

*A Major Step Towards the Practical
Implementation of Comprehensive Reforms
Důležitý krok k praktické realizaci
komplexních reforem*

PAVEL SEDLÁČEK

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The peer-reviewed article by Radim Valenčík and Pavel Sedláček entitled “The Fourth Industrial Revolution, or a Change Comparable to the Industrial Revolution?” was published in the August issue of the Social Policy Forum dedicated to Industry 4.0. We consider the article, and especially the print media where it was published, to be significant for the following reasons:

1. The Social Policy Forum is a professional peer-reviewed journal published by the VÚPSV (Research Institute for Labour and Social Affairs) and is included in the list of peer-reviewed periodicals published in the Czech Republic by the Council for Research, Development and Innovation. The article is also indexed in the ERIH PLUS database, which is accessed by a wide range of state administrators, trade union officials, legislature experts etc. who manage social policy and communicate the concept of social policy in practice.
2. The subject of the August issue is highly topical and is directly related to the understanding of what is currently at stake. We have highlighted this in the article and, as evident from the title, we emphasise the importance of breaking away from the inertia surrounding current developments. We are currently entering a period of economic, financial, social and political turbulence, and we need to know the cause of this and how to resolve the impasse. Therefore, the article contains the theoretical background to create a comprehensive vision and concept, which answers the question “What to do?”
3. As the younger co-author, I had the opportunity to bring my own insight to the topic, especially regarding the startup sphere. In the context of the mentioned reforms, we perceive this to be a valuable resource and initiator, and an activator for the formation of innovation (often intergenerational) teams.
4. Of no less importance is that the article is the theoretical base of a more practically oriented article entitled “What kind of a pension reform for the Czech Republic and why?”, which Radim Valenčík and Jaroslav Šulc published in the second issue of 2020. With a slight exaggeration, it can be said that the article on pension reform answers the question “What to start with?”

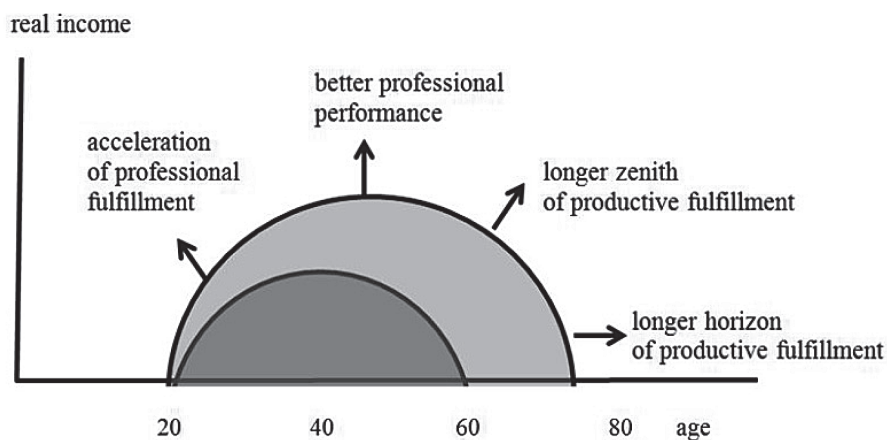
- The reviewers have enabled the definitions of the most important terms and in particular the central concept of the “productive services sector”, to be refined to support the understanding of the essential contexts of the issue.

Continuity with previous research

The article also summarises the findings presented in previous professional monographs and provides a broader theoretical background of the output oriented to the general public. Here is a selection of the key findings:

Monography *PERSPECTIVES AND FINANCING OF PRODUCTIVE SERVICES* (Valenčík et al., VŠFS, 2014) deals with the issue of complex reforms related to the growth of human capital role, their context and implementation dimension in the intentions of the following theses:

- The most general cause of the current problems lies in the fact that there was no re-orientation of the existing permanent development towards the society of productive services, i.e. a society where the core of the economy is represented by productive services immediately connected with acquiring, maintaining and utilizing human capital.
- Economic growth can be both exponentially dynamic and sustainable, or more precisely it must be exponentially dynamic to be sustainable. The ground of this growth type are productive services with their effects depicted in the following figure:



More efficient utilization of investment opportunities connected with the development, maintaining and utilization of human skills may even enhance the exponential dynamics of growth (in the sense of proportional increase from the increasing base) as against the one resulting from the industrial revolution.

- A crucial condition for the transition to economy based on productive services is the interest of subjects operating in the sector of productive services through establishing feedback (non-intermediated institutional decision) among the effects of productive services and financing of these subjects. Development of this feedback through human capital contracts can substantially contribute to higher

dynamics of economic growth, positive changes of its character and enhanced quality of life. It is a change comparable with industrial revolution (possibly even more distinct).

4. In order to enforce new economy, i.e. the economy of productive services, it is necessary to have a complex of interlinked reforms in the sectors of social investment and social insurance (especially education, health care and pension scheme). It involves reforms calling for full utilization of investment opportunities in the area of acquiring, maintaining and utilizing of human capital. Their implementation is thus connected with society's focus on substantially higher level of equality while utilizing these investment opportunities (in the sense of independence on starting property-and-income-related conditions of the holder of investment opportunities).
5. The inability to create a realist idea of the possibility of exponentially dynamic sustainable growth is a gnoseological cause of creating and spreading the visions of catastrophic or forced tackling of problems related to the existence of insuperable barriers of growth (through the regulation of consumption, restriction of the population number etc.). These concepts subsequently increase the intensity of status investment, which results in economic segregation of the society and weakening the institutional system by the activity of structures that are based on covering-up the violation of generally accepted principles. As a result, the reforms in the areas of social investment and social insurance systems are deformed and their unbiased indispensability for activities damaging the society is misused.
6. Threats and opportunities currently emerging in individual countries, along with the utilization of the theory, allow to show the way of enforcing conceptual complex reforms in the areas of social investment and social insurance. The reforms that focus on full utilization of investment opportunities related to free growth of a man and envisioning an improved market in that particular area on the basis of transfer price and intermediated application of the transfer price.
7. In order to perform the analysis of barriers arising between the theoretical solution and their practical implementation, it is possible or even necessary to use the theory of games, in particular during the analysis of status investment, during the analysis of activities of structures based on covering-up the violation of generally accepted principles and during the investigation of the possibilities of positive development on financial markets.⁸ Considering the fact that the efforts to cover the influence of structures based on covering-up the violation of generally accepted principles grew into systematic escalation of conflicts and increase in their intensity, it is necessary to pay attention to the analysis of the current development and its predictions with the objective to specify and to define conditions (including an estimate of when they may occur) that will allow to start a process of professional and mainly public discussions on necessary reforms and their local as well as global context, in response to the broader awareness that we are in a historical excess.

Monography PERSPECTIVES AND FINANCING OF PRODUCTIVE SERVICES (Valenčík et al., VŠFS, 2015) is based on the knowledge gathered during the series of conferences Human capital and investment in education (18th year took place in 2015). As the most general cause of current socioeconomic problems we consider the fact that uptill now the focus

of current development has not been switched to the society of productive services yet, e.g. the economic baseline where the productive services are directly connected with acquiring, maintaining and utilizing of human capital.

The socioeconomic analysis which we present in this monography-yearbook contains the following topics:

1. The characteristics of the current stage of global society development which we consider being a form of some historical excess, e.g. times when problems rapidly arise and strengthen to the extent that they spill over to conflicts threatening the very existence of our civilization.
2. Identification of causes of the current problems:
 - Original causes that are connected with the difficulties of moving to the economy based on productive services based on acquiring, maintaining and utilizing of human capital.
 - Subsequent causes that are connected with significant importance of the structures based on covering up of infringement of the generally accepted rules and structures based on position investment.
3. The criticism of the concept of 4th industrial revolution, which hides the origins of current problems and which is a quasi-theoretical support to exclude large social groups from active participation on the development of society, which finally can lead to the misuse of those groups as a destructive force.
4. A concept of game (complex of games) called "Titanic-type" games which makes current conflicts visible, shows where the game has come, and makes it possible to read from the reality what is going on, who is who and what to do.
5. A suggestion of the next steps (in comparison to the last monography) of complex reforms, the realization of which can overcome the current issues (in the Czech Republic with respect to the international context); and that is including the steps which can be done very quickly.
6. An analysis of the financial market development from the point of identifying the general background of causes of the "snag" phenomenon, which emerges during the use of investment opportunities on financial markets.
7. Showing the starting prerequisites of realization of complex reforms focused on the support of the creation of the branch of productive services (more exactly, the starting windows for communication and finalizing the preparation of reforms in the conditions we are currently in). As the most significant improvement compared to the last year we consider:
 - Elaboration of the Titanic-type game as a tool for reading or making the reality visible.
 - Identifying the "snag" phenomenon on financial markets when utilizing the investment opportunities. Both the above-mentioned improvements utilize the game theory. The analysis of Titanic-type game and its concept utilize tools of non-cooperative games; identification of "snag" phenomenon when using investment opportunities and solving related problems utilizes a cooperative games approach.
 - Elaborating the HCC (human capital contract) concept from the social models perspective.

Monography *THE ECONOMIC BASE OF THE SERVICE SECTOR AND LAUNCH COMPREHENSIVE REFORMS* (Valenčík et al., VŠFS, 2017) follows two previous complex analyses of contemporary society's issues in global context through identifying the causes of problems and possibilities of their resolving. Similar to them, it outcomes from defining the character of current times as a transition period to new economy, which is based on the branches of productive services, that contribute to production, preservation and utilization of human capital. It utilizes complex approach both in the sense of framework of the reforms that are necessary to create economic background and rise of productive services' branches, and also in the sense of theoretical mapping all the significant paths between theory and practice. It thus answers not only to the question "how it should be", but also to the question "how to realize what is seen theoretically desirable into practice". To the contrary of the concept of 4th industrial revolution or Industry 4.0 respectively it emphasizes, that not only technological change is going on, but a transfer of primary focus from economy based on machines production and consumption of their products to the economy based on human development, on production, preservation and full usage of human abilities. We can see it as a transfer to economy, that in the area of increasing human abilities can absorb nearly unlimited number of people and give them full possibilities during development of country's innovation potential. In this sense we also follow Radovan Richta's "Civilizace na rozcestí" (1966), which was published just fifty years ago before this book. Our approach shows up, that complex reforms can be started with gradual, fluent and voluntary transition to fully merit-based and fully closed system of social pension insurance, when we introduce and expand the postgraduate extension of current pay-as-you-go pension insurance. A model, that is presented in monograph shows that the resources that a man gets when extending his productive employment enable him to gradually decrease his economic activity (when combining partial pension benefit payment and income from economic activity) and at the same time utilize the resources for individual health and spa care and other services prolonging his active life. This way, economic base is created for starting the rise of productive services' branches (those branches that contribute to production, preservation and utilization of human abilities) with utilization of market (not ineffective rationing) financing. Prolonging the zenith and horizon of productive employment of those people that help to increase the innovation potential of society does not limit the employment of younger generations, actually the opposite is true – it significantly contributes to the creation of qualified jobs. Socioeconomic schemes, that are included in this monograph, have significant advantage in their orientation to accumulation and following effective allocation of available resources of economically active people. This is given the parameters of Czech economy (lower wages, low human capital investment, existing space for slight increase of health expenditure) suitable approach which can overcome a lot of systemic limitations. The majority of current models of financing productive services' branches has outcome either from a principle of central financing of public service, or simple realization of market demand of an individual. Both of these approaches are not enough for this development phase and it is necessary to supplement them with emphasis on individual or community (group) investment strategies into human abilities' development including appropriate construction of financial schemes.

Monography *SECTOR OF PRODUCTIVE SERVICES. THEORY AND PRACTICE* (Valenčík et al., VŠFS, 2018) deals with the issue of the relationship between theory and practice in terms

of the birth of the economy based on productive services. Productive in terms of their role in acquiring, preserving and, in a sense, the utilization of human abilities. Theory, whose subject is the society, does not and should not finish with the statement "how should it be", but its dimension can and shall be the analysis of all the important interconnects that link the theory with its application in practice. The more the theoretical approach develops within the theoretical approach, the more theory ceases to be merely an appeal to "how it should be", and thus it can more effectively influence reality. The first chapter, entitled *Problems in Science and Links of Science with Practical Use*, deals with the problems in contemporary science and its connection with practice. Problems with connecting theory to practice, use and applicability of theory in practice begin in science itself. In the chapter there are documented findings of the practice of scientific research, attention is drawn to some shortcomings, including the formulation of recommendations on how to eliminate them. The chapter *Transition from Third to Fourth Industrial Revolution in terms of theory and practice (reality and vision)* deals with the analysis of various approaches to defining the issues of the so-called Fourth Industrial Revolution and the practical contexts of this issue. It points to the considerable differences in the approaches and the resulting practical conclusions. In the chapter *Using the Dual Model of Titanic and Clash of Clans Games to analyse the relationship between theory and practice in supporting the constitution of the productive services' industry*, one defines a theoretical framework in which it decides what role theory plays in practice. Also, this chapter documents the use of a highly abstract theory in practice, if it is based on a mathematical apparatus that was developed precisely to identify what is happening. In other words, one of the aims of this chapter is to show that focusing the theory's attention on the problem of its application in practice does not contradict the requirement that theory be able to rely on an apparatus using original mathematical models. In general, we dare say, "there is never enough of good theory". The more effective theoretical methods we develop, the more opportunities to apply the theory in practice are offered. The chapter on *The Importance of Behavioural Economics for the Theory and Practice Relationship* follows on from this chapter, which responds to the need to respect the peculiarities of the human psyche, namely that the theory of social reality cannot be based on the premise of fully rational decision making. However, even in this case, we cannot do without good theory. If we know typical examples of rationality failure, we can count on them in the field of practical application of the theory. Also, another chapter called *The relationship of Economics and Ethics as an Expression of a Theory and Practice Interconnection* deals with what goes beyond the framework of a purely rational approach to the issue of increasing the role of the productive services' sector and the application of theory in the practice of securing the rise of the productive services' sector. At the same time, it suggests in which direction it is possible to develop closer links between the ethical and economic aspects of this issue. The monograph ends in the *Analysis of the Theory and Practice Relationship* that proposes a coherent concept identifying all the essential moments and dimensions of the theoretical research relationship in the field of socioeconomic reality and practice. This is concretized in this chapter in some ways where it is possible to expect a more effective application of theory in relation to actual social development.

If we want to get oriented in the current breakthrough times, we need support in the new economic theory. Here we call it *The Economics of Productive Consumption*, which is a logical continuation of the mainstream of economic theory development, the overlap

of the basic paradigm developed in neo-classical economics, the theoretical support of the prediction and analysis of the constitution of the productive services sector oriented on the development and preservation of human capital as the dominant economic sector. Similarly to the earlier stages of economic theory development, economics of productive consumption arises by combining stimuli from the field of theory development (in this sense, we are talking about the logical continuation of the development of existing knowledge) and at the same time stimuli from the field of practice (in this sense, we are talking about the historical conditionality of the present knowledge). The main difference between economics of productive consumption and neo-classical economics is as follows: According to neoclassical economics, the consumer focuses on maximizing his utility in the sense of subjective experience, and consumption has effects only in the form of subjectively perceived experience, while according to the economics of productive consumption the consumption is productive in the sense that the consumer (the economic entity) maximizes the present value of its future income in the long run in accordance with its lifetime strategy. If we look at the different directions that economic theory undergoes today on its neoclassical basis, the interpretation of preferences on the basis of productive aspects of consumption is a possible continuation that enriches the directions and in which the different directions can interconnect when expressing important questions. The Economics of Productive Consumption has its own theoretical apparatus which, in the logic of the development of economic theories, builds on the apparatus of neo-classical economics and other theoretical sources, allowing a very complex expression of economic efficiency. An important tool is the methodology of macroeconomic data analysis, which we have developed and which proved to be effective on the example of the Czech Republic. It has shown that certain shifts in the direction of those forms of consumption that have productive effects occur mainly in the middle-income groups of the population, indicating a combination of productive consumption and vertical mobility. At the same time, shifts towards greater representation of productive components of consumption have been hampered by the various forms of investment in the social position and the undeveloped financial market mechanisms that would open up resources for investment into development human capabilities. Through the theory of cooperative and also following non-cooperative games, concepts of game complexes can be expressed, playing in the field of decision-making on whether a player chooses a strategy of investing in a social position or developing skills. Based on these concepts, it is possible to formulate the parameters of specific non-cooperative games, to show the importance of reforms related to the improvement of financial markets, which create conditions for contracts related to human capital. The theoretical basis of economics of productive consumption extends the possibilities of mutual enrichment of various social sciences, illustrated by the combination of the sociological and economic view of the various concepts of consumption, respectively, the different types of consumption that different consumers have adopted as their own.

The last monograph from the series is WEALTH AND POVERTY (Valenčík et al., VŠFS, 2020 in press). The question posed by the name of the monograph, when and why becomes a problem and how to solve it, is reworded to the question: Why investment opportunities associated with the acquisition, preservation and use of human capital are not used according to their rate of return. This is the same question (or the same complex of problems and questions related to what is causing the problems and how to solve them)

but formulated so that the necessary tools can be used to describe, analyse, and solve the problem. In particular, it is about linking the microeconomic search for optimum to the use of investment opportunities linked to the acquisition, preservation and use of human capital, and Nash's solution to the negotiating problem in the field of cooperative games, enhanced with alternative options (alternatives in relation to improvements compared to the point of non-agreement).

On this basis, the phenomenon of investing in a social position or point of positional investment is identified, which plays a decisive role in the emergence of problems that depend on the division of society amongst the richer and the poorer citizens, in the deepening of this division and the related distortions of the social system. At the same time, understanding its role is also an answer to the question of why investment opportunities associated with the acquisition, preservation and use of human capital are not used according to their rate of return.

Positional investment works against market competition within its own field – on the market. It also works against its pressure to exploit investment opportunities according to their rate of returns (including those associated with the acquisition, preservation and use of human capital) and thus against increasing the efficiency of the economic system by means of resource-saving innovations and increasing human potential while fulfilling the human life welfare.

The engine of competition also operates in the field of positional investment, but here it empowers the social forces associated with obtaining positional advantage based on property in the form of violations of generally accepted principles: primarily in the form of robberies that grow into organized crime, corruption linked to the redistribution of public resources etc., secondarily by generating structures based on the mutual cover of violations of generally accepted principles that penetrate the institutional system and also find global coverage in the form of power, which is not under national control and national public choice.

To highlight the above conclusions, the introduction presents a fundamental difference between a redistribution and positional approach to addressing wealth and poverty, characterising the diverse types of redistribution solution, and referring to the potential risks associated with overestimating their role. To unblock some stereotypes, a parallel is drawn between seeking an answer to the question of why some rich and some poor are, why this may create a problem, with the question of why there is no light at night in the "epicurean" universe, followed by the idea of "epicurean" economics. The development of the theory of surplus into its usability in the pursuit of the emergence of additional value (as a form of "surplus over cost" retroactive to the economic process) shows that, even following the monitoring of this branch of economic theory, we must use the identification of the phenomenon of positional investment. Without this, we cannot answer the question of the dual role of the owner of the capital, etc. As a follow-up, knowledge on consumer behaviour is presented in terms of investing in the acquisition, preservation, and development of skills in relation to investing in a social position, including the context of experience wealth and the role of marketing.

Identifying chains of investment in the acquisition, preservation and usage of human abilities plays a particularly significant role in the practical application of conclusions, including those related to the use of highly abstract theoretical tools developed by authors and presented in this monograph. Positional investment acts on the most sensitive and vulnerable elements of these chains, in such a way as to disrupt as much as possible the vertical mobility associated with the equality of the opportunity for a social rise independent of the original income or property conditions. A complex of reforms, which, step by step, would create the conditions for exploiting the investment opportunities associated with the acquisition of preservation and the use of human capital according to their level of return, must therefore be designed in such a way that these decisive elements are “treated” precisely in terms of their resilience to positional investment. To do this, it is necessary to work with a comprehensive vision of a lifelong process of acquiring, preserving, and developing human abilities, including the outcome of this process in the field of prolonging the zenith and the horizon of productive human employment. In this context, it turns out that disputes over the reform of the pension system have their origins not only in the fact that it is a redistribution of permanently generated large financial resources, but also in a fundamental game of people's motivation, or the possibility or vice versa impossibility (blockage) in terms of over-procuring these incentives from the natural procuring of resources to their lives in an activity based on a continuously conscious lifelong perspective into an activity aimed at solving current problems.

What next?

The article can be expected to stimulate a qualified discussion. We feel that we need a reflection of the times, an answer to the question of what is happening and why. We also need a positive vision for a normal life. The article provides an impulse for this and the discussion can provide the answers. And not just discussion. We believe that the article has an important and practical call for action in terms of supporting startups that grow into developing stable and creative intergenerational teams.