the first paradigm of capitalist production, one fit for the industrial age when capitalism gave birth to modern civilization through large scale factory production. But as early capitalism has evolved into globalization, factory manufacturing has become a smaller and smaller part of advanced, wealthy, OECD economies.

For example, employment in manufacturing will drop 5% between 1996 and 2005 in the Eurozone, 18% in Japan, 16% in the United States, and 24% in Britain.

Since 1970 manufacturing as a percent of employment has dropped from 40% in Germany to 22% today; from 28% in Italy to 21% today; from 28% in Japan to 18% today; from 34% in Britain to 13% today; and from 25% in the United States to 11% today.

There is no future for management theories and practices built upon the traditions of industrial manufacturing.

Manufacturing has moved to lesser developed countries with lower labor costs. Decreasing costs of transportation (now using air cargo, sea/land inter-modal container technology, and efficient road transport) and of communications (cell phones and the

internet) have made possible global sourcing of production. Worker/manager conflicts have become ripe in countries such as China, Korea and Vietnam to which industrial production has moved from OECD countries.

Providing high levels of traditional lower-wage manufacturing employment will not help OECD countries meet the demands of their populations for meaningful work. And low wages in OECD countries will never be competitive with wages in developing and emerging market countries. The old model of factory floor jobs is not the future for advanced societies by any stretch of an economist's imagination. Rather, rapid and constant innovation, exacting quality specifications, service customized to individual customer needs, knowledge, speed and accuracy, will be the competitive advantages of advanced economies. If they can get their workers – and managers - to meet such demanding standards of performance.

A second transformation has overtaken OECD countries as well. Their working populations are in decline. From 2005 to 2050 Germany's population will drop from 82.4 million to 73.6 million; Italy's from 58.1 million to 50.4 million; Spain's from 40.3 to 35.6 million; Japan's from 127.4 million to 99.9 million, etc. And, the percentage of that population which is elderly and not working but needing retirement benefits, expensive health care and full-time assisted living will grow. Those remaining in the work force must produce at significantly higher levels of value-added output than they do today to support a range of social costs.

How will enterprise obtain from their employees such higher levels of productivity in coming years?

The two transformations – loss of industrial production and shrinking populations dominated by the needs of the elderly – threaten the social systems of OECD countries with collapse.

The challenge to the advanced countries arises not just from adverse trends; rather the more demanding challenge is cultural and intellectual – too many business leaders, senior union officials, and politicians are static in their thinking. The old paradigms still rule us while resting in the ashcan of economic history.

The only way ahead is to rethink the role and meaning of work. Simply put, work is not labor - not hoeing under the tropical sun, not sweating away on a hot factory floor, not bending dainty fingers to a water or steam driven loom from dawn to dusk, nor soldering little wires while standing along a TV production line.

Work, rather, is an imprint of the personality on the world; even more, it is a co-creation of the world.

To be successful under new conditions, managers, on behalf of the owners of the capital invested in business, must value work, especially the work of their employees.

Studs Terkel, the American writer and observer of workers, wrote that “some jobs are too small to fill men’s souls.” Managers need to design jobs that “fill the soul”, that bring out the best in people, that give substantial meaning to the hours spent earning a wage.

The emerging field of well-being studies is gathering research findings that indicate a strong positive correlation between one’s sense of well-being and one’s future capacities for success in work, including creativity and high productivity, and one’s health and longevity.<sup>1</sup> Findings to date indicate that people high in well-being later earn higher incomes and perform better at work than people who report low levels of perceived well-being. Since well-being has many beneficial consequences and low levels of perceived well-being have negative consequences in life, corporate monitoring of employee well-being is advised.

How can this be done?

Rather simply actually. Jobs need to be bigger. By this we mean not bigger in terms of title but larger in responsibility. A job should be an office of personal responsibility and duty; a source of accomplishment and pride in performance.

This requires giving workers more control over what they do and what they produce. The person who sweeps the floor ought to choose the broom.

Now the efficiency advantages of putting more soul-sustenance in jobs are significant and positive. Those whose work fills their souls produce with greater quality. They care more and they learn faster how to do better. They malingers less and are less prone to absenteeism, petulance, and drug dependencies. They are better friends, husbands, mothers, and citizens.

Productive people and good quality feed each other. Pride in work leads to enhanced capacity for good work and enhanced capacity for good work, in turn, leads to better quality product and more pride in work. Motivated people will drive the pace of production – faster, better, more reliable.

By allocating more responsibility to each job, managers can attract higher quality, more productive people to those positions. Management style will become a global competitive advantage.

The May 2006 edition of the *McKinsey Quarterly* published an article entitled “Creating Value from Employees” that asserted “The world’s largest corporations are earning outsized returns – without significantly increasing the size of their workforce – by making their professional employees ever more productive.” The article noted that from 1994 to 2004 the top 150 companies in the world increased their share of the net income earned by the top 2,000 companies in the world from 39% to 46% while increasing their employees from 28% to 29% only of all those employed by those top 2,000 companies.

Corporate leaders have the primary responsibility for putting this new management style in place. The most important job of the leader is to grow people. Company leadership must ensure that employees are provided with creative outlets, that employees do work that has meaning to them and to the company. These kinds of jobs should be the new way of understanding what “work” is all about. Profit will flow from this approach as an inevitable by-product.

Though the challenge of shifting to a new approach to management is most immediate for corporate leaders, political leaders must facilitate the emergence of the new paradigm with appropriate laws and regulations. At a minimum, laws and practices that encourage a continuation of ineffective adversarial labor/management relations should no longer be promoted.

And, a new approach to management will not succeed unless corporate leaders are assisted in the transformation by both workers and union stewards. While management must take the initiative, employees and unions must be at the table to participate with personal commitment to the new arrangements as old habits of command and control by management and resistance thereto by workers are rejected. The interface between management and labor should be seamless, like a zipper pulled tight to keep out the winds of destabilizing market changes thereby protecting the ongoing value of the enterprise against the pushes and pulls of globalization.

Companies like General Motors suffered from lack of a common vision and total focus on the customer on the part of both management and labor. Rather, the company and its unions allowed challenges such as retiree health care costs to become a zero-sum tennis match for unilateral advantage.

But how often is CEO compensation benchmarked to increases in the company’s human capital account? How often do managing boards of directors insist on improvements in the “soul-sustaining capacity” of company job descriptions? How often do they ask if the floor sweepers are authorized to choose their brooms?

The truth un-acted upon by so many managers, and so ignored by financial markets, is that the most significant task of business is human capital enhancement. All lasting success flows from this achievement.

Corporate leadership has the ultimate responsibility for making better jobs for employees. The employees then have the responsibility to carry the company forward into sustained profitability. The relationship between managers and workers is mutual respect and dependency. It is moral relationship of partnership not an adversarial one of buying and selling labor power by the hour.

The good company of the future will center on human capital enhancement, on work as an exciting challenge, one that can draw the will and the aspirations for personal significance of each employee into his or her occupation.

Capital without labor is stillborn; labor without capital is not very productive. Synergy between labor and capital produces the wealth of nations as Adam Smith noted in his famous study of the emerging age of industrialization. Capital permits the specialization of labor and specialization, in turn, creates new products and services of increasing benefit and sophistication.

Rather than oppose labor to capital, we should out of common sense assume labor to be an enhancement of capital, or capital to be an enhancement of labor. Labor needs capital to maximize its earning power while, reciprocally, capital needs labor to find its highest and best use. The mutual dependence of each production factor on the other is no more than self interest of workers and owners “understood upon the whole”. Labor is best understood as more than a cost of production. It is actually a form of enterprise capital – human capital.

The phrase “human capital” while helpful in some respects as an aid to refocusing our understanding of the role of workers and employees in a business, is at the same time misleading. Those who work are not merely an asset, fungible and available for a price

like plant and equipment. They are indeed most valuable to any business; no business can succeed without possessing a stock of human talent and dedication. But the people who work for companies are in some deep sense “partners” in the enterprise as well. They have a stake in its success – from the level of its sales and the brand equity in its reputation and to its proper capitalization. They are not there to be ordered about or very mechanistically rewarded and disciplined as if their loyalty, creativeness, productivity, and mental dispositions, were of no consequence to the business.

Of course, workers like CEO’s should be relieved of duty if they fail as they ought to promote the well-being of the enterprise. To have a job is not to enjoy a sinecure or to live off the subsidy of others. Each partner in any business needs to pull his or her weight according to his or her function and capability.

If the new and better paradigm for business is to accept workers and employees as a form of “partner”, then reciprocal responsibilities need to be emphasized more than they have been in labor/management relationships. Partners need to work together – all of them – as one seamless organization addressing the needs of others, and appropriately sharing the risks and rewards of the joint undertaking. From this arrangement, owners, employees, customers and society at large will all benefit.

Our driving conception of commercial purpose, then, derives from a widely shared sense of a “big we” over and above management, bureaucracies, unions, pressure groups, day-traders, hedge-funds, etc.

Some can see in this approach the activation of core concerns of Catholic social teachings while others may consider it a form of social justice seeking a “*bien commune*”, but it may be no more than principles guiding very sound management of enterprise.

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<sup>i</sup> Ed Diener and Martin E. P. Seligman, “Beyond Money” in *Psychological Science in the Public Interest*, Vol 5, No. 1, 2004