

UNIVERSITY OF CASSINO

*Award of an honorary degree in Law*

# **The right to work in the age of globalization**

Address by the Governor of the Bank of Italy  
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## **1. The foundations of the body politic**

There must be, underlying social and civil aggregation, which subsequently gives rise to political society and the State, a concept that acts as a unifying element — an element accepted by all — that refers to the common good, the *raison d'être* of political union itself.

As Aristotle taught nearly twenty-four centuries ago, by nature man is a “political animal”. Acute observer and profound theorist of the society in which he lived, the great philosopher tells us that in the city-state, the ancient polis, nature moves with intelligence in the search for the common good, which the city realizes.

Democracy arose at the dawn of Western civilization, in lands stretching from Greece to Sicily and eventually extending even to where we gather today. It developed together with the loftiest forms of philosophical thought: physics, metaphysics, mathematics. There originated a method that would still be the foundation of the physical and natural sciences many centuries later.

In barbarian societies, the common good was founded in the need for defence, which contact with more highly evolved societies would then transform into the fundamental principles underlying the State.

It was in Roman society that law, hence justice, and the organization of the State appeared in their full aggregative power. Yet the strength of law and culture did not prevent the lapse into absolutism and the subsequent dissolution of ancient Rome.

We find ourselves on the slopes of a mountain upon whose summit there was born, in the second half of the first millennium, an order of civilization, a mode of being that, through the concept *ora et labora*, would profoundly transform the life of the West. This order refounded civilization upon new bases that would again extend, as in the Roman era, to the entire European continent.

How little attention we pay, in our study and reflection, to the sources of medieval civilization, its connections with the manorial economy, the spread of Christian civilization and Benedictine culture and the related flowering of trade and exchange in the first centuries of the second millennium! That was the age in which the social structure that we call “Western” took form.

Drawing now on Jacques Maritain, almost to the letter, we can say that in the sacred era of the Middle Ages a grand effort was made: to construct the life of the community and of the civilization upon the foundations of theological faith and religious belief. For centuries this effort enjoyed success, but with the advent of the Renaissance and the Reformation it was discarded.

Civil society and the body politic were then set sharply apart from the spiritual realm of the Church. The distinction between the things which are Caesar’s and the things which are God’s was spelt out more clearly. Civil society is governed in accordance with a common good that is now worldly, temporal, secular. Citizens, families and social groups must take part in conditions of equality.

In the modern age another grand effort was made: to erect an order of civilization and the life on the community on the foundations of pure reason. At the outset this attempt kindled immense hopes. But owing first to its self-confinement within the narrow precincts of utilitarian individualism and then to the tragic events of our own century, the attempt was brusquely halted.

Events have discomfited the hopes of nineteenth-century rationalism; they have renewed the conviction that religion and metaphysics, human values and ideals, are an essential part of culture and learning, hence of civilization itself.

No return to the vision of the middle ages is conceivable, but neither is it possible to advance along the path of a system constrained within the narrow confines of value-neutral individualistic liberalism.

What does seem possible, in the historical and cultural context of the second half of the twentieth century, is the construction of a personalistic democratic system, one that is open, equally out of conviction and out of necessity, to pluralism.

People professing different philosophical and religious theories can and must cooperate to promote their common welfare, accepting the fundamental principles of a society of free human beings.

An authentic democracy can be built, with the consensus of single spirits and wills, upon the values that constitute the bases of life in common, upon that which works for the good of individuals and for the good of society.

The weak point of the individualist doctrines of the nineteenth century — which we hear re-echoed in some of the forms of today's "permissive" society — was the recurrent conception of democratic liberty as a sort of arena in which all ideas of social life contend, battling for hegemony over public opinion, to the indifference of the body politic, even when these ideas are destructive of law and of freedom.

The parallel, in the economic sphere, was laissez-faire, which led inevitably to a socially unacceptable concentration of wealth and in practice, in historical experience, to systemic crisis. In this context the true general interest tends to evaporate; it cannot exist.

Economic theory itself recognizes that it is impossible to construct an objective of public utility from strictly individual preferences and utilities, even if these are exercised in conformity with that ethic of exchange and production on which the market economy is properly founded.

The success of dictatorships, of the left and of the right, was abetted by the poverty of societies and the limited diffusion and consensus on founding values. The Great Depression of the thirties marked the end of *laissez-faire* even in the countries where democratic government was not overwhelmed.

The Second World War made manifest the inability of international society to settle disputes and find forms of coexistence in keeping with the respect for fundamental human values; it arose from the will to impose ideologies and racial and economic hegemony by force of arms; it was an ultimate consequence of the profound crisis of *laissez-faire*.

After that immense tribute of suffering and blood, new democratic societies were born, founded on constitutions in which men of different and even opposing principles came together to participate in the same secular faith and managed to agree on practical conclusions, on the basis of a deep respect for the truth, for intelligence, for human dignity, for the absolute value of moral good.

## **2. Personalism and the Italian Constitution**

Primarily in the twentieth century, starting out from the philosophy of values and ethical-social Christian thought, a stream of culture has developed that in a number of ways harks back to the philosophy of natural law.

It is embodied in the principles reaffirmed in the Universal Declaration of Human Rights, the Italian Constitution and other European constitutions.

Underpinning this culture is recognition of the centrality of the person endowed with intelligence, the highest value of nature, that on which the community is founded.

This value is broader, more complete and more realistic than that of the self-contained individual who, though endowed with intelligence and creativity, seeks only his own interest.

The person is open to all the relations and contents expressed by the reality in which he or she lives. The individual reaches outwards and projects forwards. He is a social entity realized in a world of values that do not only originate within him.

In the light of this broader vision, *homo oeconomicus* appears as a rational construct, fruitful for fashioning and developing a branch of theoretical economics but of only limited usefulness for analyzing even purely economic realities, much less for comprehending a more complex reality.

The rights of the person are recognized as having an absolute, transcendent nature, by virtue of which the good that derives from life in society is not merely material, but extends to intellectual, moral and spiritual values.

The economic structure remains of decisive importance in the concrete historical manifestations of organized civil society. Nonetheless, Arrow's fundamental theorem, just now invoked — the impossibility of constructing a social utility function by maximizing individuals' utilities — reminds us again that it is necessary to place oneself outside of and above a vision that reduces human persons to mere *homines oeconomici*.

Some contemporary approaches stress the historical nature of the person. Natural law is viewed as a correlate of the organization of society, which is not absolute but relative to its time; or as the translation in terms of duties of a system of values which is likewise tied to specific phases of the historical process. If this

holds for some of the many moral and civic duties that emerge in any time out of the constellation of historically determined principles, it becomes less valid as one gradually approaches matters that bear more closely on the immutable nature of man.

Our Constitution does not explicitly embrace the natural law vision, but it does undeniably contain a kernel of that philosophy in positing the precedence of the person with respect to the State.

The conception of the State as the universal, absolute source of law falls away. The historical period following the failure and collapse of the ethical State was especially propitious for the reaffirmation of this principle.

Its significance on the plane of international and supranational relations is immense, thanks to the rediscovery of a *ius gentium*, of founding values such as the right to life and to cultural, religious and economic freedom.

In our system of law the principle is embodied in the fundamental rights of the person.

That conception is a common denominator deriving at once from socialist and Marxist culture, with the link it posits between individual and social rights and the principle of popular sovereignty; from liberal culture, with its stress on the primacy of the individual; and from Catholic culture, with its personalistic conception.

In the Constituent Assembly the discussion extended beyond the inviolable rights and liberties of the individual to social rights and the rights of intermediate communities.

In establishing the precedence of the person with respect to the State, the Constitution enshrined not only the inviolable rights and primary value of human dignity but also the principle of social solidarity.



What the Catholic conception held to be natural rights and socialist culture called social rights were seen as the self-same value representing supreme rights, as a binding rule for lawmakers themselves.

The person exists before the citizen, a concept tied to the democratic principle. In the words of Aldo Moro, "The State truly ensures its democratic quality by basing its laws on the respect of man, seen in the multiplicity of his expressions; man who is not only a single being, not only an individual, but who is society in its diverse forms, society that is not exhausted in the State."

From this vision it also follows that sovereignty belongs to the people and is exercised in the manner and within the limits established by the Constitution.

A merely individualistic approach is rejected. The inviolable rights of the person are made the basis of a pluralistic, democratic system; they are not limited to individual liberties, but also include the rights serving for the social development of the person.

Protection of the person is closely related to the more general protection of collective self-determination and democracy. The State protects democratic society to the extent that it ensures the full development of the human person and his inalienable rights.

### **3. Democracy and the right to work**

The right to work is one of the fundamental human rights.

Labour, one's contribution to the creation of the wealth, both material and immaterial, of the society to which persons belong, is an integral part of their dignity.

The impossibility of contributing to this wealth wounds the dignity of individuals and their families.

If the people is sovereign, if every citizen must participate in determining the views of the body politic, lack of work makes it impossible to feel oneself to be part of the community; among the young it may result in distrust of the institutions. In extreme cases it may lead young people into forms of civil and moral degradation and opposition to the society itself.

The first article of the Italian Constitution solemnly lays down that the Republic is founded on labour.

In fact many of the constitutions drawn up in the second half of this century, in the wake of the Second World War, reveal a change in the concept of individual freedom and the person — no longer man in isolation but man as a social being. In these constitutions work is seen as the necessary means for self-realization.

In the words of Piero Calamandrei: “True democracy is only possible where every citizen can develop his personality without obstacles; ... it is not sufficient to grant him political freedom in theory but necessary to put him in a position to use it in practice”.

At the end of the last century Pope Leo XIII, with *Rerum Novarum*, had called for society and the State to assume responsibility for moving on the way of just reforms, able to restore to work its dignity as a free activity of mankind.

John Paul II, in *Centesimus annus*, says that “.. work is a part of the vocation of every person; indeed, man expresses and realizes himself in his work activity”.

In his Peace Day address in 1999 the Pope included the right to work, as the way of participating fully in the life of society, among man's natural rights.

The Italian Constitution forcefully lays down the principles of social equality and solidarity with explicit reference to the duties to which the social dimension is related. Work is not only a right but also a duty.

Economic analysis helps us to better understand the rational nature of this vision from a strictly material standpoint as well. Anyone who enters the productive sphere of society engenders a benefit for others; with his income he creates additional demand for the goods and services they produce, thereby enhancing their activity; at the same time with his work he increases the amount of goods and services available to society.

The problem of the right to work is not its recognition, which no one disputes in principle, but its implementation in practice.

The problem shifts to the operation of the economy.

The implementation of the right to work is the necessary condition for translating into reality the humanist concept that the economy is at the service of man and not the other way around.

#### **4. Work in the age of globalization**

The cornerstone of political economy is that the wealth of nations rests on men's ability and will to build, to create that wealth.

An erroneous interpretation, a sort of short circuit of the right to work, consists in the corollary that it must be the State, through its organization and powers, to offer work and employment directly to the jobless.

This concept was embodied in the centrally planned economies, which are now in ruinous and definitive crisis. The error consists in providing work that may not produce wealth or produce an amount of it that is not equivalent to the compensation paid.

Work must spring, for the part provided directly by the State, from a scale of public activity that is appropriate with respect to the needs of the world of production and society, the quality of the services supplied and the burden imposed on taxpayers.

The error may also insinuate itself when the State provides work and employment directly by means of productive activities that, in mixed economies, it controls as a result of historical circumstances or the necessity of rationally satisfying public needs.

In this case, the line of demarcation is less clear.

It is true that the social productivity of public investment is normally very high, in view of the external economies it brings; it is equally true that the production of some goods of strategic and social importance, albeit not necessarily of a public nature, is only practical through the intervention of the State.

However, in this situation the control of the market is lacking, with repercussions on efficiency. It is essential to consider whether or not there is full employment in the economy. In the former case, what the State produces comes at the expense of other productive activity; it is necessary to make sure that what the State supplies or produces is actually of greater value. If there is not full employment, public intervention increases the supply of goods and services available to the community.

The mistakes in this field can be traced back to an improper application of Keynesian theory. This theory has dominated economic analysis for most of this

century. As originally formulated it is correct and has contributed enormously to the development of the industrial countries. The growing intervention of the State in the economy was initially beneficial; when the conditions for it to be effective and efficient no longer existed, it gave rise to distortions in the allocation of resources, with adverse effects on the creation of wealth.

In the last ten or fifteen years the crucial, overwhelming phenomenon, pregnant with consequences that are not only economic but also cultural and social, has been globalization.

This is the ultimate result of the development of communications and of the plummeting of the related costs; in particular, it is the result of the information technology revolution.

Compared with a few decades ago every economy is now much more open to foreign trade. This is true not only of the developed countries, which have high living standards and correspondingly high labour costs, but also of the emerging countries, where living standards are lower and labour costs just a fraction of those in the richer countries.

The ease of communication has also resulted in production technologies typical of our more advanced economies becoming available to the poorer countries. This has led to a propensity for business to locate in these new areas, where the increase in production tends to be concentrated and from where it is exported at competitive prices to the affluent, developed world.

To an even greater extent, globalization has affected currencies and financial instruments. It has a powerful impact on migration, on the movement of those who abandon socially and economically poorer systems in search of better living conditions for themselves and their families.

Economic activity and employment have been powerfully affected by this new environment. Traditional industries in the advanced countries are no longer competitive, as it is less expensive to import many low and intermediate-technology consumer products from the emerging economies than to produce them domestically.

Competition is especially fierce in stages of the production process that require low skill levels. An increasing number of such processes for goods produced for export or the domestic market are being performed by businesses controlled by Italian firms but located in countries with very low labour costs, low tax and contribution burdens and streamlined bureaucratic and administrative regulations. Italian industrial and services firms are also hiring more immigrant workers, who are willing to perform unskilled work for low wages.

Since the technologies are also readily available to emerging countries, often introduced by firms from the advanced economies, international competition will also become more intense for more advanced industrial products.

In finance and asset management, the ability to move funds rapidly and the access that investors have to every country will tend to concentrate financial resources where yields are highest with a reasonable degree of safety. Massive fund movements are already the norm, as financial, credit and currency markets have become thoroughly global.

These developments necessitate a rethinking of economic, financial and labour policies.

In the Italian economy, the share of employment and income produced by the services sector is growing. In the most advanced economies, services account for 70 per cent of GDP. Achieving efficiency in this sector often requires advanced technologies and high skill levels.

Competition is also intensifying in medium and high-technology industries. At the same time, the considerable openness of economies to international trade increases cyclical variability and the frequency of structural changes in productive processes.

It is necessary to shift to products with higher value added. The organization of production and the flexibility of forms of labour supply must be sufficient to cope with the new situation.

Overall, the revolution of globalization will bring net benefits to the world economy and to the countries that are best equipped to exploit it. However, it is also a cause of crises — already evident in some sectors of the Italian and many other European economies — that require structural adjustments to avoid unacceptably high economic and social costs.

Such costs consist essentially in the exclusion of workers from the productive cycle and the difficulty young people have in entering the work force, especially in certain areas of the country where professional qualifications are lower and the economy is less developed.

The right to work and industrial relations must be recast in the light of the new reality.

A new incomes policy and more direct participation of workers in firms' economic results can be an essential instrument for relaunching economic growth.

There must be a sort of parallel movement of total wages along with the evolution of the economic situation of firms as determined by structural changes, cyclical fluctuations and variations in output.

Types of employment contract, working hours and earnings must be free to vary in relation to differentiated and fluid business situations. Otherwise, the level of employment will stabilize at the lowest level compatible with maintaining productive activity.

Corporate and public training and education policies must focus on raising skill levels. International competition is forcing us to turn to activities that demand a better qualified work force in both industry and services.

In the areas of Italy with the highest levels of youth unemployment, it is necessary to create the external conditions for increasing productivity through investment in infrastructure that expands the country's stock of public capital and to curb forms of social deviance that hinder the creation and operation of small and medium-sized enterprises.

Above all in these areas of low employment, labour costs must be reduced legally and transparently to reflect lower productivity in order, among other things, to limit the de facto adjustment constituted by illegal, unregistered work.

More than elsewhere, the public administration in these areas must be made to function better.

A more efficient and effective administration is an essential condition for the success of public action. The major legislative changes that have been introduced must also be implemented in practice. Specified deadlines for government bodies and departments to discharge their responsibilities for implementing the changes could spur an extraordinary effort to alter operating procedures in line with the new principles.



At the national level, greater investment is needed in applied research to increase productivity and help foster the professional skills that will enable Italy to compete with the most advanced countries.

## **5. Today's problems**

In the past, in Italy too, the objective of increasing employment was sometimes pursued by improper means.

This has resulted in inflationary crises, rising public debt, and inefficiencies that have slowed economic development and above all, in recent years, reduced employment.

The Italian labour force participation rate for the adult population is one of the lowest in Europe or the industrial world; and this holds even when unregistered work is included. A large segment of the population is discouraged from participating in the labour market by poor or nil expectations of finding work.

Together with the high percentage of underground employment, this indicates a poor correspondence of labour supply conditions with the return on productive activity.

Legislation and institutions must create conditions that raise the participation rate in order to alleviate the drama of long-term and youth unemployment.

Some steps in the right direction have been taken. Awareness of the problem is keen. At the political, public and cultural level, a lively discussion is under way on the appropriate means for more fully achieving these objectives.

Decisive steps will have to be taken — particularly in the direction of flexibility in all of its various aspects.

In other economic systems, this has produced highly positive results; to the limited degree in which it has been applied in Italy, it appears to have worked quite well.

The large size of the government budget, which translates into high taxes and social contributions, weighs heavily on labour costs and competitiveness.

In addition to the right to work, the Italian Constitution provides for generalized forms of welfare assistance and social security. The social interest requires a public financial commitment in this sphere.

Schemes that can expand the private, funded component of the nation's retirement provisions are already in operation. The pension system must continue to hinge on the public pay-as-you-go scheme, which expresses, in addition to social solidarity, a fundamental concept of equity between the economically active and the retired generations. Those who are working now operate on a capital base consisting of the experience and accumulated knowledge of past generations; it is therefore only just that a part of the fruits of this labour should benefit the elderly who no longer work.

The demographic crisis and the aging of the population, the slowdown in growth, the reduction in the number of the employed, and the increase in irregular work make it necessary to reform the social security system in order to guarantee benefits for future retirees.

In the medium term, reducing social security system outlays in proportion to national income is a necessary condition for easing the fiscal burden that weighs down the economy and also making room for increased public investment and the improvement of infrastructure.

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The development of the Italian economy in recent decades and the evolution of international economic relations imply new bases, with respect to the fifties and sixties, for the realization of the conditions that can make the right to work effective.

Openness to foreign trade, internal growth and the expansion of financial intermediation and markets give the forces of competition an essential role in the selection and in the development of productive activities, which are the source from which employment and the creation of new wealth spring.

Italy's competitive weakness manifests itself particularly in insufficient productive investment, exposing the economy to the risk of a predominance in some sectors of foreign capital and firms. Foreign competition must be viewed favourably, but there must also be a corresponding high-level presence of Italian companies and financial intermediaries, with good operating capacity, in the developed markets of Europe and the world.

The response of the corporate system must be consistent with a willingness to work governed by criteria of increased flexibility and a closer correlation between wages and output.

The new opportunities must be seized; productive and organizational choices must be adapted to an economic framework in which competition has become intense, cyclical oscillations have widened, and structural mutations have become more frequent.

Italy has considerable resources for reactivating sustained economic growth. We must strengthen and consolidate productive activity in the more developed

regions and cut unemployment in the Southern regions where the demand by young people for productive, lawful and vital work is greatest.

The intensification of competition at the national and international levels also amplifies income disparities between the more advanced and the less competitive regions.

Institutional reform providing for greater decentralization, along federalist lines, would place Italy in a better position with regard to the principle of subsidiarity while subjecting a significant element of public expenditure and the tax burden to the decisions and controls of local communities.

An underlying thread of solidarity between the more and the less affluent regions should be preserved. Progress for the South can also be beneficial for the more advanced regions and represents an opportunity for the entire Italian economy.

Against the changed economic background the creation of conditions for higher levels of employment is primarily the responsibility of the social partners.

The body politic must overcome legitimate differences of opinion and address the issue of higher employment as a priority objective for the nation, in deference to a constitutional principle that forms the very basis of our national order.

The attainment of this objective depends on the sharing of practical economic policy aims that can endow the system with greater flexibility and international competitiveness.

It will be necessary in the medium term to reform the arrangements governing public expenditure and to reduce the tax burden, as well as to take appropriate measures to safeguard market rules.

A free market system governed by well-defined regulations and a wider measure of participation by all — particularly the young — in the creation of wealth are the prerequisites for a more mature and stable democracy. Democracy is both closely linked and complementary to participation in community life: each enhances initiative and individual creativity, and together they form the foundation for lasting social harmony, which in turn fosters progress.

The rights of the individual are paramount; they are more important than the status of citizen. Tragic events such as the war that has returned to neighbouring lands and people at the close of the century remind us that peace, the supreme good, is never definitively acquired. We are again confronted by the spectre of racial hatred, the most elementary sentiments of human compassion are missing, and the most basic rights to life, physical integrity and personal dignity are being violated.

Our constitution and pure reason demand of the political class that it continue its efforts, embodied in decisions already made, to halt the use of arms through United Nations intervention, to bring the two wars to an end, to stop the massacre and deportation of defenceless peoples, to discover and bring about the conditions of a just peace.

The town of Cassino experienced the drama and horror of war in relatively recent times and many of us still recall the terrible destruction, the loss of historical monuments and archives, the evacuations, the wounded and the dead. Just as the great abbey on the summit of the Mount has throughout its fifteen centuries always re-emerged from destruction, this town has risen to flourish again, thanks to the dedication of its inhabitants and the support of the whole nation. This youthful and vital institute of learning bears witness to the town's new life.

May this example from history inspire our authorities and ourselves to pursue just and harmonious relations between peoples and states and at the same time to keep a constant eye on economic and social conditions within our own national community.

The Founding Fathers of our Republic had this in mind when they consigned the Constitution to future generations: we must always respect the basic principles and the rights and duties of citizens solemnly set out therein.

We must realize those principles and precepts in our society, through the conscientious efforts of the social partners and economic policies in harmony with today's international context.