

Towards a New Social Contract for Sustainable Employment in the New Age*

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The global economy is undergoing fundamental transformation and workers worldwide are coming under great pressure. Social policies must adjust to provide the support workers of many types need, while encouraging growth, high productivity and wellbeing. The need is felt acutely in advanced economies, but in developing countries too, as will be documented in the World Bank's forthcoming World Development Report, middle-skill jobs are becoming more scarce.

The pressure has been unrelenting and inescapable. In the United States, real (inflation-adjusted) compensation for men with only a high school diploma fell by 21% from 1979 to 2013. In much of Europe, which provides stronger wage protection, unemployment has soared, especially since the euro crisis began in 2008. Germany and some Northern European countries remain an exception, though the German labor market contains a large low-wage, mini-jobs segment.

At the source of these trends are the changing nature of work and the increased fragmentation of value chains. Services account for a larger share of jobs and incomes worldwide, especially in advanced economies. From 1970 to 2012, the GDP share of services in the OECD countries increased from 53% to 71%.

New technology and "intelligent" machines are not only displacing many types of workers in both the manufacturing and service sectors; they are also facilitating the rise of new business models, in which individuals perform jobs (mostly, but not always, low-paid service) within loose networks, instead of as dedicated employees of structured organizations.

For example, the ride-sharing service Uber now has 162,000 active drivers in the US alone, and is displacing traditional taxi services. The startup Handy hopes that its app achieves similar success in connecting customers to independent contractors providing various household services. There are many other examples. As technology races ahead and value chains become globalized, workers must adapt, whether by changing jobs, relocating, or acquiring new skills –a challenge particularly burdensome for older workers but requiring a new approach to planning life for all.

Some people –especially those who acquired valued and flexible skills early in life, as well as those already in strong positions because of inherited wealth– can flourish in this new economy. Millions of others, however, are ill prepared for the new age. And it is their growing anxiety that is fueling the rise of identity politics, with populist leaders and movements appealing to ethnic or religious solidarity in the face of the impersonal forces of change.

Center-left parties face a particularly difficult challenge, as their lower-income electoral base is lured away by anti-immigration, chauvinist competitors. Making matters worse, the fragmentation of production (whether in goods or services), together with intensifying fiscal pressures, militates against these parties' traditional reliance on collective bargaining to create systems and policies that insure citizens against shocks and misfortune.

¹ This contribution is fully based on, and reproduces, with some additions, my June 2015 Project Syndicate Article entitled "A Rebirth for Social Democracy".

The right-wing response to this challenge –essentially to dismantle the welfare state– would leave citizens exposed to economic shocks and structural shifts, reinforcing their sense of isolation and vulnerability. The progressive response, by contrast, must entail strong social policies –insurance and protection– compatible with new technologies and types of work. Concretely, this means that, instead of generalized social protection, each citizen would have a lifelong individual budget of support and security, while requiring that eligible recipients show initiative in determining how to adapt.

The main difference between the progressive vision of a society underpinned by these “citizen accounts” and the conservative idea that individual citizens should create personal retirement accounts, take out student loans, or cover their own health insurance is the public sector’s role. Not only would the public sector take primary responsibility for financing social protection; public policy would also frame cooperation among government, employers, and recipients to eliminate duplication and bolster effectiveness and fairness.

For example, a lifelong “family account” would enable paid maternity and paternity leave, provide child-care support, and allow time away from work to care for the sick or elderly. It would combine some general rules with income-adjusted financial contributions by the state, employers, and individuals. A “learning account” would set the parameters for educational support, including lifelong opportunities to acquire new skills and to teach skills to others.

Basic forms of such a scheme already exist in many countries. Norway offers 49 weeks of parental leave with full pay, or 58 weeks with 80% pay. Both parents must use at least 10% of this budget, but they can also roll part of it over to use when their children start school (and again benefit greatly from parental support). Of course, few countries are as wealthy as Norway; but the principle –including support for elder care– can be applied to 30-, 40-, or 50-week periods. In Germany, the State of North-Rhine Westphalia– the largest German State with about 18 million inhabitants –under the leadership of Hannelore Krafft and in cooperation with civil society and the Bertelsmann foundation–, is pioneering a “leave no child behind” program, “cutting across all functional departments and administration levels” (summarized by Hannelore Krafft in Policy Network newsletter of June 4, 2015). Starting with the mother’s pregnancy, this “cradle to career program” extends to successful entry into the career world.

France, too, is now moving in this direction, creating “individual activity accounts” that aim to streamline its social policies, without sacrificing its sense of national solidarity as announced by Prime Minister Manuel Vals in a January 2015 speech.

To be sure, this approach will not magically resolve all of the challenges countries currently face. Fiscal constraints will remain, as governments continue to fund public goods. Adequate taxation of high-income individuals and high-profit companies, together with strong and sustained efforts to reduce tax avoidance, will become even more vital to defend the revenue base. And unions will still be needed to defend their members’ interests.

Nonetheless, a new social contract is needed to account for the increasingly important role that individual preferences, and individual responsibility, play in today’s world. Each citizen should feel empowered, not isolated and abandoned, in the face of globalization and technological transformation.

With this approach, social democracy can again drive progress, instead of being stifled by identity politics and market fundamentalism. That would serve not only the cause of social justice, but also the goal of sustaining the skilled, happy, and healthy workforce that a successful economy requires.