

WHAT WE OWE EACH OTHER

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We need a new social contract fit for the 21st century

Everyone participates in the social contract every day, and we rarely stop to think about it. Yet social contracts shape every aspect of our lives, including how we raise our children and engage in education, what we expect from our employers, and how we experience sickness and old age. All of these activities require us to cooperate with others for mutual benefit, and the terms of that cooperation define the social contract in our society and the shape of our lives.

Laws and norms underpin these daily interactions. In some societies, the social contract relies more on families and communities for mutual support; in others, the market and the state play a greater role. But in all societies, people are expected to contribute to the common good when they are adults in exchange for being looked after when they are young, old, or unable to care for themselves.

My interest in social contracts grew out of a desire to understand the underlying causes of the recent anger manifested in polarized politics, culture wars, conflicts over inequality and race, and intergenerational tensions over climate change. Discontent is widespread. Four out of five people in China, Europe, India, and the United States feel that the system isn't working for them, and in most advanced economies parents fear that their children will be worse off than they are (Edelman 2019). The pandemic served as a great revealer as it hit the most vulnerable—the old, the sick, women, and those in precarious jobs—the hardest and exacerbated existing inequalities.

Most of this disaffection stems from the failure of existing social contracts to deliver on people's expectations for both security and opportunity. Old arrangements have been broken by varied forces, including those whose

overall impact on society has been positive. These include technological change, which is revolutionizing work, and the entrance of increasingly educated women into the labor market, which interferes with their ability to care for the young and the old for free. Looking ahead, population aging means that we will need to find new ways to support the elderly, and climate change compels us to work even harder to make the world environmentally sustainable.

The good news, however, is that a new social contract is possible that can satisfy people's need for security and opportunity while also addressing the challenges that affect society as a whole. This new social contract depends on three pillars: security, shared risk, and opportunity. What would this mean in practice?

Security

Labor markets have become more flexible, and informal working is now a common feature of life in both developing and advanced economies. Increasingly, we are on our own in society: workers shoulder the risk when it comes to their income, how many hours they work, and how they cope if they are ill or unemployed. The balance has tilted too far in the direction of flexibility for employers at the expense of security for workers.

Every society can put a floor on income below which no one can fall. This can be achieved through cash transfer programs in developing economies or tax credits for low-wage workers in advanced economies. At the very least, societies should ensure access to a basic health care package and a minimum state pension to prevent destitution in old age. Sick leave, unemployment insurance, and access to reskilling should be provided regardless of the type of employment contract. In developing economies, this means bringing more workers into the formal sector; in advanced economies it means mandating that employers pay benefits to flexible workers. The bottom line is that everyone must have a minimum level of security for a decent life.

Shared risk

Too many risks in our society are borne by individuals when they would be more efficiently managed by others or collectively. Employer flexibility when it comes to being able to hire and fire workers depending on market

conditions is feasible if workers are guaranteed unemployment insurance and retraining until they find a new job. The risks from economic shocks should be shared by employers and society as a whole and not placed solely on individuals.

A similar rebalancing of risks needs to occur around childcare, health, and old age. It is not clear why, for example, the costs of parental leave are usually borne by employers when funding it through general taxation would create a more level playing field for men and women in the labor market and be less of a burden for firms, especially smaller ones.

Similarly, many health risks are more efficiently managed by pooling them across a large population while strongly motivating individuals to manage risks through diet and exercise. Linking pension ages to life expectancy would make sure that individuals save enough for their retirement. Financial security in old age can be funded through general taxation rather than linking it to employment as is usually the case—but automatic enrollment in pension plans and insurance for old-age care would give people more security at the end of their lives.

Opportunity

Too often, talent is wasted because people aren't given opportunities to advance. In Denmark, for example, it takes on average about two generations for a person to rise from lower to middle income; in the United Kingdom and the United States it takes five; and in countries such as Brazil, Colombia, and South Africa it takes more than nine generations. In most countries, the architecture of opportunity tends to hold back women, minorities, and children born to families, or in places, that are poor.

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Yet harnessing everyone's talents is not just an issue of fairness; it is also good for the economy. For instance, better use of all the talent in society explains between 20 and 40 percent of the productivity gains in the US economy between 1960 and 2010 (Hsieh and others 2019). Instead of drawing on a limited talent pool of mainly white men, changes in laws and norms meant that employers were able to choose from a broader pool of skills and match people with jobs that suited them best. Similarly, if today's "lost Einsteins"—women, minorities, and people with low incomes—could

innovate to the same degree as white men from high-income families, the rate of breakthroughs could quadruple (Bell and others 2017).

How can we harness all that talent? Start early: the first 1,000 days of life are the most important for brain development. Intervening during this period is the most efficient way to equalize opportunities and provide the foundational skills for future learning.

Extra nutrition for preschoolers and help with parenting skills also make for better educational outcomes and higher incomes later in life. For instance, in Jamaica, young children visited just once a week by a community health worker earned 42 percent more 20 years later than children who did not get such support (Gertler and others 2014).

All young people should be entitled to education and training and a lifetime endowment to pay for additional skill development over what will be much longer careers. Hundreds of studies of adult learning demonstrate how strong links to employers, early intervention, and sustained funding can keep people in work and contributing to society.

While most countries have equalized educational opportunities for girls and boys, women are still disadvantaged in the workplace because they do about two hours a day more unpaid household work than men. More generous parental leave, public funding to support families, and a fairer division of labor at home would make better use of female talent and allow more people to contribute to the common good.

Is it affordable?

A new social contract is not about higher taxes, more redistribution, and a bigger welfare state. It is about fundamentally reordering and equalizing how opportunity and security are distributed across society. This would increase productivity and more efficiently share risks around childcare, health, work, and old age that cause so much anxiety. We should tax the things we want less of, like carbon and smoking, and subsidize things we want more of, like education and a greener economy. Giving everyone the opportunity to use their talent and contribute reduces the need for redistribution later.

An international system that enables such a transformation is essential. This means ensuring that international financial institutions have the resources to help societies invest and support minimum incomes, education, and health

care. It also means better rules around global taxation so that companies pay taxes where economic activity takes place for the benefit of the people where those companies operate. Such an international system would shore up the global economy with a social contract that is both efficient and fair and therefore more likely to garner public support.



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