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1

What Is the Social Contract?

Society is everything. Many of us go through life thinking we are self-made and self-sufficient. Some may credit (or blame) their families for their lot in life, but rarely do we think about the bigger forces that determine our destinies – the country we happen to be born in, the social attitudes prevalent at a particular moment in history, the institutions that govern our economy and politics, and the randomness of just plain luck. These wider factors determine the kind of society in which we live and are the most important determinants of our human experience.

Consider an example of a life in which society plays a very small role. In 2004 I spent time with a family in the Ecuadorian Amazon. Antonia, my host, had twelve children, and her oldest daughter was about to give birth to her first grandchild. They lived on the edge of the rainforest with no road, electricity, running water or sanitation. There was a school, but a considerable distance away, so the children's attendance was patchy. However, Antonia was a community health worker and had access via radio to a doctor in a nearby town who could provide advice to her and others. Apart from this service (arranged by a charity), she and her husband had to be completely self-reliant, gathering food from the forest, educating their children on how to survive in their environment. On the rare occasions when they needed something they could not find or make themselves (like a cooking pot), they panned for flecks

of gold in the Amazon, which they could exchange for goods in a market at the end of a long journey by canoe.

This may seem like a very extreme and distant example, but it serves to remind us how accustomed we are to the things that living collectively in a society gives us – infrastructure, accessible education and health care, laws that enable markets in which we can earn incomes and access goods and services. Antonia and her daughter promised to name the baby they were expecting *Minouche*, which was a great honour. I often wonder what kind of life that other *Minouche* will be having as a result of being born in a very different society.

The way a society is structured has profound consequences for the lives of those living in it and the architecture of opportunity they face. It determines not just their material conditions but also their well-being, relationships and life prospects. The structure of society is determined by institutions such as its political and legal systems, the economy, the way in which family and community life are organised.¹ All societies choose to have some things left to individuals and others determined collectively. The norms and rules governing how those collective institutions operate is what I will call the social contract, which I believe is the most important determinant of the kinds of lives we lead. Because it is so important and because most people cannot easily leave their societies, the social contract requires the consent of the majority and periodic renegotiation as circumstances change.

We are living at a time when, in many societies, people feel disappointed by the social contract and the life it offers them. This is despite the huge gains in material progress the world has seen over the last 50 years.² Surveys find that four out of every five people believe ‘the system’ is not working for them in the United States, Europe, China, India and various developing countries.³ In many advanced countries the majority no longer believe their children will be better off than they are. In the developing world, aspirations for education, health care and jobs are often well ahead of a society’s ability to deliver them.

And across the world workers worry about losing their livelihoods because of a lack of skills or the prospect of automation.

This disaffection takes many different forms. Some in rural areas and small towns argue that disproportionate attention and resources go to cities at their expense. Native populations in some countries feel that immigrants are changing their societies and receiving benefits before they have paid their dues. Some members of once-dominant races resent other ethnicities demanding equal treatment. Some men feel threatened by newly empowered women and policies such as quotas and targets that disadvantage them. A proportion of the young are increasingly vocal about the elderly, who they believe consume a growing share of resources in health care and pensions while leaving them with a legacy of debt and environmental destruction. Some older people feel the young are not sufficiently grateful for past sacrifices made on their behalf.

This book tries to get at the root causes of this disappointment through the lens of the social contract: an approach that recognises the primacy of expectations and mutuality, the efficiency and value in collective provision and sharing risks, the importance in adapting to a changed world if we are not to witness a destructive fracturing of the mutual trust on which citizenship and society is based. How much *does* society owe an individual and what does an individual owe in return? And in this time of great change, how might those mutual obligations need to adapt? The answers to these questions would appear to be at the heart of solving many of the political, economic and social challenges facing the world today.

Expectations and the Social Contract

Who is ‘we’ in the question ‘What do we owe each other?’ To whom do we feel mutual obligations? This is a complex question that has personal, cultural and historical dimensions. I like to think of mutual obligations as concentric circles. At the core, most of us feel the greatest obligations to our immediate

family and friends. Parents will make huge sacrifices for their children; friends will go to great lengths to support each other. In the next ring of the circle is the community in which we live. This is often the domain of voluntary groups, religious associations, neighbourhood and local government structures. In the next ring is the nation state, in which we owe each other the duties of citizenship – paying taxes, obeying the laws, voting, engaging in public life. In a regional integration project such as the European Union, there has been an attempt to foster a sense of ‘we’ in another ring consisting of citizens of the nation states that are members of the union. The final circle is the world, where the obligations may be weaker but become more apparent when there is a humanitarian crisis or a global challenge like climate change, when international solidarity becomes important.

Every day we navigate mutual obligations and take care of others, not just within our families, but within communities and nation states, far in excess of our narrow self-interest. Most obviously we pay taxes that will benefit people in other parts of the country (and sometimes other parts of the world) who we will never meet. We do this because we believe that living in a fair, well managed society helps us to live a better life and we are willing to contribute our share to achieving that for our own interest and because of solidarity with our fellow citizens. Employers in many countries are required to offer benefits to their employees, such as parental leave and pensions, and many add voluntary benefits on top of those. For the provision of fuel and water, transport and sanitation, we rely on publicly provided infrastructure, which we expect to be universally available. We expect decent schools and health care and safety on our streets in return for which we obey the law. All of these are ways in which we balance our individual desires and the need to live collectively with other people. This collective solidarity extends across generations when we make long-term investments and conversely when we consume resources that take possibilities away from future generations.

Throughout history, people have pooled their resources to varying degrees in order to enjoy the benefits and manage the risks that come from living in large groups. These benefits include specialisation of labour, mutual defence and shared infrastructure. As groups get larger – from family to village to major cities and nation states – the mutual obligations become more abstract and are often mediated through institutions and the political process. Rather than ‘owe’ something to our family or community, our obligations morph into solidarity with fellow citizens or duty to our country. In the past, for example, families educated their children, cared for the sick and unemployed at home; today most rely on schools, medical facilities and (in some countries) unemployment benefits paid by the state. That is why today people are expected to contribute to the common good when they are productive adults and, in exchange, get an education when they are young and support when they are sick, unemployed or old. The exact nature of these expectations varies according to the cultural norms, institutions, policies and laws that define the rights and obligations of individuals relative to those of the wider society, but the existence of such expectations is universal.

While these expectations have existed for as long as human society, they have changed considerably over time. For example, for much of history in virtually every society caring for the young and the old has been the responsibility of women, while the education, health care and employment of the next generation has tended to be a collective responsibility, as it is today. In most countries, there has also been some expectation that wealthier citizens would provide some protection or support to the poor in their communities. Historically, this voluntary approach to charity, often enabled by religious institutions, proved inadequate and had very uneven outcomes. As countries have become richer, citizens have increasingly expected the state to take responsibility for providing services on a more consistent and equitable basis and to raise the required revenues through taxation.⁴

Philosophers have long debated how free individuals might be persuaded to live together in a society and what a reasonable set of expectations should be.⁵ It was during the Enlightenment though that this concept – of voluntary mutual dependence in return for otherwise unattainable benefits – became known as the social contract. Different thinkers argued for different kinds of social contract, but all initially framed it in the prevailing terms of the day: the rights of individuals in a monarchy.

Thomas Hobbes argued that self-interested but rational individuals should voluntarily submit to the authority of an absolute sovereign as the only sure way to avoid the brutish state of nature.⁶ John Locke's view was that the purpose of the social contract was to preserve the lives, freedoms and well-being of citizens: thus, if the sovereign failed to protect those rights, it was legitimate for citizens to revolt and create a new political society.⁷ Jean-Jacques Rousseau was concerned with preserving freedom while recognising that because humans were increasingly interdependent, compromises were required in order to live together in a good society. According to him, the social contract required political institutions – such as a representative parliament – that allowed citizens to make the laws to which they would therefore voluntarily subject themselves, thereby providing the justification for the authority of the state.⁸ For all three philosophers, expectations of the individual and of the state were minimal by comparison with our own: the social contract was merely the precondition for living in a society free from exploitation.

But as monarchies increasingly had to cede power to citizens, debate about the social contract shifted to the obligations of citizenship and what we owed each other. In *The Theory of Moral Sentiments* Adam Smith, whose thinking laid the foundations for modern economics, talked about the need for 'circles of sympathy' whereby self-interested individuals also cared about the well-being of others.⁹ According to Smith, the social solidarity that empathy fostered had moral, political and economic rationales.¹⁰ The moral rationale is that in

every society, individuals have basic needs – such as access to basic health care and safety, enough income to avoid being excluded from society, enough education to find work and act as informed citizens – that it would be morally wrong not to provide. The political rationale for social solidarity is that, for democracies to function, citizens have to share enough common experience to feel they have a common purpose.¹¹ Finally, the economic rationale is that pooling risks for things like sickness, unemployment and pensions across a large number of citizens is more efficient than individuals trying to insure themselves.

In Smith's vision there are also limits to sympathy, to what the individual can expect, and an unwillingness to share risks when individuals behave 'badly'. And so it is today. Risks that are not the fault of the individual – disability or a job loss resulting from an accident or sudden economic shock – are the ones that most people are willing to share. However, if losses result from smoking or drunk driving or poor performance at work, many believe that individuals should suffer the consequences of their actions. At the same time, others argue that bad behaviour is most often the product of upbringing, deprivation or even mental illness. Moral judgements about individual behaviour and responsibility are often central to questions about how generous the social contract should be.

The most influential twentieth-century philosopher to discuss the social contract as the basis for creating a just society was John Rawls.¹² He argued that we should design our social contract behind a 'veil of ignorance' – meaning without prior knowledge as to what our own status in that society would be. Because we did not know if we would start life privileged or a pauper, we would create a social contract that was just. His principle of equal opportunity states that 'those who are at the same level of talent and ability, and have the same willingness to use them, should have the same prospects of success regardless of their initial place in the social system'.¹³ Today, the notion of equality of opportunity lies at the heart of many

citizens' expectations the world over, and the perception of its absence is an important source of anxiety and disaffection.

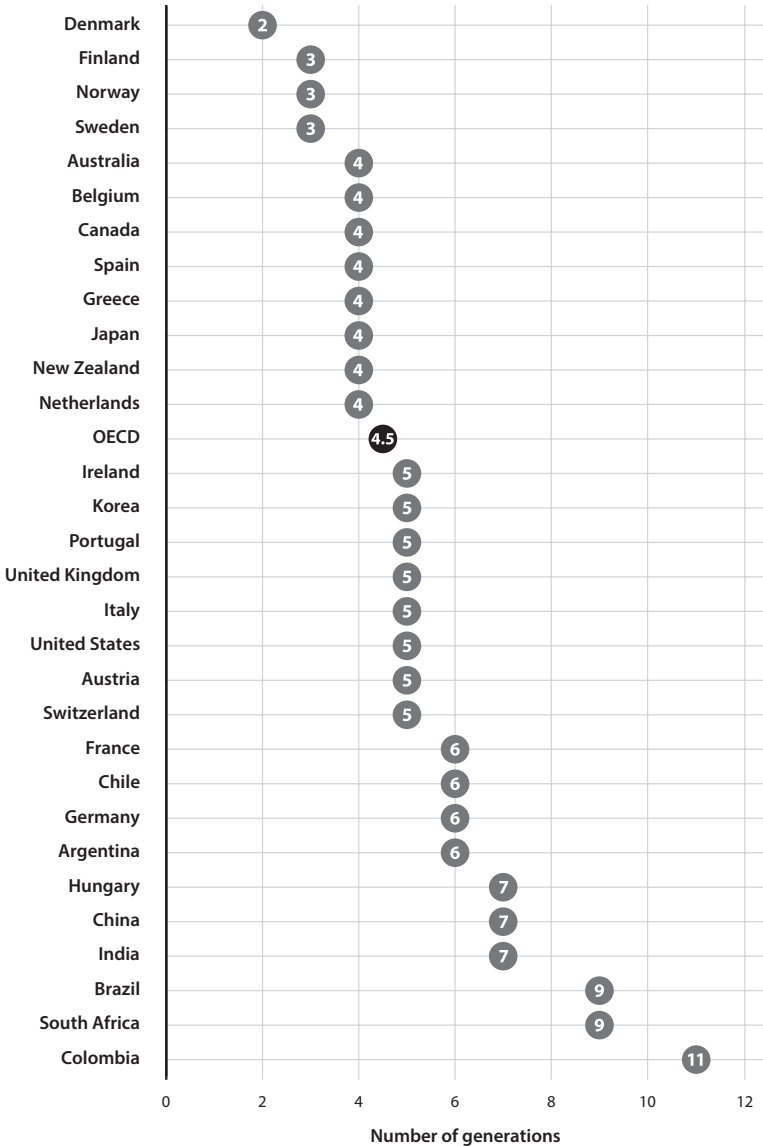
In modern societies there is an expectation that those who try hard will improve their lot. This was not always the case, and in many traditional societies there was an almost fatalistic acceptance of the prevailing hierarchy, with some arguing it was essential for social order. But today most countries include enabling social mobility as part of the social contract because it seems more fair, binds society together and enables collective action. The poor need to have the expectation that they or their children will be better off. The rich need to fear their children may be poorer to foster concern about the less well off and create a sense of common interest.

In practice, countries vary enormously in the architecture of opportunity that they offer their citizens. For example, in Denmark it takes on average about two generations for someone to go from being lower income to middle income; in the UK it is five, and in highly unequal countries like Brazil, South Africa and Colombia it takes more than nine generations. These differences in social mobility (Figure 1) are part of the reason we see most frustration with the social contract in precisely those countries where the prospects of improving your lot over time are low or have fallen in the recent period. There is also much evidence that disadvantage, both within families and geographically, is highly persistent across many generations.¹⁴

The Social Contract, the State and the Private Sector

Many people think the social contract is the same as the welfare state, but the concepts are not synonymous. The social contract determines what is to be provided collectively and by whom; the welfare state is one of several possible means of provision. In fact, in every society a huge amount of what falls within the bounds of the social contract continues to be provided by families – for example, through unpaid parental labour educating

Figure 1. Social mobility: how many generations does it take to go from being low income to middle income in different countries?



children, pooling resources in times of ill health or unemployment, or by purchasing private insurance. Communities, charitable and voluntary organisations do a great deal to care for the needy and the elderly, respond to humanitarian crises and support people to get back into work. Employers are often required by law to deliver aspects of the social contract by contributing to unemployment benefits and in some countries to mandatory health insurance, with some providing additional services such as childcare facilities, educational benefits and well-being and mental health support.

When I refer to the social contract, therefore, I mean the partnership between individuals, businesses, civil society and the state to contribute to a system in which there are collective benefits. When I refer to the welfare state, I mean the mechanisms for pooling risks and investing in social benefits mediated through the political process and subsequent state action. This can be directly through taxation and public services or indirectly by regulations that require the private sector to provide support. The collective benefits can also include the state serving as the insurer of last resort, for example by preventing people starving or being left homeless or destitute when there is a natural disaster or pandemic.

Before we had nation states, the social contract was based on tribes and local loyalties that provided mutual protection and some sharing of basic needs like food or shelter. This evolved in the feudal period into local rulers who delivered law and order and extracted rents in exchange, with an overarching structure of monarchy on top. It was only in the early-modern period that nation states evolved, not just to secure and extract, but also to invest in collective goods like infrastructure financed by limited taxation. As capitalism developed, the social contract became more complex as families became less self-sufficient with a growing division of labour; systems of regulation emerged and public services such as sanitation and electricity had to be coordinated and financed. Providing such collective goods, including having an educated and healthy workforce, became

an increasingly important part of the social contract and grew into what we now call the welfare state.

The conservative Prussian Otto von Bismarck is usually credited with bringing in the first legally mandated requirement for social solidarity when as chancellor he introduced a compulsory insurance scheme for pensions and sickness in Germany in 1889. His motives were to make the economy more efficient and to avert more radical proposals, such as the expropriation of property, of his socialist opponents. In a ground-breaking letter to the German parliament, he wrote, 'Those who are disabled from work by age and invalidity have a well-grounded claim to care from the state.' The retirement age was set at 70, which, given life expectancy at retirement in Germany at the time, meant the state would provide a pension for seven years on average.¹⁵

In the UK, the first person to call for collective responsibility for health care was Beatrice Webb in her Royal Commission on the Poor Law in 1909, which recommended the creation of a national health service. But William Beveridge (director of LSE 1919–37) is usually credited with the first comprehensive blueprint for a welfare state designed to meet the needs of citizens from 'cradle to grave'. To vanquish the 'five giants' of squalor, ignorance, want, idleness and disease, Beveridge's plan was for everyone to contribute to a social insurance fund and in return receive the same entitlement to benefits such as healthcare or unemployment insurance.¹⁶

Welfare states evolved very differently elsewhere over the course of the twentieth century. In countries like the United States and Australia there was greater emphasis on individual responsibility, so contributions and low levels of income redistribution by the state were directed only to those who were most needy. In continental Europe, systems were often linked to work and relied on social contributions by employers and employees to pay for unemployment insurance and health care. The Nordic countries tended to have higher levels of state financing of welfare provision and more generous combinations

of universal and targeted benefits. A good illustration of these differences is how long collective support in each of these countries lasts for an individual who is unemployed. In the United States unemployment benefits normally last just six months; in countries like France or Germany the limit is about one year; in countries such as Denmark and the Netherlands it is about two years.¹⁷

Developing countries too have seen a rapid growth in welfare spending as their citizens demand better services and social protection. The number of low- and middle-income countries that have some form of social protection has doubled in the last twenty years – from only 72 to 149 in 2017.¹⁸ The majority (77 per cent) have introduced some form of cash payments to the poorest households, and many (42 per cent) have payments that are conditional on things like sending children to school or immunising them. These payments are often very small but have been shown to have significant impacts on reducing poverty, increasing school attendance, improving nutrition and raising household productivity.¹⁹ The amounts of money can also be adjusted quickly in response to when, for example, a famine or pandemic hits a certain community.²⁰

Most developing countries move from relying on families and communities to deliver the social contract to gradually increasing levels of government spending. Although welfare payments in developing countries only benefit about one third of the global poor today, they are growing quickly in response to the rising expectations of citizens, ageing and strong evidence of benefits for school enrolment, health outcomes and economic activity. But the better off in developing countries often rely on expensive private schools and health care and even private security and infrastructure, and therefore feel little obligation to pay taxes. In countries like Nigeria or Lebanon, owning a generator is quite common among the wealthy because the public electricity supply has been so unreliable. Persuading higher-income groups in developing countries to rely on public provision is key for raising revenues to deliver a better social contract.

What accounts for the variations in approach across countries? Some have argued that countries with more homogeneous populations tended to develop more comprehensive welfare states based on greater solidarity than countries with greater racial and ethnic diversity like the United States or Australia.²¹ More recent evidence gives a more mixed picture and indicates that other factors matter more, such as the pace of immigration and how ethnic diversity is measured, as well as cultural factors such as attitudes to wealth redistribution and beliefs about the role of luck versus effort in determining income.²²

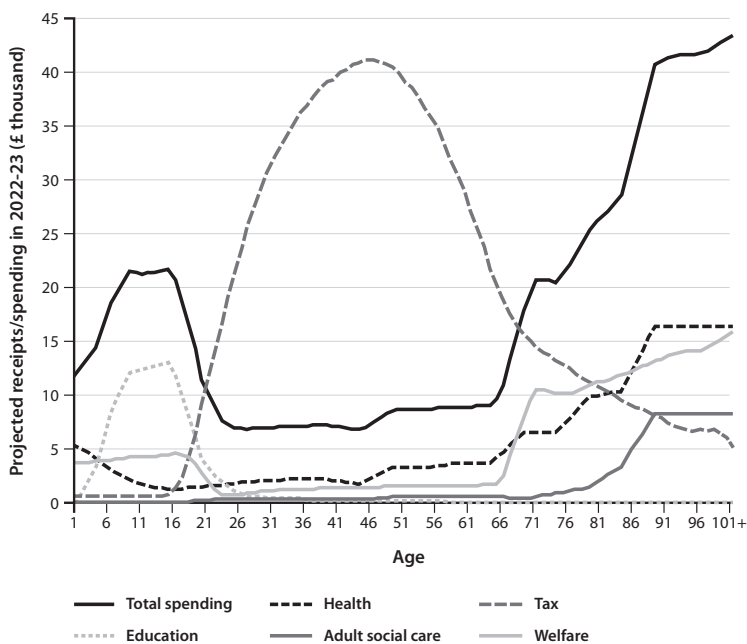
One reason why some countries have smaller welfare states may be to do with the common misperception that the purpose of a welfare state is to redistribute money from the rich to the poor. In fact, that is a very small part of the story. The welfare state is three quarters piggy bank (mutual insurance over the life cycle) and only one quarter Robin Hood (transferring resources from the rich to the poor).²³ However, a significant role of the welfare state is to redistribute money *over the course of our own lives*. Children cannot borrow to pay for their education even if their employment prospects are good. People don't know what illnesses they will have when they are old or how long they might live.

Most people contribute to the welfare state in the middle of their lives when they are working and receive benefits from it when they are young (through schooling) and when they are old (through pensions and health care). Figure 2, which displays contributions to the state at different ages, shows this pattern clearly for the UK. In fact, the vast majority of people in the UK put into the welfare state roughly as much as they take out over the course of their lives.²⁴ This insurance rationale for the welfare states sits alongside the economic argument that investing in citizens is a key part of a country's economic growth strategy, as it helps to ensure the most capable and productive workforce possible.²⁵

Different approaches to the terms of the social contract derive from the fundamental question: what should its objective be?

Figure 2. People pay into the state in middle age and take money out when they are young and old

Representative age profiles for tax, public services and welfare spending in the UK



Classical welfare economics developed in the late nineteenth and early twentieth centuries argued it is to maximise the total ‘utility’, or satisfaction, that individuals in a society achieve. Utility is reflected in market prices – if you are willing to work for a certain wage or pay an amount for a product, that reflects the utility you derive from that activity. More recently, an increasing number of economists have come to define utility more broadly as well-being (not just consumption of goods and services), which includes what makes people happy, such as good health (mental and physical), good relationships and meaningful work. Well-being can be measured through surveys,

and several countries, such as Bhutan, Ireland, New Zealand and Scotland, are trying to use this broader measure to inform their social contract.

Critics of the utilitarian tradition, such as Nobel prize-winning economist Amartya Sen, would say the social contract should aim not just to meet people's needs but to improve the capabilities of every citizen to achieve the kind of life they value.²⁶ Income and market prices are a small part of the story since individuals can vary in the resources they need to achieve literacy, adequate nutrition, shelter or political freedom. This widens the objective of the social contract well beyond income to include more equal outcomes and the capability to have a good life. It also means that where individuals do not have many options – for example are deprived of their entitlement to education or health care – the social contract has failed them. My view, which will underpin the analysis in this book, is that the objective of the social contract should be determined by society and consider a broad range of measures including income and subjective well-being, as well as measures of capability, opportunity and freedom.

Consensus on such questions tends to inform how much of the social contract is provided privately or publicly, which varies enormously across countries. For decades it has broadly defined the left and the right of politics, though those definitions have become blurred in recent years. UK Prime Minister Margaret Thatcher famously said, 'There is no such thing as society. There are individual men and women and there are families. And no government can do anything except through people, and people must look after themselves first. It is our duty to look after ourselves and then, to look after our neighbours.'²⁷ Implicit in this view is a social contract that relies heavily on individual responsibility – families responsible for caring for their children, encouragement of private schools, a minimalist approach to income support, and heavy reliance on private insurance markets to respond to risks such as accidents, disability and environmental damage such as flooding.

Others have argued for a more maximalist view of the state's role to compensate for the impact of luck on life chances and to achieve greater fairness in economic and social outcomes. Franklin Roosevelt in his second inaugural address argued: 'The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little.'²⁸ In the wake of the Great Depression, he created an activist state that provided minimum incomes and created jobs through massive public works, making the government the largest employer in the economy. New Deal measures also rebalanced power in favour of trade unions, tenant farmers and migrant workers while imposing stricter regulations on banks to avoid another financial crisis.

There has always been a debate about the role of the private sector in the social contract, but recently it has assumed greater prominence as more business leaders argue that companies should take on wider responsibilities in the wake of economic crises and rising public expectations. The conservative view often associated with Milton Friedman is that the job of business is to make profits, abide by regulations, pay market wages and taxes, and by doing this, the private sector will maximise its contribution to society.²⁹ However, there has been a long tradition of companies that take a more holistic view of their role, sometimes paying higher-than-market wages or providing wider benefits such as pensions and health care, and sharing their profits with their employees. This tradition is now coming to the fore. Increasingly, businesses are under pressure to focus not just on short-term profits but on the wider interests of society – so-called multi-stakeholder capitalism. Proponents argue that this is not charity but a way to maximise companies' long-term value.³⁰

In practice, most countries choose a mix of individual and collective responsibility across different sectors to define their social contracts. Consider traditionally conservative Switzerland. Swiss citizens have relatively low levels of taxation, typical of

a small-state approach, but a high proportion of young people go into tertiary education, which is largely free and provided by the state, though about half of those follow a vocational rather than a purely academic track. There is also a complex system of regional redistribution with very high levels of decentralisation and local democracy through referenda. Meanwhile, Singapore, famously organised on free-market rather than big-state principles, also has low levels of taxation and regulation, but over 80 per cent of the population live in public housing socially engineered to achieve racial balance, and all men must do at least two years of compulsory military service as a way to build cohesion in this very multi-ethnic, young country. Meanwhile, nominally communist China until recently had no public health-care provision or unemployment benefits and still does not impose any inheritance tax on the wealthy.

The mix between individual and collective responsibility that countries choose can also vary enormously within any given sector. Consider the approach to financing higher education, which is, in economic terms, both a private good (generating higher income for the individual) and a public good (developing active citizens who are more capable, productive, and commit fewer crimes).³¹ How do different countries decide how much to invest in the next generation's productivity and who pays for it? At one end is the United States with a more market-based approach whereby individual students take loans on semi-commercial terms that they are expected to repay over the course of their working lives. In the United Kingdom an intermediate solution has evolved whereby students take out loans but only repay them if their income rises to a certain level. Continental Europe and most emerging markets mainly rely on state funding of higher education, but because it is free and resources are limited, high numbers of students often mean that quality suffers. In China, with its one-child-policy legacy and state-funded education system, six adults (two parents and four grandparents) supplement government spending with significant

private investments in exchange for the expectation that they will be cared for in old age. Each of these models reflects a very different view of what one generation owes the next.

What Broke the Social Contract? Technology and the Changing Role of Women

In the past, social contracts were redefined at times of great upheaval – the Great Depression brought us the New Deal in the US; the world wars were the backdrop for the Beveridge Report in the UK; decolonisation was followed by activist governments eager to promote economic and social development. A prolonged period of recession and inflation was the context for the ideological shift behind the Thatcher/Reagan revolution that shaped much of current policy thinking. It is my contention in this book that many of today's challenges – the rise of populism, the backlash against globalisation and technology, the economic aftermath of the financial crisis in 2008 and the coronavirus pandemic, the culture wars around race and women's roles in society and the youth protests about climate change – are bellwethers that a new social contract is needed.

Until the late twentieth century, social contracts were built on the premise that families would have a sole male breadwinner and that women would take care of the young and the old. There was also a general presumption that people would stay married until they died and give birth to children only when married. They would have steady employment with very few employers over a career, and the education and skills accumulated in school would be enough for a lifetime. Most would have only a few years of retirement, and the support needed in old age would be provided by families.

These assumptions still underlie many of the clauses in our current social contracts, and yet they could not be more irrelevant. Today half of women in the world are employed in the labour market, and the upward trend is almost universal. In advanced economies between a third and half of marriages end

in divorce; in most developing countries the rates of divorce are lower but generally increasing. A growing proportion of children are born outside marriage. The average worker has more jobs over the course of his or her working life, and technology is likely to accelerate this trend. While many developing countries are still at the early stages of getting more people working in the formal sector (permanent jobs with contractual obligations and regular pay), there are growing signs of informality in labour markets in advanced economies as more are employed in precarious work with few benefits.

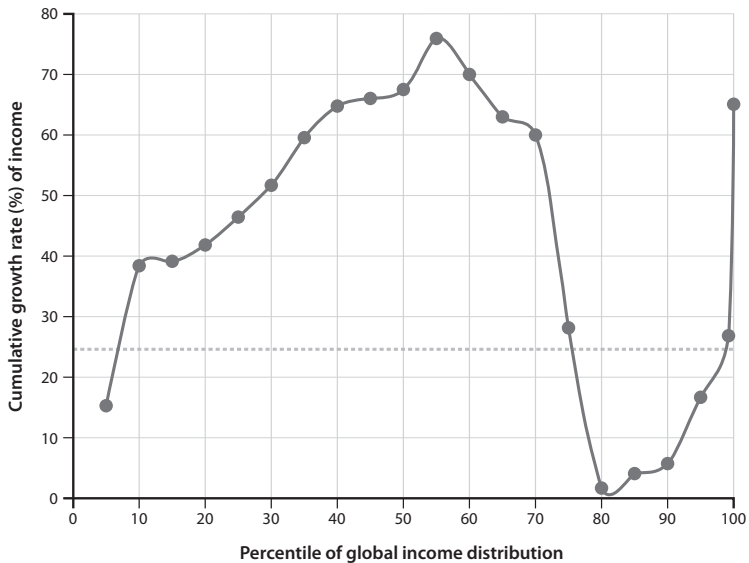
At the end of the twentieth century the evolution of technology and the changing role of women were the two major sources of pressure on the existing social contract. Technological innovations in the 1980s and 1990s such as the internet and container shipping dramatically reduced the costs of communication and transport, making it possible to produce goods using components sourced from multiple countries through globally integrated supply chains, which launched the most recent wave of globalisation.³² Large parts of manufacturing shifted from advanced economies to emerging markets, particularly China. The result was the hollowing-out of middle-class jobs in industrial communities across many advanced economies.³³ Countries have become richer overall but more unequal and insecure. Workers with low skills have suffered while those with more education and skills have seen their incomes rise, including in many developing countries. In countries with less regulated labour markets like the US and UK, where it is easier to dismiss workers, this has translated into stagnant wages for the less skilled. In the more regulated labour markets of continental Europe, it has meant high levels of unemployment for lower-skilled workers as companies are reluctant to create new jobs.

On the other hand, these economic forces saw the fastest reduction in poverty the world has ever seen as millions of people in developing countries, particularly China, secured jobs in manufacturing. Figure 3 depicts what is often called

the elephant chart – its shape shows what has happened to the global distribution of income between the fall of the Berlin Wall in 1990 and the Great Recession in 2008. The biggest beneficiaries from technological innovation and globalisation over that period were the top 1 per cent – on the extreme right of the chart. The other major gainers were those between the 10th and 60th decile of global income distribution – the poor and middle class in developing countries. The group that saw the biggest losses in its income was the lower middle class in many advanced economies, who rank between the 70th and 90th decile of global income.

This is one of the key drivers of political discontent in advanced economies as those with once well-paying jobs in sectors like manufacturing, who expected middle-class lives,

Figure 3. The top 1 per cent and people in developing countries have benefited most from recent economic growth



find themselves struggling. Some blame globalisation for their difficulties; some blame immigration. In fact, while globalisation accelerates the pace of change, the evidence suggests that advances in technology, which increase productivity and favour the more educated, have been the biggest driver of the fall in wages for low-skill workers in advanced economies. Needless to say, resentment against the top 1 per cent of earners, who have benefited from these trends, has grown.

It need not have been this way. Had policies been in place to help workers adapt to these new circumstances, the negative effects could have been much reduced. For example, in the United States, where the impact of China's integration into the global economy was huge, a policy called the Trade Adjustment Program was put in place to help workers with training, relocation grants and wage insurance. But it was chronically underfunded and high barriers were put into place for accessing it, so that few workers were able to benefit and find new jobs.³⁴ In the face of the rapid growth of immigration, the UK had a policy to help local government cope called the Migration Impacts Fund, but the money available was too small for the policy to be effective. By contrast, those countries, such as Denmark, that have invested more in what are called active labour market policies, which provide generous support to help all workers adjust to economic shocks, have fared better.

The other major pressure on the social contract has been the massive expansions in girls' education and the number of women working in the labour market rather than in the home. Almost every girl in the world now has access to primary education, and the gender gap in secondary education has closed in most countries. For the first time in history, more women go to university than men. One consequence of these gains in education has been that about half of women now work in the formal labour market, making it increasingly difficult for them to provide traditional care services for free.

Rates of female labour force participation are highest (ranging from 60 to 80 per cent) in some of the richest countries

in the world such as Norway and Sweden and in some of the poorest African countries like Mozambique, Ethiopia and Niger.³⁵ The lowest rates (20–40 per cent) tend to be in south Asia and the Middle East, where traditional attitudes have slowed progress despite rising female education.³⁶ In south Asia and the Middle East populations are still young, and women devote more time to unpaid care work. But that will surely change over the coming decades as female education changes women's preferences and opportunities.

Women's ability to work outside the home has grown most quickly where the time they have to spend on unpaid domestic work is less (such as when a piped water supply or labour-saving domestic appliances are available) or when men share domestic responsibilities.³⁷ There is also clear evidence that those countries that spend more on family benefits such as childcare and parental leave enable more women to work outside the home. Those that fail to provide such support tend to see lower levels of female employment.

Nevertheless, the broad trend of more women in the labour market is likely to accelerate and spread globally with major consequences for the social contract. Female employment will grow further as the proportion of people employed in manufacturing (where men are more prevalent) falls, and jobs in services such as health care and education (where there tend to be more jobs for women) grow. As more women than men graduate from higher education, their presence in the workforce will only increase further.

Meanwhile, economic pressure will increasingly force policymakers to find ways to put all that female talent to best use. Recent IMF estimates show that closing gender gaps in labour markets does not just increase economic output but also raises overall productivity because workers are allocated more efficiently to the jobs where they can contribute the most.³⁸ The potential economic benefits are huge. Higher levels of female employment will also be key to sustaining government budgets, especially pensions. Countries like Japan have realised

that getting more women employed and contributing to pension schemes is essential for supporting an ageing population. Chapter 2 will show how changes to the way we raise children can enable better use of female talent.

New Pressures on the Social Contract: Ageing, Artificial Intelligence and Climate Change

While the social contract is already straining under the pressures of technological change and women's changing economic roles, there are other forces on the horizon. Increasing lifespans brought about by advances in health care mean that populations are ageing everywhere, albeit at different paces. In 2018, for the first time in human history, the global population over 64 was greater than the number of children below 5.

Demographic trends have huge implications for the intergenerational social contract. In Japan, which is ageing the most rapidly, every 10 working people support 4 old people and 2 children under the age of 15. In contrast, in youthful Nigeria, every 10 working people support 8 children and only 0.5 of an elderly person. In Europe on average, 10 workers support 3 old people and 2 children. Under current population projections, these dependency ratios will become more acute. For example, in Japan by 2100, only half the population will work, and the other half will be old or young. How will societies support older populations and how will that responsibility be shared between families and the state? How will governments pay for elderly care when the working-age population is shrinking? Bringing women into the workforce is only part of the answer, and Chapter 6 looks at how we can care for the elderly both humanely and sustainably. How we can manage the inexorable rise in demand for health care is addressed in Chapter 4.

In addition to the pressures of ageing, we are now experiencing a wave of technological change driven by artificial intelligence and machine learning. These new technologies favour the highly skilled and those who live in urban areas.

In the past, globalisation resulted in capital moving around the world in search of cheap labour. Clothing manufacturers in Europe or the United States relocated production to lower-wage countries like Bangladesh or Vietnam. In modern knowledge-based economies, capital moves around the world in search of pools of skilled labour in large cities. For example, digital companies in search of highly skilled employees locate in Shanghai or Bangalore or San Francisco, because such people often cluster around major universities and cultural centres. This new dynamic, if not managed properly, risks exacerbating income inequality and regional divergence.

Estimates vary, but automation will probably affect 50 per cent of jobs over the next two decades. Unlike the last wave of technological change, this one will impact not just manufacturing but also service jobs ranging from shop workers to truck drivers to lawyers and accountants.³⁹ It will also affect developing countries as well as advanced economies since robotics will make it possible for many manufacturing jobs that previously relocated to low-wage countries to be ‘re-shored’ to higher-wage countries again. The coronavirus pandemic may accelerate this trend as companies try to simplify and localise their supply chains, although the ability to work more flexibly from anywhere may result in greater geographical dispersion of jobs.

There is much hype about jobs disappearing, mass unemployment and the need to support those who will be replaced by robots, perhaps with a universal basic income. The most likely scenario is not that jobs will disappear, but that jobs will change. Automation can substitute for labour, but it can also complement labour and create new jobs. Routine and repetitive tasks will be automated, machines will augment human capabilities, and those people who have skills that are complementary to robots will fare the best.⁴⁰ Those complementary skills include things like creativity, emotional intelligence and an ability to work with people. The risk is that those with higher level skills will race ahead as they benefit from technology, leaving behind

those whose jobs are more routine and repetitive. Chapter 3 (on education) and Chapter 5 (on work) will propose solutions to this growing challenge.

Meanwhile, the environmental protests by young people around the world are indicative of their frustration with a social contract that they feel is cheating them of their right to a stable and inhabitable planet. The Inter-governmental Panel on Climate Change estimates that human activity has already caused one degree Celsius of global warming above pre-industrial levels, with consequences for average temperatures, severe weather events, sea-level rise and species loss.⁴¹ About 80 per cent of forest cover has already been lost globally. Estimated losses of agricultural land range from 6 to 12 million hectares each year.⁴² Half of the world's wildlife has been lost in the last 40 years.⁴³ The United Nations' Food and Agriculture Organization found that unsustainable overfishing has spread to 33 per cent of the world's fisheries.⁴⁴

Is it possible to compensate current and future generations for such environmental loss? Many would argue that the environment has intrinsic value and the economic notion of compensation is not appropriate. Some losses, such as species destruction, are irreversible, and it is therefore impossible to know what future benefits have already been foregone. Moreover, scientists argue that if temperatures rise beyond a certain level, we risk catastrophic flooding, extreme weather events, agricultural and ultimately ecological collapse for which any scale of compensation may be inadequate. Chapter 7 explores the contract between the generations and shows how to achieve greater fairness across generations.

Whither the Social Contract?

The social contract defines what we can expect from each other in society. The combination of technology, the changing role of women, ageing and concerns about the environment mean that our old economic and social models are under pressure.

The fissures in our social contract were made glaringly apparent during the coronavirus pandemic, when it became clear which groups in society were the most vulnerable. The political turmoil we observe in many countries is only a foretaste of what awaits us if we do not rethink what we owe each other. If we can realign expectations and provide new opportunities and support to cope with change, there is the possibility of a new consensus in which we and our children can thrive in the future.

What would a different social contract better suited to the needs of the twenty-first century look like?

Each of the following chapters will focus on key elements of the social contract from cradle to grave – raising and educating children, dealing with poor health, helping people to adjust to new economic realities, caring for the elderly and balancing the interests of different generations. The examples and lessons will draw on experiences across the globe to show the many ways in which the social contract has been under pressure and can be redefined. There will be a strong focus on solutions and how they can be achieved, but also a recognition that there are no ‘right’ answers. The social contract must be embedded in and reflect society’s values, which all of us must help define.

There are three broad principles that I believe can guide us in designing a new social contract. First, that everyone should be guaranteed the minimum required to live a decent life. This minimum should include basic health care, education, benefits associated with work and a pension that protects against poverty in old age, with the level depending on how much society can afford. Second, everyone should be expected to contribute as much as they can and be given the maximum opportunities to do so with training throughout life, later retirement ages and public support for childcare so women can work. Third, the provision of minimum protections around some risks, such as sickness, unemployment and old age, are better shared by society, rather than asking individuals, families or employers to carry them.

The powerful forces driving the world economy today – globalisation, capitalism, demographic changes, technological

innovation, exploitation of the environment – have generated huge material progress, but our social contract has failed to manage the adverse consequences. I will argue that a different social contract could preserve the benefits while creating a better architecture of opportunity for all. In addition, it could break the negative cycle of politics driven by disappointment and anger. Imagining a new social contract will also help with that more fundamental task of changing our expectations and behaviours within our families and communities, and affect what we ask of our employers and our governments. The chapters that follow are intended to enable such a conversation about what we owe each other in future.

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