

## **A few questions about the efficiency of the social contract**

Let it first be specified that the term "social contract" will be used here in approximate fashion, as a matter of linguistic convenience. For, when used in the most stringent sense, the expression harks back to a social order founded on individual wills, meaning the consent on the part of a community's members to restrict their freedom of action in exchange for mutually-guaranteed rights. Yet we know the said design to be questionable and even hotly challenged by the advocates of a political philosophy (Hegel, Marx, communitarians, etc.) who considered social order to emanate from an authority fashioned by a long and wrought history, the existence of which - along with its principles of action - owe relatively little to individual wills.

It could be that the terms "model" or "social order" are preferable, insofar as they do not pre-suppose the conditions from which the system in question must emerge. However, in reality, what is most important to us here is much less the origin of the system than its rationale and the exact reasons for its construction. For its effectiveness (or, more aptly put, its efficiency) obviously needs to be judged in light of the aims sought, both economic (satisfying specific needs, maximising utilities, etc.) and social (guaranteeing social cohesion, going in search of a "common good").

We would furthermore like to emphasise that the two aforementioned objectives are indissociable. First of all, because we do not deem it possible to equate the economic optimum with the sole aggregation of individual utilities. That is, the principle of a common interest that makes itself evident to the community in its entirety, above and beyond specific interests, must be recognised, reflecting a societal undertaking or a desired vision of the way in which it functions. Secondly, and contrary to a simplistic representation of economic equilibrium, to coordinate individual decisions requires far more than mere pricing mechanisms. Yet the potential offered by alternative forms of coordination depend on the state of social relations, which in return, affect economic efficiency.

We will thus build from an analysis of those interactions to substantiate the existence of the social contract, before discussing the most suitable forms thereof, the places in which they are developed and the political institutions capable of guaranteeing their legitimacy.

### **I – Why a social contract?**

It is well-known that there exist many causes for market failure, some of which are very difficult, even impossible to remedy. It is for that very reason that the functioning of decentralised economies is based on modes of communication between economic agents that remedy insufficiencies in pricing mechanisms. This pertains to the laws and regulations that govern the behaviours, rules of conduct which individuals adopt and display, the conventions in which they seek refuge, the organisations to which they belong, etc.

The mediation function which organisations of all kinds play (companies, associations, administrations, unions, etc.) deserves to be highlighted in particular, as it solves the problems of informational asymmetry and inability to write comprehensive contracts that hamper many an economic interaction. It fosters lasting commitments between a given institution's stakeholders and thus the specific investments they are encouraged to make there. It also provides the conditions needed for cooperation between members, which market interplay is often incapable of rendering<sup>1</sup>.

This line of thinking could be developed at length, to show that forms of coordination offering an alternative to pricing mechanisms are vital in offsetting market failures or imperfections. However, what matters most of all to us is to convincingly convey that they cannot exist unless there is support for shared values and/or targets, reference points and/or common (or at least compatible) understandings of how such organisation should operate. The ties between their members are not limited to market exchanges, but depend also on a collective culture. As to the individual commitments just discussed, they are not imaginable unless there is trust between the organisation's stakeholders, founded on guarantees considered credible. From the macro-economic standpoint, at the level of the system as a whole, this can be seen in the existence, or sense of existence, of a social contract.

It can understand from this that the way in which individual decisions are coordinated is crucially dependent on social cohesion. It follows that the quality of social relationships coordinates the efficiency of the economic system. Consequently, the search for economic optimality cannot use individual utility as its sole reference point. It must also incorporate a target that lies above and beyond particular interests, and which we will refer to as the common interest. In purely hypothetical terms, due consideration for the common interest is not only a matter of ethical concern, but also contributes to the attainment of purely economic targets. This applies for instance to aspirations to a fair and protective society that conditions the trust of its citizens, and consequently, their support for the social contract that is the foundation of their reciprocal commitments.

## **II – Is there such a thing as an optimal form of social contract?**

The social contract's content can give rise to more or less extensive definitions. In all cases, it includes social insurance systems (health, old-age, unemployment, occupational accidents, etc.). However, social protection can also be found in employment or labour market regulations. Policies on education, housing, and local development, on the other hand, are in principle the best instruments for taking action against inequalities. Above and beyond this, corporate governance models (in particular their orientation in accordance with the objectives behind them: "shareholders" vs "stakeholders"), which are logically the result of private initiative, are also a significant component of the social model.

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<sup>1</sup> It should be noted, in passing, that disintermediation, meaning marketplace extension at the expense of organisations could weaken these mechanisms. This tendency pertains not only to the financial system (which could weaken local-level relationships between banks and companies), but also to all sectors affected by the introduction of digital platforms that put producers and consumers of goods and services in direct contact with one another.

All of the aforementioned institutions, rules and structures have accumulated over time, often in disorderly fashion and without any attempt to maintain consistency. Consequently, they end up overlapping and sometimes contradicting one another -- thereby raising the question as to how efficiently they can work as a whole. There are many examples of effects that have proven contrary to the aims initially sought and which result in incoherence:

- it is often said that overly-generous unemployment insurance, when combined with other social benefits, discourages individuals from continuing their job search or gaining new skills, thus resulting in "inactivity traps". Similarly, the lack of differentiation between company contributions to unemployment insurance, depending on how they manage their human resources policy, causes them to ignore the consequences of their behaviour in this area.

- it has also been asserted that too much job protection leads to dualism on the labour market (insiders vs outsiders). It nonetheless remains that, by challenging job protection, its adversaries (justly or unjustly) create a sense of insecurity that impedes social cohesion.

- the desire to guarantee equal access to public services (and consequently refusal of affirmative action) may be a source of inequity. There is no denying, for instance, that in education, inequities are on the rise. This is probably due to the fact that the policies conducted are not tightly focused enough.

- there comes a point at which the cost of social protection can turn out unbearable. In that event, it becomes a hindrance to growth and a source of disintegration to social cohesion -- perhaps because the underlying financing conditions are unsuited.

- the fact that social protection is in large part connected with jobs and statuses (at least in France) is no longer in line with current preferences for career fragmentation and greater professional mobility. This is just as likely to result in blocking the desired developments as it heightens insecurity and inequalities. The idea of portability of rights gained (on which France's Personal Account Activity concept is based) offers interesting prospects for taking up this challenge. However, the actual implementation and exact forms which the CPA is to take on raise even more and challenging questions<sup>2</sup>.

- more generally speaking, it may be that the social protection system is in contradiction with some characteristics of broader economic system around it. For instance, it has been shown that stronger job protection does not fit well into a financial system in which market financing is prevalent; in contrast, in a system with greater intermediation, customer relationships between banks and companies make it possible to offset the lower job flexibility. However, in the event of contradiction, there is good reason to ask whether it is social protection or the structure of the financial system that should be questioned.

The list goes on endlessly. Generally speaking, those inefficiencies come from poor targeting in the various systems, a mismatch with the characteristics of the environment in which they were designed, inadequate assessment following implementation, etc. They also

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<sup>2</sup> See « *Compte personnel d'activité : synthèse des débats* », France Stratégie, April 2016.

result from failure to fully take into account the interdependency between them, due in particular to the multiple centres of responsibility (decision-making centres) in this area. It is precisely that point which we now need to consider.

### **III – At what levels should the social contract be built?**

De facto, the components of the social contract are built at varying levels (across different politico-geographical spaces), diverge in nature and too often play out in uncoordinated fashion. It was long deemed that the Nation State was the natural level for the development and implementation of the social contract. Now, however, it appears dispossessed both from the bottom up (in other words, through decentralisation, the rise of communitarianism, the desire to promote local identities, etc.) and top-down (through excesses resulting from globalisation). The problem which then emerges is that of how to optimise areas of skill between the various levels.

It will easily be agreed that much of the bond connecting society today results from decentralised contributions from a multitude of players. It can also be recognised that many of the decisions that structure communities gain from being made in a deconcentrated or decentralised manner. However, when it comes to building and managing a social protection system or determining the constitutive ends of the common interest, the local level appears sorely inappropriate. Indeed, to operate at the local level would be to counter the development of geographic mobility. Secondly, risk-sharing (or pooling) is more efficient when done across a larger community. And lastly, identities are asserted all the more markedly in a broader space. Can it not be concluded from this that the allure of seeking safe haven at the local level and the effort to build new solidarities there are but illusory? Or, in less provocative terms, is it possible to identify those components of social order that deserve to be defined and managed at the local level?

The threat which the internationalisation of the economies places upon national social models is even more severe. First of all, because some of these aspects are matters of general interest, in particular those regarding the environment (which are part of the inter-generational social contract), and are raised at the supra-national level. It is also widely-known that the rise of international transactions and migration is weakening the most protective social systems. All of this implies, at the very least, cooperation and thus sovereignty-sharing, if the principle of increasingly open economies is maintained.

The construction of the European Union has often been put forth as the only solution possible for safeguarding social models, in particular those of Continental Europe. Yet its aspirations and achievements in this area have been exceedingly modest. Not only have the European powers pushed the principle of subsidiarity through, but more importantly, they haven gone so far as to pit the social models used by different partner countries against one another. In that sense, their approach is actually quite logical, in that competition has always been the reference mode of action in the Union (perhaps the only one) when addressing the integration of economic and social systems. Does this mean we must resolve to deem that Europe will never be the right level for reformulating a social European model, resisting the pressures of globalisation?

#### **IV- A final question by way of conclusion**

Even if the expression “social contract” suggests that it is based on individual wills, its concrete definition inevitably calls conflicting interests centre stage and forces arbitration between them. The same applies when it comes to defining the end-purposes of the general interest, which we feel must be made part of the overall process. In other words, in order to be legitimate, they need to lend themselves to debate and be the result of democratic decisions. This is a necessary condition if we are to prevent the very idea of the general interest from becoming a means of manipulation, wielded by groups whose interests are anything but general. This is incidentally the key point put forth by those with liberal leanings to recuse the concept.

However, while not neglecting the possible benefits of direct democracy and taking into account all of the aforementioned, we feel that the best-suited place for such discussion and decision-making is at a level that gives the preponderant voice to representative democracy. This naturally implies that the elected officials in charge of expressing the collective will must be seen as legitimate themselves -- and this is one condition that no longer seems to be in place in the democracies of certain developed countries. For, justly or unjustly, a sense has spread that political power has been overtaken by a small class of professionals that is more subservient and sensitive to the action of pressure groups than it is intent on expressing the will of the majority. That deficient democracy is without a doubt a major obstacle to initiating reforms in the social arena.

All of which calls forth this last question: is the reform of political institutions not, at least in certain countries, a pre-requisite for rebuilding a more efficient social contract?