The world of work is undergoing major changes that will continue, and potentially intensify, in the future. To better understand and in order to respond effectively to these new challenges, the ILO has launched a “Future of Work initiative” and proposed four “centenary conversations” for debates in the years leading up to its centenary anniversary in 2019: (i) work and society; (ii) decent work for all; (iii) the organization of work and production; and (iv) the governance of work. This Issue Note Series intends to provide an overview of key trends and issues in selected thematic areas of particular relevance to the “conversations” with a view to informing and facilitating dialogue and debates at the national, regional and global levels.

SOCIAL CONTRACT AND THE FUTURE OF WORK:
Inequality, income security, labour relations and social dialogue*

This note discusses the role of the social contract between the state and other actors in defining mutual expectations for distributing power and resources to achieve social justice, the erosion of that contract as result of rising inequality and other developments in the world of work, as well as policy challenges in renewing the social contract.

1. Introduction: The changing world of work and its implications for the social contract

In the world of work the market, state and citizens interact continuously and their relationship evolves constantly. As a result of this process, an implicit social agreement often emerges that broadly determines the relationship between the actors and establishes guiding principles in building economic, social and political institutions. Such an agreement is called a social contract.

While it varies across countries and over time, a social contract can be understood as an implicit arrangement that defines the relationship between the government and citizens, between labour and capital, or between different groups of the population. Essentially, a social contract reflects a common understanding on how to distribute power and resources in order to achieve social justice. This understanding reflects both substantive and procedural dimensions. The substantive dimension of the social contract relates to the manner by which common goals, such as equity, fairness, freedom and security, are framed and prioritized in a society, while the procedural dimension relates to the institutions and procedures that are used to shape and legitimize this common understanding.

Both the effectiveness and relevance of the social contract depend on how it can adapt itself to new economic, social and political realities. When the world of work undergoes profound changes, tensions grow threatening to erode the existing social contract. For example, there is widespread concern that, in some parts of the world, the post-World War II notion of a social con-

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tract based on economic growth, full employment and social security no longer enjoys consensus. At the same time, other countries now struggle to arrive at a stable social contract in the face of economic volatility, social conflicts and low trust in governments and institutions. As is the case with the employment relationship (see FoW Issue Note No. 3) this phenomenon varies significantly across countries.

Developing an effective and sustainable social contract which reflects changing realities in a given country remains a common challenge. Thus, it should not come as a surprise that, as ways of achieving a fair globalization, the World Commission for the Social Dimension of Globalization (2004, p.65) has called for a “new social contract” that encompasses: (a) commitment to social dialogue in the formulation of economic and social policies; (b) recognition that the drive for greater efficiency and higher productivity must be balanced against the right of workers to security and equal opportunities; and (c) a commitment to take the “high road” of business-labour collaboration to achieve efficiency gains, and to eschew the “low road” of cost-cutting and downsizing. The Commission’s call has received a growing resonance in recent years, particularly in the context of the decade-long global economic crisis and the rapidly changing world of work.

This note examines the nature and viability of the social contract in light of recent wide-ranging changes in the world of work (see FoW Issue Notes Nos 1, 2, and 3). Reflecting the Commission’s discussion on the social contract, it focuses on the following interrelated issues: income distribution, inequality and income security, labour relations and social dialogue. Section 2 briefly reviews the evolution of the social contract in recent years and the symptoms of “social contract under strain”. Section 3 follows by investigating major forces which have contributed to undermining the basis of the social contract, while considering different circumstances in developed and developing countries. Section 4 examines how these changes constrain major policies and institutions underly- ing the current social contract. Section 5 concludes by proposing key issues for future debates.

**2. The social contract under growing strain**

Changes in the world of work present multiple opportunities and challenges for shaping the social contract in the 21st century. Employment is a major structural element of the social contract, shaping the rights and responsibilities of workers and employers, labour and capital, strongly influencing the distribution of resources and power in a society.

One of the major challenges to the social contract in the 21st century is the high and often growing level of inequality and income insecurity in many parts of the world, despite some progress made in reducing poverty and significant advances in human development, including lower maternal and child mortality, as well as a rise in education levels (UNDP, 2015). Yet, people living in the most extreme forms of poverty are still left behind (Ravallion, 2014), and social exclusion, particularly of disadvantaged groups, is still a major concern (UN DESA, 2016). Many workers and their families around the world are struggling with low and fluctuating incomes, poor working conditions and a lack of social protection, and many of them continue to live in poverty despite hard work (ILO, 2016b). One contributing factor is the economic exclusion rooted in both low productivity and underdeveloped productive structures, which tends to produce to high levels of poverty, informality and inequality. In many parts of the world, the aspirations of increasingly educated and skilled populations for decent work have been disappointed in the face of high levels of unemployment, underemployment and informality.

Moreover, social mobility has not delivered on the promises made in previous decades. In many parts of the world, younger generations can no longer rely on reaching higher living standards than their parents, as used to be the case. In fact, observers have warned that today’s youth may become a “lost generation” whose ambitions to find decent employment are disappointed by the ongoing recession and jobless growth (ILO, 2012; see also FoW Issue Note No. 2). Inequalities in access to health care, education, skills development and employment hinder upward social mobility, while holding back economic and social progress. Various factors contribute to such inequalities, including gender, disability, rural/urban disparities, and migration (ILO, 2016a). At the same time, fears about downward social mobility, including among the middle class, are
fuelled by stagnating real wages and weakened income security, and weigh heavily on perceptions of equality and social justice.

These developments present important challenges to the social contract. While countries have very different approaches to what is considered a fair distribution of resources, some elements are common to many societies. One of these elements is the role of equal opportunity, which addresses the question of how to equip individuals with the tools to succeed regardless of their circumstances, how to reward merit, and to what extent those with more resources have the responsibility to share with others in the interest of overall progress.

The fact that high inequality has recently moved into the centre of the global debate may be linked to the realization that inequality has reached a level that threatens the basic tenets of the social contract. In addition to fuelling discontent and political unrest, social and economic exclusion is increasingly perceived as undermining development permanently by leaving behind a significant share of the global population. A renewal of the social contract is therefore much needed.

3. What forces erode the social contract?

What are the driving forces that fuel these challenges to a stable social contract? While there is a complex bundle of factors that shape the social contract in today’s societies, some of these factors have had a particularly strong adverse impact on the social contract itself. They are all related to profound changes in labour demand-supply and the employment relationship (as discussed in FoW Issue Notes Nos 1-3 and 5).

Globalization and the financialization of the economy

One of the major challenges faced by the social contract in the 21st century is greater economic integration caused by the globalization of the economy. While globalization has opened many opportunities, it has also contributed to a shifting balance between labour and capital, to more intense global competition, higher macro-economic instability and a secular increase in income inequality (e.g., Piketty, 2014). The accelerated deregulation of product and labour markets since the 1990s has contributed to this development, and there is continued pressure to continue on this route (IMF, 2016). Where financial markets dominate the “real economy”, the gains from economic activities are increasingly concentrated in a few hands, rather than shared more broadly (World Commission on the Social Dimension of Globalization, 2004; ILO, 2014a).

The financialization of the economy is also associated with increased instability in the global economy. Deregulation policies in force since the 1980s, and an increasing dependence of economies on the financial sector have contributed significantly to this trend. Where economic activities are strongly connected and linked to higher levels of financial leverage, a financial crisis can quickly develop into pervasive economic and social crises, as demonstrated by the long-term repercussions of the 2008 crisis. While there has been some re-regulation of the banking sector accompanying government bailouts, significant challenges remain. Financial resources however are not allocated to a sufficient extent to productive investments which would offer possibilities for increased productivity and the creation of new employment opportunities (see FoW Issue Note No. 5).

Technology and new forms of work

Technological changes, such as increasing automation and digitalization, may have a profound and transformative impact on the world of work, which some consider a “Fourth Industrial Revolution” (see FoW Issue Note No. 1). Some observers are concerned that these changes will lead to a “race against the machine” (Brynjolfsson and McAfee, 2015) or a “jobless future” (Ford, 2015). Others point to the adaptive capacities of societies to react to these changes and the opportunities arising from these developments for more meaningful work to emerge from dangerous or boring tasks. Nonetheless, there are concerns about a growing polarization of tomorrow’s societies, with a stark increase in the number of low-income workers and households facing even higher
levels of precariousness, a shrinking middle class, and the further ascent of a minority of ever wealthier people at the top of the income scale (Degryse, 2016).

Yet, digitalization and automation also allow for better economic opportunities and more flexibility (Hill, 2015). For example, mobile phone services allow agricultural producers in remote areas to check crop prices and to better negotiate the sale of their produce. Telework, crowd-work and other forms of remote work offer new opportunities for people to engage in employment in a more flexible way, for example persons with restricted mobility, parents with young children or others providing care for family members. Whether or not automation and digitalization benefit specific groups of workers they may become the source of new inequalities.

The “new” forms of employment associated with automation and digitalization which are emerging in some parts of the world challenge the rights and responsibilities associated with an (explicit or implicit) employment relationship (see FoW Issue Note No. 3). While the system of industrial relations is built on the notion that employers have a responsibility for the well-being of their workforce, in the “on-demand” or “gig” economy such responsibility, is not readily assumed by either the “buyers” of labour (those requesting the services) or the “organizers” (platforms) (Berg, forthcoming; De Stefano, 2016). At present, many countries are struggling to determine the status of these workers and putting in place appropriate protection; taking into account that the boundaries between labour law and commercial law have become blurred. While these “new” forms of employment currently affect a minority of total employment, many observers expect that these are going to grow exponentially in the near future.

Informality

In many parts of the world, high inequality and poverty, together with low levels of income security are associated with a prevalence of informal employment and the associated lack of protection. The informal economy is characterized by a shortage of productive development, large decent work deficits and a lack of both labour and social protection for the majority of workers, resulting in low incomes and a high degree of income insecurity. The existing labour relations institutions face difficulties in addressing these challenges and finding new ways of aggregating workers’ interests (Hayter, 2015a; Hyman, 2015; Sen and Lee, 2015).¹

Informality has broader implications for the social contract in a society, as it constitutes a symptom of a significant malfunctioning in the relationship between the state and its citizens. An effective social contract requires a fair balance between rights and obligations, an equitable and effective application of the law and appropriate enforcement mechanisms, as well as effective accountability mechanisms. If citizens (and economic actors) cannot trust the state to provide them with needed services and protection, if laws are not enforced in an equitable and effective way, if legal and institutional frameworks are perceived as dysfunctional and ineffective, if the tax system is not recognized as a fair and effective mechanism to finance collective goods, then compliance with legal frameworks will remain low.

Weakening of labour market institutions

The rise in inequality and income insecurity has been associated in particular with changes in employment and earnings patterns, persistent unemployment and underemployment (ILO, 2016c), as well as a widespread decline of the labour share (ILO, 2014a). Real wages have stagnated in many parts of the world, and have lagged behind productivity growth, corporate profits and property income. The changing nature of work and employment relationships, as well as the weakening of labour market institutions, have contributed to this trend, and are considered as one of the driving factors of higher inequality and insecurity (Berg, 2015).

Labour market institutions are not only challenged by external forces, but in many countries also by a lack of adaptation to a fast moving context. Keeping those institutions on par with the changing needs of workers and employers is also an “internal” responsibility of its actors.
The role of unions and collective bargaining is particularly important in this regard (Hayter, 2015b). Collective bargaining has come under pressure in many countries since the financial crisis of 2008, following a longer-term decline in union membership rates. There are concerns that these trends may even accelerate in the future with the rise of the on-demand economy and “non-standard” forms of employment (Degryse, 2016). The higher diversity of working arrangements, shifts towards shareholder or market-oriented corporate governance and the emergence of global production networks, all present challenges for labour relations and collective bargaining. However, during the recent global economic crisis, countries that supported inclusive collective bargaining through a range of policy measures were able to increase collective bargaining coverage, especially for small and medium size businesses and for migrant and workers in non-standard forms of employment (ILO, 2015).

4. Challenges for national policies and institutions shaping the social contract

All of the trends discussed above, which result in rising inequality and greater income insecurity, challenge societal values about fairness and equity and ultimately the social contract itself. If economic gains are captured by the richest, and if the majority of society does not benefit from economic growth, social cohesion is at stake. It is now recognized more widely that high levels of inequality inhibit sustainable economic growth and undermine the potential for future economic development (Ostry et al. 2014; IMF, 2014; OECD, 2012; ILO, 2014a; ILO, 2008). However, it appears that this awareness is still to be translated into concrete policies in order to address rising inequality in a meaningful way, and to forge a renewed social contract.

One of the challenges to the social contract is how to strengthen the representation of different groups of workers and employers. On the workers’ side, this includes the challenge of organizing the collective voice of informal workers, as well as those outside of established employment relationships, and the need to build broad-based coalitions with organizations that have similar interests, such as cooperatives, user groups, traders’ associations and other civil society membership-based organizations. On the employers’ side, this includes the challenge of effectively representing the interests of SMEs and strengthening the relationship between MNEs and national employer organizations. Effective social dialogue depends on achieving such representation.

A broad debate about the role of business in society is also taking place. There are high expectations for the role of business in inclusive growth and sustainable development, yet at the same time important questions are being asked about the tension between business interests and public goods in public-private partnerships. In this respect, growing attention is being paid to the role of public policy in stimulating a positive contribution of business to society.

Changes in the world of work also create other significant challenges for public policies. While greater precariousness increases the need for redistributive policies, fiscal capacities have shrunk in many parts of the world, partly as a result of an increased mobility of capital and tax competition. While there have been some efforts to confront harmful tax competition, such as base erosion and profit shifting (OECD, 2013; OECD, 2015; Crivelli et al. 2015), fiscal sovereignty has shrunk in the face of globalization and financial pressures. More limited fiscal space and global tax competition restrict the scope of manoeuvre for governments to invest in redistributive policies, including in the provision of quality public services and transfers. Given that these are key policy tools governments have at their disposal to contain inequality, limited fiscal space may result in a further increase in inequality (see FoW Issue Note No. 5).

Social protection systems are key instruments for redistributive policies, together with tax systems. In fact, a large number of developing countries have recently expanded their social protection systems with a view to reducing and preventing poverty and addressing inequality (ILO, 2014b). Yet, some recent policy reforms in several advanced economies have curbed the capacity of social protection systems to address income inequality and ensure income security for the population at present and in the future, particularly with regard to pensions (ILO, 2014b). While many countries have implemented measures to adapt social protection systems to changing realities in the world
of work, for example through the extension of coverage to certain categories of self-employed workers, these have not gone far enough to ensure universal coverage and adequate benefit levels. More efforts are needed to ensure that social protection mechanisms can continue to deliver as an indispensable mechanism of social solidarity, based on the principles of the pooling of risks, as well as equity both with regard to financing (taking into account contributory capacities) and benefits (according to need).

Whether countries are able to provide adequate employment and social protection to workers in different forms of employment will constitute a litmus test for their preparedness for the future of work. Only then will workers be able to seize economic opportunities, including those provided by digitalization and automation. Ensuring social protection for workers in the new as well as old forms of employment characterized by high vulnerability, volatility and exposure to different risks is critical. Some countries already have mechanisms in place to ensure social protection for non-salaried and vulnerable workers, including those with multiple employers (Hill, 2015), own-account workers and solo entrepreneurs (ILO, 2014b; European Commission, 2014), as well as those in disguised self-employment (Eichhorst et al. 2013). These can provide valuable lessons for adapting social protection systems to meet workers’ needs.

5. Key issues for a renewed social contract for the 21st century

The trends described above are likely to affect the foundations of the social contract on which the stability of societies has been built and will be built. Higher inequality, insecurity, instability and informality have fundamentally challenged the social contract at the beginning of the 21st century. In fact, these issues are already being debated in various ways: how can countries develop a new “social compromise which benefits employers and workers alike” (Government of Germany, 2015); “a new social settlement that is able to meet the challenges of the twenty-first century” (New Economics Foundation, 2015); a “social compact 2.0” (Perez, 2015). Each of these formulations reveals an important focus on a renewed social contract.

Building on ongoing discussions, debates can be further advanced by considering the following overarching questions:

- How can we ensure that the social contract encompasses the most vulnerable groups in society, and engages all actors, including those operating across national borders (financial sector, multinational enterprises)?
- How can the ILO, as the “global parliament of labour” contribute to enhancing social contracts and strengthening social justice at the global level in the context of the 2030 Development Agenda?

Under these, more specific issues can be debated as follows:

- **Adapting to changes in the organization of economic activity and shaping better outcomes:** How does the social contract reflect changes in the organization of work and forms of employment as well as the changing roles of work (both paid and unpaid) in a society (see FOW Issue Notes Nos. 2 and 3)? How can a renewed social contract prevent a harmful race to the bottom in the context of globalization and financialization? How can tax systems be reshaped to ensure that tax revenues benefit the countries and communities in which they operate and where their profits are generated? Which enterprise governance structures are conducive to sharing the benefits between management and workers and between the enterprise and the communities of operation (see FoW Issue Note No. 5)?

- **Addressing inequalities and ensuring a fair distribution of resources:** What policies are necessary to foster more equitable societies, with more stable and fairer markets and a fairer distribution of resources? How can such policies contribute to strengthening and renewing the social contract? How can legal frameworks and other forms of regulation be adapted to changing contexts, and ensure both security and flexibility (see FoW Issue Note No. 3)? How can public policies be implemented in a more effective way, and how
can the necessary fiscal space be ensured through effective and equitable tax systems (see FoW Issue Note No. 5)? How can the equitable and sustainable financing of social protection and other inequality-reducing policies be ensured? How can social cohesion and collective interests be strengthened in the face of pressures to individualize risks?

- Enhancing institutional frameworks to strengthen voice and participation: What is necessary to achieve this at the enterprise, sectoral and national level? How can social dialogue adapt to the new trends? What new forms of organization and representation are emerging, including among workers in the informal economy and in non-standard forms of employment, and what implications do they have for the functioning of social dialogue institutions?
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