



Research Papers

The Social Division of Labor and Personal Realization

Javier Aranzadi

ISSN 2421-5708

MCE Research Papers
Markets, Culture and Ethics Research Centre
Pontifical University of the Holy Cross
Via dei Pianellari, 41
00186 Rome
mce.pub@pusc.it
www.mceproject.org

The Social Division of Labor and Personal Realization[°]

Javier Aranzadi^{*}

Abstract: This article discusses the close link between the objective and subjective aspects of work. The objective aspect shows the importance of the modern market economy and the division of labor as a social mechanism of providing for needs. The second, subjective aspect involves personal realization in work, the development of individual creativity within firms. So there is a tension in work: in its first aspect, as a social institution, society takes precedence over the individual; there is tendency to depersonalization. But in the second, subjective aspect, personal development comes before society, diversity before homogeneity.

Summary: Introduction: Objective and Subjective Aspects of Work – The Division of Labor as an Institution: The Market – The Social Responsibility of Firms – Conclusion: Towards a Humanistic Approach of the Market and the Firm.

1. INTRODUCTION: OBJECTIVE AND SUBJECTIVE ASPECTS OF WORK

We hear more and more about personal development at work, about the importance of individuals in organizations and how to integrate them in a profitable business enterprise. This involves two aspects of a single reality: first, each individual realizes herself at work. Personal transformation of her environment transforms herself as an individual and social being. Personal satisfaction is sought in the sphere of personal aspirations. Meanwhile, work has to be profitable, i.e. it has to generate a social

[°] A version of this work was presented during the conference *Personal Flourishing in Organizations*, Pontifical University of the Holy Cross, 24-25 February 2014. www.pusc.it

Suggested citation: Aranzadi, Javier. "The Social Division of Labor and Personal Realization". *MCE Research Papers* 1(2), 2015.

^{*} Associated Professor of Economics. Autónoma Universidad, Madrid. javier.aranzadi@uam.es

return. It is carried out within a social organization. Thus unproductive work does not increase the possibilities of the instrumental plexus constituted by economics. So we have two elements (1) the subjective aspect involving individuals exercising their occupation, and (2) the objective aspect involving the sphere of means or instruments of labor.¹

These two dimensions that can be distinguished in work have a problematic relationship. There is a tension between personal liberty and creativity, and the homogenization entailed by competition and the division of labor. Aristotle recognized this. In *Politics* he distinguishes two activities: household management and wealth-getting (Aristotle, *Politics*, I, 1256a-1258a). The former is carried out within the family and serves to provide for needs. In this activity the value of use predominates and its end – the satisfaction of needs, defines it. This corresponds to the subjective dimension of work. Wealth-getting, on the other hand, is the art of acquiring goods by exchange. The value of exchange predominates, and its relationship with household management is conflictive. In his example of the use of a shoe Aristotle distinguishes two possibilities. The primary purpose of a shoe is its use. But it can also be exchanged for other goods. Thus a shoe has utility value as footwear and exchange value in barter. Aristotle says that if an individual who exchanges it seeks to meet his needs, this is household management and is good and proper. But if, on the other hand, it is sold for profit, the end is money and the exchange is unrelated to household management. Wealth-getting – the objective aspect of work where maximum profit is sought through trade – comes into play. Aristotle's approach shows the tension at issue: while the division of labor serves personal development it is driven by the satisfaction of needs. But if the maximization of profit predominates, the social organization of work is dislocated from its human framework and becomes a pointless activity. Making money becomes an end in itself. But, as Aristotle points out with the example of the shoe, exchange increases the possibilities of satisfaction. So wherever there is a growing population,

¹ See the encyclical *Laborem Exercens* for the difference between objective and subjective aspects of work.

the division of labor is established. That is, the objective aspect of work *per se* – the social division of labor – enables and promotes human development; but, secondly, this social organization runs the risk of becoming detached from its human framework: the person. Keeping this situation in mind we will consider two points: (1) the social importance of markets. We will show in the next section how the division of labor normalizes individual behavior and acquires an institutional role. (2) The social importance of firms. We will see that in this approach firms are not reduced to generate as much profits as possible. That is a necessary, but not enough. As a social institution firms upholds personal fulfillment at work.

2. THE DIVISION OF LABOR AS AN INSTITUTION: THE MARKET

As D. North (1991) says: “Institutions are the humanly devised constraints that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions, and codes of conduct) and formal rules (constitutions, laws, property rights)” (1991, p. 97). We can consider the attitudes, knowledge, values, language, technology, food and the educational norms as cultural elements. What is the common element in all of these? We could consider that the common characteristic is the transformation of nature. This approach seems to be too limited, since: what is the transformation of the means that is implied in language and dress? Of course, there are cultural elements whose declared objective is the transformation of the means as in the case of technology. But it is not the radical elements that unify culture. The search for what qualifies diverse vital forms, like culture, leads us to wonder about what fundamental things give unity to a life style. So any institution realizes three functions²: (1) Satisfy needs. (2) Coordinate the behavior of individuals. (3) Provide norms of conduct and values shared by individuals.

In this approach, institutions constitute an integrated system where the expectations of the roles are rule-governed. This rule must be interpreted as a reciprocal stabilization of conduct. With this conception of expectations, one can explain the

² On this point see Aranzadi (2011).

origin of the division of labor, which is the basis of economic progress. The division of labor is an expectation of the role. It is a particular case of great importance in the process of institutionalization. The division of labor is a role insofar as it enables people to specialize in a task (shoe-making in the Aristotelian example), and to expect the exchange of the goods produced by each person. This possibility of exchange is what the market economy is based on. This typification of the expectation in the exchange is based on the fact that the division of labor has become rule-governed, it has become institutionalized. Every person has his or her roles defined by the market. As Solomon (1992, p. 163) says 'buyer' and 'seller' are established roles within an organized system. This rule-governed dimension of social institutions is of maximum importance. The unity of meaning of the institutions enables them to be dynamic. The institution has not only made it possible to achieve the ends desired in the past, but it has to make it possible, in each present action, to achieve the ends that each person determines. This process of competition has no negative connotations because the social interrelations and the market exchanges tend to coordinate the expectations, provided that the person complies with the moral norms. Using the expression used in game theory, I can say that the interrelations and the market exchanges are positive sum. The expansion of the possibilities of action, of disposing of greater means is the consequence of the fact that competition is a positive sum game. As Argandoña says, echoing A. Pérez Lopez: "if we had to express the one and only objective of an institution, we would say that it is the future satisfaction of the people who make up the institution" (Argandoña, 2008, n. 21, p. 445).

Social institutions must meet three requirements in order to act as supports for individual action: (1) to furnish needs. (2) To establish behavioural norms. (3) To develop a formal structure, that is culturally transmitted. The market, as a social institution, functions provided that it fulfils these three requirements. The market has been developed in keeping with the rate at which it has renounced aggression against other people. As W. Röpke (1968) explains, the social form of struggle against scarcity can be organized in three ways. The first is the ethically negative one of

violence and fraud. The second is the ethically positively one of altruistic gifting, for which the means are provided without there being anything received in exchange. The third relation is based neither on egoism, in the sense that one's own well-being is favored to the detriment of a third party, nor on the altruistic gifting in the sense that one's own well-being is neglected to the benefit of others.

Rather, it is an ethically neutral relation, in which by virtue of contractual reciprocity, the aim of increasing one's well-being is pursued with the end of augmenting one's own well-being with the means for augmenting the other's.

Work reaches its full social development when it acquires an objective meaning. Each culture transmits duties through socializing institutions. The structure of these duties is not a mental model to be used *but a model to be realized*. This gives the impression that many norms are definitive summaries of solutions to problems. This is why the market is perceived as an imposition. But this doesn't happen only with the market. Any institution can be perceived as the burden of the past; as solutions to past problems that have lost their solving power. So the following problem arises: on one hand, institutions and culture are seen to show the preeminence of society over the individual; on the other hand, it is seen to be difficult for the individual to create and transform institutions. There are two schools in the study of institutions. The first regards society as superior to the individual. Society is seen to show the superiority of *human nature* over the individual. Society gains substance at the cost of eclipsing particular individuals. Individuals are fully interchangeable. All that is personal disappears under the superiority of *human nature*. The second school seeks to reduce institutions to the particular activity of individuals. Institutions are regarded as a product of human action. Both views contain some truth. The first school highlights the transcendent nature of institutions. No institution is created by a single individual and institutions outlive individuals. But this approach has a high price indeed: the individual disappears. Without individuals, how can the origin, continuance and transformation of institutions be explained? The second approach is needed if we are to explain institutions as key pieces of human action. The two tendencies cover various phenomena that we may represent in Figure (1).

OBJECTIVE ASPECTS OF WORK	SUBJECTIVE ASPECTS OF WORK
Satisfaction of needs	Need for realization
Society	The individual
Tendency toward mass production	Tendency toward innovation
Social division of labor	Personal realization in work
Homogenization	Variation
Personal Responsibility	Personal liberty

Figure 1. The driving force of the market

We need both approaches in order to understand the dynamism of human work. The first approach expresses the importance of the objective aspect of work based on consolidated market structures – structures that tend to perpetuate themselves. These are companies that have a market share and wish to keep it by offering a competitive product. Within the market process this first approach represents the tendency toward the homogenization of goods; toward competition through the cutting of costs. The second approach shows the difficulty of innovation in work; of launching and developing a new product, service, business organization, etc. The second approach represents the tendency toward innovation and the subjective aspect of work.

Let us introduce the concept of ‘market tolerance’ in order to analyze the tension between homogeneity and variation as they converge in market forces. To understand these two tendencies we will again consider the field of human action – the field where they manifest themselves. All individuals come up against given

economic relationships within which they have to exercise their activity. Here we see the market as an institution in its various facets: first, the market appears as something given, as a tradition in the negative sense. It is, whether we like it or not, the way past generations have normalized their behavior in order to satisfy their needs. It is plain to see that these are social relationships, i.e. that there is no need, no determinism compelling production to follow these criteria. What we have to overcome is the inertia of the system. New forms of organization occur to us that seem more rational and efficient. But, secondly, institutions and traditions are forms of access to reality handed down by past generations. Tradition is a handing down of ways of being in the world. The word *tradition* comes from *paradosis*, *traditio*, meaning 'handing down'. Just as physical characteristics are handed down genetically, the essence of humanity, our ways of being in the world, is handed down in tradition. The living world is built of bricks handed down by past generations. New buildings may be built but the materials are all passed on to us by social means.

This may expand and, in fact, market globalization is in fashion today. But the limit of market tolerance lies in the fact that it continues to be an institution; that gives people stability.³ The great entrepreneurial creators force the limits of the market introducing new products and new technologies, which expand the possibility of the instrumental plexus that constitutes the economy. But the constant change forces the assimilation of new information and little by little configures the information society. This dynamizing force, the core of the market, implies a disposition to change in the enterprise, in the city and in the activity. It is very significant that in the United States, the average number of jobs that a person has throughout her professional life is much greater than in Europe. In Europe, on the other hand, stability and homogenization predominate over creativity and change. But society needs stability in its institutions. There have to exist some minimal expectations in every institution so that they can provide people with a pattern of behavior. Nobody in her right mind would devote six years training for a profession that only had the

³ As A. Argandoña points out quoting J. Pérez López: "An organization is simply a set of possible coordinations of human actions, that is, a set of possible joint action programs, whose reality is manifested through successive application" (Argandoña, 2008, n. 16, p. 445).

possibility of surviving for three years. When she or he finished her or his training, she or he would already be obsolete! That is, in order to project her vital possibilities into the future, a person must have a fixed point from which to glance at his future. There is a need for stability in the division of labor so that people can develop their projects.

This tension between homogeneity and variation as they converge in market forces corresponds to the two views of human freedom. The first formulation refers to the conception of personal freedom as ‘freedom from’. In this view, the person is free from institutions to do what she or he likes. It represents the freedom of indifference. One may do this or that. In this view a person who chooses to be a thief is as free as one who chooses to undertake a great enterprise. This first view presents the freedom of indifference. To distinguish between such behaviors I have introduced the second view corresponding to the concept of personal responsibility to freedom as ‘freedom for’. This view presents the person as a generator of positive actions. It presents the person’s freedom in the search for excellence in action.⁴

3. THE SOCIAL RESPONSIBILITY OF FIRMS

In this view of the market the social importance of the firm is huge: *the firm’s social responsibility is to enhance the possibilities of persons*. The assertion that any person has the ability to create to a greater or lesser extent is not an exaggeration but quite the reverse. It highlights a current problem of great importance when firms need to innovate at high speed. It highlights the fact that in firms there is much wasted talent. Jack Welch, former president of *General Electric*, said:

⁴ On the distinction between personal liberty and personal responsibility in the work of St. Josemaría Escrivá for the social and political action see A. Rodríguez Luño (2007, ch. 3). The first formulation refers to the conception of freedom as “freedom from”. In this view, the person is free from institutions to do what she or he likes. It represents the freedom of indifference. One may do this or that. In this view a person who chooses to be a thief is as free as one who chooses to undertake a great enterprise. This first view presents the freedom of indifference. To distinguish between such behaviours I have introduced the second view corresponding to the concept of freedom as “freedom for”. This view presents the person as a generator of positive actions. It presents man’s freedom in the search for excellence in action. See S. Pinckaers (1985).

The talents of our people are greatly underestimated and their skills underutilized. Our biggest task is to fundamentally redefine our relationship with our employees. The objective is to build a place where people have the freedom to be creative, where they feel a real sense of accomplishment - a place that brings out the best in everyone.

(S. Ghoshal and C. Bartlett, 1997, p. 21)

In this respect the economists S. Ghoshal and C. A. Bartlett, echoing J. Welch, define the new social dimension of the firm:

Rather than accept the assumption of economists who regard the firm as just an economic entity and believe that its goal is to appropriate all possible value from its constituent parts, we take a wider view. Our thinking is based on the conviction that the firm, as one of the most significant institutions in modern society, should serve as a driving force of progress by creating new value for all of its constituent parts.

(S. Ghoshal and C. Bartlett, 1997, p. 27)

This is a view that implies an extension of economics. Firms occupy a central position as basic institutions in society. It is a dynamic view that shows the firm's importance as a behavior pattern in social relations in which the lead role is played by the person. The social institutions, in this case, firms, have their own dynamism, which depends on the opportunities that enable their members to exercise their creativity and capabilities. So following Moran and Ghoshal (1999) we can define the economic process as a value-creating process based in the following steps: (1) Universe of all possible resource combinations. (2) Perceived possibilities. (3) Productive possibilities. (4) Productive opportunities. And they affirm: "as many firms of different forms and sizes engage in this process, each broadens the scope of exchange in ways that allow it to focus on some fragmented bits of the knowledge that Hayek (1945) talked about" (Moran and Ghoshal, 1999, p. 405). Michael Porter (1996) acknowledged the need of the concept of value creation for effective firm strategy. And now is commonly recognized that for the dynamism of an economic system both value creation and value realization are needed (Teece et al. 1997).

Accordingly the social function of the firm consists in fostering its employees' creative capacity. Not as a form of social benefit or the like. In fact the firm's essential function is to enhance the real possibilities of its employees. The greater these possibilities, the greater the possibilities of monetary profit. There is a wider

range of possibilities to try out. Therefore we must not reduce the firm's function to that of making money and paying taxes. This is necessary, but not enough. As Ghoshal, Bartlett and Moran (1999) say what we need is: "a new corporate philosophy that explicitly sees companies as value-creating institutions of society" (Ghoshal, Bartlett and Moran, 1999, p. 19).

We may say that society is a process of creating possibilities for action that are realized in social institutions and transmitted culturally. In this dynamic view, society is a spontaneous process, i.e. it is based on the will of persons and is not the product of an arbitrary imposition by a centralizing and regulating body (Mises, 1996; Hayek, 1976, 1989).⁵ It is a process of human relationships structured in social institutions such as the family, law, language, the market, etc. And it is a process that transmits forms of access to reality from generation to generation. We may reformulate this premise and postulate the following: the more individual possibilities for action it generates, the more efficient an institutional and cultural framework will be. That is, we may venture a criterion of social coordination allowing us to define entrepreneurial efficiency as a social institution according to the possibilities for action that firms generate. I would like to suggest a criterion of qualitative efficiency based on the real possibilities of individuals. The Nobel Prize winner for Economics Amartya Sen (1999, 2002, 2009) spoke along the same lines:

Individual freedom is quintessentially a social product, and there is a two-way relation between (1) social arrangements to expand individual freedoms and (2) the use of individual freedoms not only to improve the respective lives but also to make the social arrangements more appropriate and effective.

(A. Sen, 1999, p. 49)

A. Sen's work is highly significant because it indicates the growing interest of orthodox academic economics in seeking theories to explain social reality without reducing it to a set of variables that may be manipulated mathematically as a matter

⁵ My account of liberalism is based in human action and institutional processes following Mises and the Austrian School of economics. On the differences within liberalism between the so-called scientific reductionism of the liberals of Chicago School (M. Friedman, G. Becker), and the humanistic approach of the Austrian School (Mises, Hayek) see Aranzadi (2006).

of maximizing utility. An attempt to account for the market by looking merely at what is produced will show us only statistical information on amounts of goods and services and prices. It will be vital information in ascertaining the state of the market, but it will not explain the process. In order to understand the generation of wealth we must focus on the motivations, wills, preferences and rules of individuals. On this point is not surprising that these three functions that an institution accomplishes fit well with the three levels that Melé (2003) enumerates for a humanistic approach to management development. For him the first approach is based on the satisfaction of needs. The second comes from focusing on organizational norms. He describes the third level as: “[is] centered on building up a community of persons embedded with an organizational culture which fosters character” (Melé, 2003, p. 82).

This approach allows us to counter a common criticism. It is often objected that the outcomes of an institution and culture are acceptable only from within the relevant institutional and cultural prerequisites. Thus, for example, the working of the market is accepted provided that we accept the validity of private property as an institutional prerequisite. If for moral reasons we reject private property, the outcome of the market is unacceptable and we must regard its supposed efficiency as fallacious, and above all unfair. Is this objection valid? With the dynamic and systematic criterion propounded above, it may be rejected, as institutional prerequisites are an essential part of personal action. Institutions and culture are not givens external to action, and therefore they are liable to appraisal. With the efficiency criterion institutions and cultures may be appraised according to the personal possibilities for action that they afford. The only fact that is irreducible, i.e. axiomatic, is action as the primary human reality (Mises, 1996). This primary reality is human action, which consists of the deliberate seeking of certain valuable ends with scarce means.⁶

⁶ P. Koslowski (1996, p. 53) states emphatically that the market allow not only freedom of consumption but also of action and production. For me the political aspect of virtue ethics is liberalism. But liberalism not based in mainstream economics *homo economicus*.

4. CONCLUSION: TOWARDS A HUMANISTIC APPROACH OF THE MARKET AND THE FIRM

Possibilities for action do not arise from a substance for acting on another reality. Possibilities are conditioned by the resources that the person has. That is to say, possibilities are not actual properties of humans. Possibilities are not just given to us, naturally. As Aristotle said: “we are neither called good nor bad, nor praised nor blamed, for the simple capacity of feeling the passions; again, we have the faculties by nature, but we are not made good or bad by nature” (Aristotle, NE, II 1106a7-9). The ethical viewpoint that I follow in this paper is that of the acting person. Unlike modern ethics, centered on the observer’s perspective, i.e., that of a third person who reasons about minimal norms to guarantee the stability of society, in this paper I follow classical ethics, centered on the acting person; asking questions about what type of life is worth living (*eudaimonia*) in which society (*eupraxia*). So, following Aristotle, in this article I am adopting the point of view of the first person, the acting person instead of modern view of the third person, the judge, the legislator who is observing individuals. The point of difference is that Aristotle is almost entirely concerned to analyse the problems of the moral agent, while most contemporary moral philosophers seem to be primarily concerned to analyse the problems of the moral judge or critic.

Ethics in the classical Aristotelian meaning of norms, goods and virtues (*areté*) is possible in a reality, which is constitutionally ethical because the person has to justify the creation of some possibilities and the blocking of others. What she truly has to justify to herself and what is going to definitely distinguish her morality is the general project of her life. The person has to justify the creation of some possibilities and the blocking of others, and she has to justify the preferred possibility, and as well she has to justify, above all, the general attitude in the face of distinct systems of possibilities, in so far as this attitude conditions the moral decision of her life: what is going to happen to her and what she herself wants.

Thus the two tendencies of the market manifest themselves. In the objective aspect we see the social preeminence of the market over the individual. But *the market as*

an economic system and the firm as institution, as a tradition handed down, should be subordinated to personal development (the subjective aspect). These two aspects put labor relations under strain and determine the “market tolerance” of work. *If the human basis of work is lost, the market depersonalizes the person and becomes an end in itself. And at the other extreme, if the social dimension of work is lost, its possibility of service will be lost.* Neither tendency guarantees which one will predominate. They simply mark out the field of action where all individuals must assume their responsibility.

BIBLIOGRAPHY

- Aranzadi, J.: 2006, *Liberalism against Liberalism* (Routledge, London).
- Aranzadi, J.: 2011, "The Possibilities of the Acting Person within an Institutional Framework: Goods, Norms and Virtues", *Journal of Business Ethics*, 99(1), 87-100.
- Argandoña, A.: 2008, "Integrating Ethics into Action Theory and Organizational Theory", *Journal of Business Ethics*, 78(3), 435-446.
- Aristotle: 1995, *The Complete Works of Aristotle*, vol. II, The Revised Oxford Translation, edited by Jonathan Barnes (Princeton University Press, Princeton, NJ).
- Ghoshal, S. and Bartlett, C. A.: 1997, *The Individualized Corporation: a Fundamentally New Approach to Management* (HarperCollins Publishers, New York).
- Ghoshal, S., Bartlett, C. A. and Moran, P.: 1999, "A New Manifesto for Management", *Sloan Management Review*, 4(39), 9-20.
- Hayek, F. A. von: 1976 [1945], "The Use of Knowledge in Society". In *Individualism and Economic Order* (Routledge and Kegan Paul, London).
- : 1989, "The Pretence of Knowledge" (Nobel lecture), *American Economic Review* (December), 3-7.
- John Paul II: 1981, Encyclical *Laborem Exercens* (Libreria Editrice Vaticana, Vatican City).
- Koslowski, P.: 1996, *Ethics of Capitalism and Critique of Sociobiology* (Springer Verlag, Berlin).
- Melé, D.: 2003, "The Challenge of Humanistic Management", *Journal of Business Ethics*, 44(1), 77-88.

- Mises, L. von: 1996, *Human Action: A Treatise on Economics*, 4th revised edition, edited by B. B. Greaves (Fox and Wilkes, San Francisco).
- Moran, P. and Ghoshal, S.: 1999, "Markets, Firms and the Process of Economic Development", *Academy of Management Review*, 24(3), 390-412.
- North, D.: 1991, "Institutions", *Journal of Economic Perspectives*, 5(1), 97-112.
- Pinckaers, S.: 1985, *Les sources de la morale chrétienne* (University Press, Fribourg).
- Porter, M. E.: 1996, "What is Strategy", *Harvard Business Review*, 74(6), 61-78.
- Rodríguez Nuño, A.: 2007, *Cultura Política y Conciencia Cristiana* (Rialp, Madrid).
- Röpke, W.: 1968, *Die Lehre von Wirtschaft*, 11th edn. (Julius Springer Verlag, Vienna).
- Sen, A.: 1999, *Development as Freedom* (Alfred Knopf, New York).
- : 2002, *Rationality and Freedom* (Harvard Belknap Press, Cambridge, MA).
- : 2009, *The Idea of Justice* (Harvard University Press, Cambridge, MA).
- Solomon, R. C.: 1992, *Ethics and Excellence: Cooperation and Integrity in Business* (Oxford University Press, New York).
- Teece, D. J., Pisano, G. and Shuen, A.: 1997, "Dynamic Capabilities and Strategic Management", *Strategic Management Journal*, 18(7), 509-533.