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## **THE NECESSITY TO FIND A NEW CODE FOR THE DISTRIBUTION OF THE WEALTH OF NATIONS<sup>1</sup>**

Well aware of the fact that the exchange value of labour on the market is dependent on whether this labour is considered to be productive or unproductive, John Stuart Mill worried about the fact that among the existing currents in Economics there was a great disparity of notions regarding the concepts of productive and unproductive work. His critical analysis of the various interpretations lead to the definition of his own concept: “The end to which all labour and all expenditure are directed, is twofold. Sometimes it is enjoyment immediately; the fulfilment of those desires, the gratification of which is wished for on its own account. Whenever labour or expense is not incurred immediately for the sake of enjoyment, and is yet not absolutely wasted, it must be incurred for the purpose of enjoyment indirectly or mediately; by either repairing and perpetuating, or adding, to the permanent sources of enjoyment.

Sources of enjoyment may be accumulated and stored up; enjoyment itself cannot. The wealth of a country consists of the sum total of the permanent sources of enjoyment, whether material or immaterial, contained in it: and labour or expenditure which tends to augment or to keep up these permanent sources, should, we conceive, be termed productive.

Labour which is employed for the purpose of directly affording enjoyment... we term unproductive labour”.

On this basis, Mill considers the following to be productive forms of work:

“Labour and expenditure, of which the direct object or effect is the creation of some material product useful or agreeable to mankind.

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<sup>1</sup> This paper is an updated version of the contribution written for the Festschrift for Professor João Ferreira do Amaral of Lisbon Technical University.

Labour and expenditure, of which the direct effect and object are, to endow human or other animated beings with faculties or qualities useful or agreeable to mankind, and possessing exchangeable value.

Labour and expenditure, which without having for their direct object the creation of any useful material product or bodily or mental faculty or quality, yet tend indirectly to promote one or other of those ends, and are exerted or incurred solely for that purpose”<sup>2</sup>.

The purpose of Mill’s essay is to arrive at an explanation of concepts, but the statement he makes at the beginning of his essay is as valid today as it was in his time: “It would probably be difficult to point out any two words, respecting the proper use of which political economists have been more divided, than they have been concerning the two words productive and unproductive; whether considered as applied to labour, ...”<sup>3</sup>. Nutzinger comments this as follows: “What has changed today as compared with the time when the essay was written is probably merely the attitude taken by most of the national economists who, in view of the vagueness and lack of clarity of this concept, are defending that it would be preferable to renounce the use of this term altogether, the more so as it also produces normative connotations that are scientifically not desirable”<sup>4</sup>. Independently of the various notions of productive and unproductive, an activity must be considered productive work “if the services could, in principle, be rendered by third parties against payment – which is to say, basically, if they are marketable”<sup>5</sup>.

All work considered to be productive must be included in the professional activities and must, therefore, be remunerable.

The changes brought about by the accelerated technological progress have induced the idea that Mankind is on their way to free themselves from the biblical anathema “with sweat on your brow shall you eat your bread” (Genesis 3,19), where the “sudar” as used by St. Hieronymous and Martin Luther’s “Schweiss” are mere interpretations of biblical tradition, since in our days it is the machine that spares us the sweating.

Sweat is not an essential consequence of work. According to the Bible, man was placed in Paradise to cultivate it (Genesis 3,15), which means to work, to

<sup>2</sup> J.S. Mill: *On the Words Productive and Unproductive*. Essay III, In: *Essays on Some Unsettled Questions of Political Economy*. Vol. 4, Collected Works in 33 vols., Ed. By J.M. Robson, University of Toronto Press, Toronto, Routledge and Kegan Paul, London 1963-1991, pp. 280-290.

<sup>3</sup> Ibidem.

<sup>4</sup> *J.St.Mill, Einige ungelöste Probleme der politischen Ökonomie*. Ed. H. Nutzinger: Metropolis Verlag, Marburg 2008, p. 104.

<sup>5</sup> O. Hawrylyshyn: *Towards a Definition of Non-market Activities*. “Review of Income and Wealth” 1977, 23.

carry out an activity which, as Thomas Aquinas wrote in his *Summa Theologica* “fuisset iucunda, proper experientiam virtutis naturae” (“would have been pleasant on account of [man’s] practical knowledge of the powers of nature”)<sup>6</sup>.

Hanna Arendt gives an interpretation of this question in “The Human Condition”, where she confronts opinions held by various cultures and religions, also quoting opinions which come close to Thomas Aquinas<sup>7</sup>. Or, in the words of Sedláček “Work belongs to man as a means for enlarging his expression and self-realization”<sup>8</sup>.

Today, however, the idea that technological progress and the increase in productivity destroy old jobs, while at the same time creating the same number of new ones is outdated. Reality proves that the increase in productivity has not necessarily led to an increase in demand on the part of the consumers or to a greater number of working places. On the contrary, it has led to a reduction of working places and a decrease in purchasing power. The increase of productivity causes a decline in job offers, as is demonstrated by Rifkin in “The Third Industrial Revolution”<sup>9</sup>. Nevertheless, social hopes are still in our days pretending to attain a state of full employment – an illusion that must be called in question. The formal economy, which is to say remunerated labour, even though maintaining its importance in the economy, has been losing its importance as a consequence of unemployment, while taking the informal economy into account has become more and more indispensable. Successfully overcoming the concentration on the formal economy will only be achieved, when the mutual dependence – complementary activities – between formal economy and informal economy is taken into consideration. This implies the recognition that work in the informal economy is productive work and, as such, is a profession and, hence, a source of monetary income.

At present, a number of ideas are being discussed on how it may be possible to resolve the present situation on the labour market by way of taking into account forms of employment which are not positively included in the classical concept of remunerated labour (in the “formal sector”) and other activities in the “informal sector”. We are speaking of the necessity of a process which permits to resolve the present effects of unemployment, by establishing a new code for the distribution of wealth.

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<sup>6</sup> Aquinatis Thomas: *Summa Theologica*, Matriiti MCMLXI; Thomas Aquinas: *Summa Theologica*. Benzinger Brothers, New York etc. 1947, Q.102, Art. 3, pp. 79-96.

<sup>7</sup> H. Arendt: *The Human Condition*. University of Chicago Press, Chicago 1958, Chapter III, specially note 53.

<sup>8</sup> T. Sedláček: *Die Ökonomie von Gut und Böse*. Hanser Verlag, München 2012, p. 190.

<sup>9</sup> J. Rifkin: *The Third Industrial Revolution*. Palgrave Macmillan 2011, chapter 9.

It is not necessary to look for new workplaces within the formal economy, but rather to recognize already existing activities as productive – down to the storytellers in the streets of the Maghreb who by telling their stories are educating the new generation, thus, freeing the economy from the useless search for a full employment limited to the formal economy. The increase of activities in the informal economy is expected to compensate for income losses due to the lack of remunerated labour, reduce the expenses of the social security systems, as well as strengthen social<sup>10</sup> cohesion and immunize democracy against disintegration phenomena. Oppolzer<sup>11</sup> considers this as an ethics of balance, as people seeking to combine formal financially remunerated labour and informal private lives.

Even in our days remunerated work is still considered to be a necessary prerequisite for personal and social recognitions, ensuring an income without which an individual's participation in social life would not be possible, through its close connection with social policy guaranteeing social security<sup>12</sup>.

There is, however, no consensus with respect to the distinction of activities that are not remunerated work; this is something that makes it difficult to define the informal economy, not only as far as its contents is concerned, but even with respect to its denomination: shadow economy, informal economy, third sector, etc.<sup>13</sup>.

The theoretical perspectives themselves vary as far as the informal economy is concerned. Dual-economic theories represent the relations between the formal institutions – market and State – and the informal institutions, and examine the change of the industrial societies that has led to the separation of formal and informal economies, these theories not being substantially different from approaches in the area of development theories. Shadow economy models normally examine merely illegal activities – clandestine labour and illicit employment – but there are also authors who, apart from that, deal with the legal activities of self-provisioning in the private households<sup>14</sup>.

<sup>10</sup> M. Erlinghagen: *Informelle Arbeit – Ein Überblick über einen schillernden Begriff*, Schmollers Jahrbuch 120, 2000 and the sources quoted therein: O. Giarini, P.M. Liedtke: *Wie wir arbeiten werden*. Hamburg 1998.

<sup>11</sup> A. Oppolzer: *Wertewandel der Arbeitsmoral und neue Managementstrategien*. In: *Kapitalismus am Ende des 20. Jahrhunderts*. Ed. J. Klages, P. Strutynski. VSA-Verlag, Hamburg 1997, p. 101.

<sup>12</sup> V. Teichert: *Die informelle Ökonomie als Bestandteil der formellen Erwerbswirtschaft*. Wissenschaftszentrum Berlin für Sozialforschung (WZB), Institut für interdisziplinäre Forschung, Heidelberg 1998: Here summary.

<sup>13</sup> Cf. for example: Cassel, Caspers: *Was ist Schattenwirtschaft*, WiSt 13, 1984; Effinger: *Informeller Sektor*. In: Bauer R.: *Lexikon des Sozial- und Gesundheitswesens*. München/Wien 1992.

<sup>14</sup> Representative authors in this area are: (a) With respect to the dual approach: K. Hart: *Informal Income Opportunities and Urban Employment in Ghana*. In: "Journal of Modern African Stud-

But in spite of their differences, the various concepts taken together allow us to form a specific notion of work in the informal sector as productive labour:

- work in the informal sector is strictly oriented by its practical value and is not carried out with the expectation of receiving a trade-off, and certainly not with the expectation of receiving money payment;
- work in the informal sector is not registered by the public, or rather, by the para-fiscal social security systems;
- work in the informal sector is basically self-determined and executed outside of labour relations that are determined by work contracts.

But in reality, the activities carried out in the informal economy as well as in the formal economy are so greatly differentiated that it is not necessarily adequate to use one generic term for their definition. It would be more appropriate not to consider a formal economy and an informal economy, but rather a great variety of activities with different degrees of formalization. For this purpose, a number of formalization criteria could be used<sup>15</sup>. The most basic may be the fact of a specific work being subject to tax liability or not; but several others would be whether it is contained in national accounting, social security, subject to a contract liable to compulsory measures and to a definition in terms of management science.

Gretschman is of the opinion that merely based upon the form of a work relationship it is not possible to say anything about its potential to contribute to the solution of social problems: “The discussion about the shadow economy is characterized by an almost strange vacuum as far as the analysis of its effects is concerned”<sup>16</sup>.

It must be taken into account that informal labour needs the material exchange with third parties, that personal resources are necessary in exactly the same way as in a participation in remunerated labour, and in this measure having an occupation in the informal economy is as little open to anyone as the access to “official” work places<sup>17</sup>.

The reorganization of labour in combination with the information technologies have led to a streamlining of the working process which has in turn caused

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ies” Vol. 11, pp. 61-89; R. Pahl: *Employment, Work and Domestic Division of Labour*. In: “International Journal of Urban and Regional Research” Vol. 4, pp. 1-20. (b) The development political view is found essentially in J. Rifkin: *The End of Work*, Putnam. New York 1995: it is, however, recommended to use the new up-dated edition published in 2004; A. Toffler: *Die Zukunftschance*. Bertelsmann, Munique 1980. (c) As regards models of the shadow economy, cf. S. Smith: *Britain's Shadow Economy*. Clarendon Press, Oxford 1986; J. Gershuny: *The Informal Economy*. In: *Futures, first issue*, pp. 3-15.

<sup>15</sup> M. Erlinghagen: Op. cit., p. 244.

<sup>16</sup> Ibidem, p. 245 ff.

<sup>17</sup> Gretschman, in: M. Erlinghagen: Op. cit., p. 266.

a reduction of manpower and the corresponding decrease of the volume of remunerated work. At the same time, however, a number of countries experience a growth of “overtime hours”, which implies an unequal distribution of remunerated labour, with an increasing number of people who oscillate between full-time and part-time employment, non-remunerated work and unemployment, where the latter existing merely by the existence of payments by transfer<sup>18</sup>. As an example of progress, Teichert presents the labour politics as practiced in Denmark which, instead of subsidizing unemployment, supports non-remunerated activities, which is to say the informal economy, placing it in the same category as money-making business, which means that “work ideology is weakened in favour of the redistribution of work...”.

Discontinuous work processes and mass unemployment are, in turn affecting the social security system; for due to the interconnection of remunerated work and the payment of social benefits, either the persons who are still in the working process will have to contribute successively more money to the social security systems or the payments that are at the same time being made for unemployment benefits, social support, rents/pensions and the like will have to be diminished in accordance<sup>19</sup>.

It is obvious that in so far as people are becoming inevitably aware of the necessity to valorize the informal economy, it becomes necessary to provide for financial support, on pain of informal work being merely seen as a way of surviving when the worker does not find an occupation in the formal economy<sup>20</sup>. In the discussion of financial support, various models have been suggested<sup>21</sup>. One of them is the model of a necessity-orientated minimum security<sup>22</sup> which defends a necessity-dependent gradation of the social security payments at the level of the subsistence minimum in cases where the social security claims are too low.

Less research has been dedicated to the concept of the negative income tax, which occurs when the taxpayer’s income is too low for him or her to pay taxes, resulting in their receiving negative taxes instead, which is to say they receive transfer payments from the State. Under this aspect, multiple varieties of financing

<sup>18</sup> V. Teichert: Op. cit., pp. 105-106. We are here approaching the opinion as defended by Teichert who, in this source, within the framework of the Transversal Group Work and Ecology of the WZB, deals with this subject in detail.

<sup>19</sup> Ibidem, p. 107.

<sup>20</sup> R. Pahl: *Employment, Work and Domestic Division of Labour*. “International Journal of Urban and Regional Research” 1980, Vol. 4.

<sup>21</sup> V. Teichert: Op. cit., pp. 109-111.

<sup>22</sup> Cf. B. Kaltenborn: *Von der Sozialhilfe zu einer zukunftsfähigen Grundsicherung*. 2. ed., Baden-Baden, Nomos, C. Leipert, M. Opielka: *Erziehungsgehalt 2000*. Freiburg, Deutscher Arbeitskreis für Familienhilfe 1998.

systems specific to certain phases in life are being proposed.<sup>23</sup> Following this train of thought – although not necessarily specific to certain phases in life – it may be considered, for example, to financially support activities that serve to economize costs: given the very high costs the State has to pay in the health sector, if an individual reduces these costs by doing something that promotes his health, such as swimming, he/she should be given some financial help instead of having to pay entry tickets. Another variety would be a salary for education as a pecuniary acknowledgment of services delivered when educating children<sup>24</sup> which, among other effects, makes it possible to overcome the existing division between the professional world pertaining to men and the family and household world pertaining to women. This field that has been absurdly underestimated. It is evident that the education of children equals the education of future generations, and that their “training” should, therefore, in accordance with such a great responsibility correspond to an adequate monetary remuneration. Here we have a blatant example of the necessity to find a new code for the distribution of the wealth of nations.

## Conclusion

The effects of the evolution of technology, in particular of computer technology, have led to results which reveal themselves to be contradictory in so far as it is not possible to resolve them with any syntheses that result in positive aspects. As far as unemployment is concerned, the core of the problem is that by losing employment as a criterion for the distribution of wealth, one loses one of the codes that up to our times has been used for exactly that distribution. The search for another code which allows a politics of distribution of wealth will have to be pursued on the basis of an entirely different logic from the one that has been used until now. A new logic to take into consideration the full reality of the labour world, including as professions to be remunerated not only “formal”, but also “informal” labour, thus resolving the problem of the negative effect of unemployment caused by the present technological development.

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<sup>23</sup> Opielka, 1999, quoted in: V. Teichert: *Op. cit.*, p. 109.

<sup>24</sup> C. Leipert, M. Opielka: *Op. cit.*

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## THE NECESSITY TO FIND A NEW CODE FOR THE DISTRIBUTION OF THE WEALTH OF NATIONS

### Summary

The technological development, particularly the development of information technology, brings about economic transformations in the organization of work. Neither the present orthodox concept of work nor the definition of the various professions are able to accompany the modern technological and organizational evolution which determines the conditions of employment. The systemic character of desemloyment causes the present criterion for the distribution of the produced wealth to become meaningless. It will, therefore, have to be replaced by a new one which allows a distribution of wealth that is more in conformity with the real labor activity.

Keywords: wealth of nations, the effects of the evolution of technology