

The New Social Covenant

The world is facing a series of challenges and difficult adjustments. Each day seems to bring news of a fresh conflict. The social contract that binds us together is broken and social trust is at an all-time low, particularly in developed economies. Inequality is rife and we are struggling to equitably distribute already limited resources, leaving many people in extreme poverty. Austerity and retrenchment are exacerbating all these problems.

How we choose to deal with each of these issues depends on our values – the values that government, business, civil society and individuals use to guide their actions. These choices need to be self-conscious, not merely driven by the inertia of accumulated interests. This is not just a philosophical enterprise; it is an urgent matter that requires moral courage, and the stakes are high.

It is therefore time for a period of intentional global reflection on the values that shape how we make decisions. To guide this reflection, we need a new social covenant.

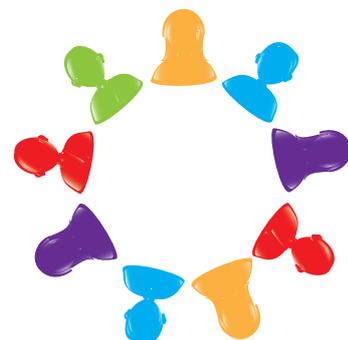
Previous social covenants have centred around individual rights. While these are absolutely essential, we also need to focus on what we owe to one another – both within and among nations. If our aim is to restore trust, we must first restore a sense of mutual responsibility.

Values vary greatly between different cultures, religions and philosophies. But some are common to all:

- The dignity of the human person, whatever their race, gender, background or beliefs
- The importance of a common good that transcends individual interests
- The need for stewardship – a concern not just for ourselves but for posterity

Together, these offer a powerful, unifying ideal: valued individuals, committed to one another, and respectful of future generations.

Fostering these values is both a personal and a collective challenge. We must do more than just talk about them; we must bring them into public life, and use them to guide decision-making. Doing so relies on transformational, values-based leadership in all fields. This type of leadership should be cultivated, encouraged and honoured, at the World Economic Forum and beyond. We must engage leaders who can respond to global challenges in effective, productive and healing ways – people who will build a more just, generous and sustainable world, for our generation and those after us.



The broken social contract

The collapse of the global financial system, and the economic crises this triggered, has eroded trust and left many people disillusioned with the way our organizations operate and how decisions are made. Former assumptions and shared notions about fairness, agreements, reciprocity, mutual benefits, social values and expected futures have all but disappeared.

The social contract between business, government and society seems to be broken. The legitimacy of corporations has reached a new low point, and they run the risk of losing their licence to operate. We are seeing growing public indignation at the perceived disconnect between perks for a few and the rights of the many. People are demanding more collaborative, sustainable and inclusive ways of creating values.

Values are clearly a central part of effective leadership. However, while many leaders espouse principles of transparency, integrity and a commitment to the common good, their actions often fail to live up to them. Today more than ever before, this gap between values and behaviour is open to public scrutiny. What we are seeing is that even well-articulated and widely supported principles are difficult to apply to day-to-day decision-making and to the actions of suppliers, dealers, customers and employees, many of whom have diverse and sometimes conflicting value systems.

For some 35 to 45 years following the Second World War, in many of the advanced industrial democracies, there was a social contract between citizens and their governments. In some countries this was explicit, and in others it was implicit. In addition to democratic and transparent elections, a functioning justice system, and security against internal and external threats, the state promised citizens access to universal education, a degree of support in old age and a safety net against ill health, unemployment and other unpredictable life events. The extent to which citizens were covered by the contract was marked by cleavages along racial, ethnic and other lines; but even for marginalized groups, the social contract provided a powerful moral framework for them to assert their rights.

Perhaps one of the most important parts of the majority of these social contracts was the state's commitment to full employment. Citizens expected that by working hard, they would receive a fair reward in return: economic security, higher standards of

living than the generation before them, better prospects for their children. With declining income inequality, these were expectations shared by a growing number of people.

Citizens also expected the state to protect the value of their savings and assets. This was an era "as safe as houses". Although governments sometimes failed to meet all these expectations, there was at least consensus that these were reasonable goals to work towards.

All of this has changed over the past 20 to 30 years, and we have witnessed a breakdown in trust between citizens and their governments. This is true whether we are talking about the United States, where populist movements are gaining ground, Europe and Arab countries, which have been rocked by protest movements, or the rest of the world. People today widely believe their country's economic system to be unsustainable, unfair, unstable and deeply unfulfilling.

In addition, class mobility has all but stalled, even in countries like the United States, a country founded on the belief that by working hard, anyone can lift themselves out of poverty.

These problems are systemic and interlinked. Overcoming them will require a "great transformation".

The most dangerous trend is the instability and unfairness that have crept into the system. Advanced economies have in general been constructed with a view to short-term efficiency rather than resilience. Long-standing institutions and practices – such as labour unions that represent the economic and political interests of workers – have been attacked and accused of undermining an efficient economy. By bringing politics into economics, these institutions were said to distort economic flows and outcomes.

But politics abhors a vacuum, and in the political space vacated by weakened labour organizations, economic elites now exert extraordinary influence over economic affairs.

Economies, like ecosystems, need a balance between resilience and efficiency. The safety nets, firewalls and rescue mechanisms that have been designed into our national and international systems are insufficient.



The result has been an increase in the number of shocks to worldwide systems. A subprime housing crisis in the United States triggered a banking crisis, which, partly as a result of necessary bailouts, resulted in a sovereign debt crisis. This, largely because of flaws in the design of the currency, has since triggered a euro crisis.

Those who, through no fault of their own, have lost their jobs, houses and savings no longer trust what seems to be an unfair system. Even those who have not experienced such losses are nevertheless worried about what the future holds for their children. And yet, in this new political climate, these victims of the financial crisis are often blamed for their profligacy.

Inequality

In the last 100 years, there have been two peak periods of great inequality: just before the Great Depression and, in 2008, right before the Great Recession. This issue of inequality was for a long time ignored in discussions about the economy, but it is now receiving a great deal of public attention. This is in large part due to the actions of the Occupy movement, an international protest movement that has given a voice to the often unspoken view that something has gone terribly wrong in our societies. Its message has resonated widely. According to the World Economic Forum 2014 Global Risk Report, inequality ranks amongst the top threats to economic stability.

Social movements have created the space for a new conversation – a moral discussion – about this inequality. The concept of “the 1% and the 99%” is now widely understood and discussed, and it is changing the cultural and political framework. Questions such as what is fair, just and right are now firmly on the table, and political and economic leaders will have to answer them.

For example, data from Thomas Piketty’s book “Capital in the 21st century” In his book, *Capital in the 21st Century*, French economist Thomas Piketty contends that we have regressed to a “patrimonial capitalism” that resembles nineteenth-century levels of wealth distribution, concentrated among family dynasties. While the top 1 percent of American households take in about 22 percent of income (including capital gains), 0.1 percent of households own one-fifth of the country’s wealth.

Over in the United Kingdom, inequality is at its highest in recorded history. In 1979, the country had inequality levels similar to the Netherlands. It is now one of the most unequal developed countries in the world.

In most advanced countries, the gap between what chief executives and the average worker earns has grown significantly in the past 30 years. This is just one example of how inequality has been increasing in countries across the world, fuelled in many cases by corruption and greed. As food, water, land and energy are distributed in unfair ways, the chance of conflict increases.

We already know from research carried out by Richard Wilkinson and Kate Pickett for their book, *The Spirit Level*, that inequality, even more than poverty, harms everyone in society. Their work showed that unequal countries have far more social problems (including crime and corruption) and lower levels of trust and well-being. In a similar vein, Nobel laureate Amartya Sen has argued that those who suffer from inequality, even in wealthy societies, have less economic and political freedom.

Inequality is also weakening the foundations of economic systems. There is increasing evidence that the financial meltdown of 2008 was partly caused by a combination of the falling wage share of lower income earners and consumer credit with too few restrictions. This led to an unsustainable rise in personal debt. There is also evidence that too much spare cash at the top led to reckless behaviour from the wealthy.

Finally, another type of inequality – the failure to invest in people everywhere – reduces the amount of talent that an economy can draw on. This has negative consequences for innovation, tax take and aggregate economic prosperity and growth.

Loss of trust

Underneath all this lies a deeper issue – the belief that leaders have betrayed public trust, that systems are unfair, that the rules of the game don’t apply to those at the top, and that we are all on our own in this modern economy.

According to a recent report from the Pew Research Centre, in the United States trust in the government is at its lowest level in 50 years. The 2012 Edelman Trust Barometer found that the credibility of chief executives has plummeted.

People no longer trust their governments and institutions. They believe they are being penalized for mistakes made by others. While those who made the mistakes seem to continue to reap handsome rewards, the rest feel like they are no longer being rewarded for their efforts. As a result, many feel detached from society and have lost hope.

At the same time, public scrutiny and social accountability of companies, institutions, and governments is growing. Thanks to blogs, microblogs and other social networks on the internet, it has become easier to expose and share information on controversial or unethical behaviour. Empowered by this radical transparency, consumers increasingly expect social responsibility to be a core part of a company’s mission. People everywhere are demanding new, more transparent, collaborative and inclusive values that prioritize well-being, happiness and meaning as much as profits.

A stakeholder economy

Most of these issues are already being discussed at the World Economic Forum’s Annual Meeting in Davos, and participants regularly criticize “short-termism”. At these meetings, there is a general consensus that it is time to move away from a narrowly defined shareholder economy towards a stakeholder economy, where the interests of everyone – workers, consumers, advocates, future generations, even the environment – are included in all our economic calculations and decision-making. The Forum is in a unique position to foster debate on how to move towards this multistakeholder model.

There is a growing demand for such a shift, particularly among the younger generation. For example, a 2012 Deloitte survey of 1,000 employees born after 1981 showed that 92% believed that the success of a business should be measured by more than profit. A company’s societal purpose is clearly important for the millennial generation.

Evidence suggests that “purposeful” companies – those that value more than just profit – not only find it easier to recruit and retain staff, they also outperform businesses whose stated purpose is to maximize shareholder value. To be able to create enough good-quality jobs for all and to live within our planet’s

environmental limits, we need more companies to adopt this multistakeholder model.

The principles developed by Corporation 20/20, an initiative of the Tellus Foundation, outline what multistakeholder companies should look like:

- The purpose of the corporation is to harness private interests to serve the public interest
- Corporations shall accrue fair returns for shareholders, but not at the expense of the legitimate interest of other stakeholders
- Corporations shall operate sustainably, meeting the needs of the present generation without compromising the ability of future generations to meet their needs
- Corporations shall distribute their wealth equitably among those who contribute to its creation
- Corporations shall be governed in a manner that is participatory, transparent, ethical and accountable
- Corporations shall not infringe on the right of natural persons to govern themselves, nor infringe on other universal human rights

What needs to be done?

A new social covenant between citizens, businesses and governments urgently needs to be designed. A covenant is more suitable than the old “contract” model, as covenants place more emphasis on values and trust. While a contract is merely transactional, a covenant is morally binding.

By definition, this will require the engagement and collaboration of all stakeholders, including governments, businesses, civil society and faith groups. Covenants will vary from country to country, and it is not possible to be prescriptive about either content or process. However, certain universal values, such as the dignity of the individual, the primacy of promoting the common good, and the responsibility for stewardship of the planet, will feature in all of them.

These new social covenants must take into account the changing nature of the world we live in. Given the central role business plays in all our lives, the covenants, unlike the social contracts of the past, must be between citizens, governments and businesses.

The following are some points that are likely to be included in the new social covenants:

- Agreement on basic, universal values and ethics
- Consensus on the need to reflect these values in a country’s legislation and regulation, and in the international economic agreements that define countries’ duties to each other
- Education systems that are open to all and that foster equality of opportunity
- A goal of providing good-quality jobs for all those who need them, focusing in particular on jobs for non-graduates, increasing access to technical education, putting in place apprenticeships, establishing a proactive tax and incentive system and ensuring industrial strategy is fit for the 21st century
- Fair rewards for hard work and contributions to society
- Adequate security for savings and assets
- A commitment to reduce inequality and to keep income and rewards within fair bands at the top and bottom of the scale
- Stewardship of the environment and a commitment to preserving natural capital for the benefit of future generations, as far down as the “seventh generation”, which

indigenous people use as a moral metric

- Stable, socially useful and accountable financial sectors
- Increased opportunities and social mobility
- The promotion of human well-being, happiness, flourishing and freedom to live a valued life as key societal goals
- Adapting new ways to measure progress at both national and company levels
- Measures to ensure personal privacy and public transparency in an increasingly digital world
- Moving from a shareholder model of companies and a client model of other vital institutions (such as schools and universities) to a stakeholder model
- Engaging the next generation in designing new models and practices

How might a new social covenant come into being?

The ideas and design principles outlined above are not meant to be definitive. They are instead meant to start a dialogue on what these new social covenants should look like. This is important, because we can’t just write down a few principles and expect them to become a covenant. These new social covenants will be the product of conversations between citizens, businesses and governments. These conversations will need to address aims, discuss barriers and, above all, build trust. The World Economic Forum brings together representatives from all stakeholder groups. It is therefore the best-placed organization to initiate this dialogue. Conversations on how to create new social covenants already started at the Annual Meeting 2013.

What sort of issues should these conversations be addressing? They could, for example, explore the idea of a “just economy” – what would it look like and who would it be for? They could also look at how we can do things differently, more responsibly, more equitably and, of course, more democratically. Conversations between leaders from business, politics and civil society could examine the meaning of a “moral economy” and look at what is wrong with current practices. These conversations could help drive both ethical and practical economic decisions. Trust is a key part of a covenant. These conversations should therefore also look at how this trust can be monitored, encouraged and rewarded.

Yesterday’s social contract has been broken. As a result, people have lost trust in politics and business. This lack of trust undermines people’s sense of participation in society and their feelings of social responsibility. It makes people feel isolated and alone, and means they care more about survival than solidarity.

But rather than trying to piece this broken contract back together again, we instead need to establish how we can build new social covenants infused with moral values and commitments. The process of formulating these covenants could help find solutions to some of the biggest challenges we face.