

The world of work and the new social contract

Mohammed Mwamadzingo

Former Programme Manager
International Training Center of the
International Labour Organization (ITC-IL), Turin, Italy

Grayson Koyi

Senior Specialist, Workers' Activities
ILO

Michael Watt

Technical Officer for Economic Policies
ILO

Khalid Maman Waziri

Technical Officer for Macroeconomic and
Development policies
ILO



Abstract

Based on a review of the literature, the article provides a thematic overview and brief historical account of the evolution of the notion of a social contract and examines the current global socio-economic context to highlight associated challenges to decent work that are reinforcing the urgency of a new social contract. It reflects on the debate and growing consensus on the need for a new social contract and implications for fostering social progress, with reference to the world of work. It aims to advance the understanding as to why there is a growing consensus on the urgency of a new social contract and provides a justification for the statement that ultimately, the new social contract must be anchored on the promotion of decent work. It therefore bears policy implications for anchoring a new social contract on the promotion of decent work. This is especially important given the disproportionate impact that the current socio-economic context has had on the world of work, which has been compounded by the COVID-19 pandemic.

Introduction

For many scholars and observers of State-society relations, the growing discontent about the post-Second-World-War notion of a social contract should not come as a surprise. For decades, many countries had a special kind of social contract, which was established in the 1940s and 1950s after the War. It mainly worked in accordance with the principle that governments delivered social and economic benefits to citizens, whereby citizens contributed to the common good – whether economically, socially or culturally – on the assumption that the State would ensure a minimum standard of living, the provision of essential social services and infrastructure and the protection of their basic rights.

Economic growth and development more broadly appear to have failed to deliver on people's expectations for a minimum standard of living, provision of essential social services and infrastructure and the protection of their basic rights, including for social justice, security and opportunity. Today, four out of five people in China, Europe, India and the United States of America feel that the system is not working for them, and in most advanced economies parents fear that their children will be worse off than they are (Edelman 2019). The pandemic of coronavirus disease (COVID-19) has 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.

Based on a review of the literature, this article provides a thematic overview and brief historical account of the evolution of the notion of social contract and examines the current global socio-economic context to highlight associated challenges to decent work that are reinforcing the urgency of a new social contract. It reflects on the debate and growing consensus about the need for a new social contract and implications for fostering social progress, with reference to the world of work. The article aims to advance the understanding as to why there is a growing consensus on the urgency of a new social contract and provides a justification for the statement made by many, including the United Nations (UN) Secretary-General António Guterres and the Director-General

of the International Labour Organization (ILO), Gilbert F. Houngbo, that, ultimately, the new social contract must be anchored on, among other things, the promotion of decent jobs, social protection and equal opportunities for all. In this sense, it bears policy implications for anchoring a new social contract in the promotion of decent work. This is especially important given the disproportionate impact that the current post-Second-World-War social contract has had on the world of work, which has been compounded by the COVID-19 pandemic and the current poly-crises with which many regions of the world are confronted.

The article discusses (1) how the notion of the social contract has evolved over time; (2) why different international organizations and development actors are challenging the post-Second-World-War notion of social contract; (3) how the current global socio-economic context is undermining decent work, thereby reinforcing the urgency of a new social contract; and (4) how the new social contract could be shaped to provide for more stable and sustainable long-term development. This introductory article raises these questions from an analytical point of view, and thereby aims to establish a framework of reference for the other articles in this special issue, which focus on different dimensions of the social contract from a workers' perspective.

The notion of a social contract is broadly understood as agreement between societal groups and their government on their rights and obligations towards each other (Loewe, Zintl and Houdret 2021). This approach is a powerful tool for sharpening the analytical perspective on shifts in State-society relations, and for explaining the significance of anchoring a new social contract on decent work and social justice principles and the responses in the context of the world of work or societies at large.

The following section presents a brief history and evolution of the notion of social contract. The third section underscores why employment is a major structural element of the social contract, shaping the rights and responsibilities of workers and employers, labour and capital, and strongly influencing the distribution of resources and power in society; followed by a section that elaborates on the debate and growing consensus on the reinvigoration of a social contract. The fifth section examines the current global social-economic context and how it is undermining decent work outcomes. The sixth section discusses how a new and sustainable social contract could be shaped, while the seventh section concludes the article.

Brief history and evolution of the social contract

Social contract is a key concept in social science literature, focusing on State-society relations. It broadly refers to the "entirety of explicit or implicit agreements between all relevant societal groups and the State (i.e. the government or any other actor in power), defining their rights and obligations towards each other" (Loewe, Zintl, and Houdret 2021). The notion of a social contract has evolved throughout history. In ancient Greece, in about the year 400 Before the Common Era (BCE), Plato's *Crito* and *The Republic* explored the notion that a legal system exists because of a type of contract between the

individual and the State. In about the year 413 Common Era (CE), Augustine discussed what it means to be a good citizen and explored the sphere of individual autonomy (Dauphinais, David and Levering 2007).

The issue of the social contract resurged in seventeenth-century Europe, with the question of how best to organize society and the place of the individual in a monarchy. This led to great debate, notably by Thomas Hobbes (Hobbes 1651) and John Locke (Locke 1689) in England in the mid-seventeenth century and by Swiss-born philosopher Jean-Jacques Rousseau in France a century later, in his 1762 book, *The Social Contract*. The discussion has continued into the modern era. In 1971, in *A Theory of Justice*, American political philosopher John Rawls explored the principle of justice as fairness, to articulate a central idea that cooperation should be fair to all citizens, regardless of their family, ethnic or other heritage.

Broadly, social contract theory, also known as the contractual theory of society, is often associated with the liberal tradition in political theory. It presupposes the fundamental freedom and equality of all those entering a political arrangement and the associated rights (Neidleman 2012). From that starting point, often conceptualized via the metaphor of a “state of nature”, social contract theory develops an account of political legitimacy, grounded in the idea that naturally free and equal human beings have no right to exercise power over one another, except in accordance with the principle of explicit or implicit agreement (Neidleman 2012).

Distilling the central features of the social contract either in theory or in practice can be problematic, but it is possible to identify certain themes around which social contract theorists coalesce. In the words of Rodgers (2021), first, the social contract is a theory which is fundamentally centred on consensus, seeking to understand why and how people would agree to cede authority to a governing body in return for the social order and other benefits that such a body might provide.

Second, the social contract ties morality and freedom to agreement. Theories vary as to the reason for agreement, with some authors taking a very negative and isolated view of human nature, such that a contract is required to avoid the destruction of society in the name of self-preservation (Rodgers 2021). Others see a more positive view of human nature, advocating the social contract to preserve and strengthen the potential good of humanity through the general will of agreement (Betts 1999). In any event, the nature of that general will is imbued with morality, as it is an expression of humans as moral agents (Rodgers 2021). Furthermore, the outcome of that agreement has moral force not only by the fact of agreement, but also because that agreement is inevitably of a certain quality: a general will directed to the general good. That moral outcome can be viewed as expressed by the legislator, who captures the demands of the general will and codifies them (Rodgers 2021).

Beyond early philosophical debates and theorizing, the social contract itself has evolved markedly over the centuries. Often, the most radical changes to the social contract have taken place in periods of intense societal disruption for instance, through war or revolution.

At other times, the changes have coincided with and been influenced by the impacts of technological advancement. In the first half of the nineteenth century, during the first Industrial Revolution in England, real wages stagnated for roughly 50 years, from 1790 to 1840 (Wrigley 2013). During this period, first noted by economist Friedrich Engels in 1845 and since known as “Engels’ pause”, profits as a share of national income rose and the labour share of income declined (Allen, 2009; Clark 2005). Wages began to rise after the 1850s, which economic historians have attributed to improved labour productivity driven by fossil-fuel-derived energy in place of human and animal labour (Wrigley 2013).

From a social contract perspective, substantial reforms were introduced at the end of the nineteenth century that strengthened the right of individual workers in relation to their employers, following the growth in collective action of workers towards bettering their working conditions and the emergence of labour and social democratic parties to represent the priorities of working people. This development was accompanied by a significant increase in public-sector intervention. These reforms included the right to unionize, limitations on child labour, the introduction of public high schools, urban planning to improve public health, elimination of debtors’ prison, and the extension of the right to vote to landless workers (Mathias 2001). In other words, the relationship between individuals and institutions shifted significantly towards concerted efforts that ultimately reduced individual responsibility for economic outcomes (Gash 2011).

By the end of the nineteenth century, the beginnings of the modern welfare State were laid down. In Germany, for instance, Chancellor Otto von Bismarck implemented an old-age insurance programme in 1889 in part to address the political pressure of a growing Social Democratic Party founded in 1875. Germany also introduced sickness insurance and a workers’ compensation programme. This comprehensive social welfare system provided a model for Britain’s National Insurance Act of 1911 and the American New Deal legislation in the 1930s (Mommson 2018). After the Second World War, many countries, especially in Europe, constructed or completed “cradle to grave” welfare States (Timmins 2001).

Broadly, the social contract has evolved to encompass a situation whereby citizens contribute to the common good – whether economically, socially or culturally – on the assumption that the State will ensure a minimum standard of living, provision of essential social services and infrastructure and protection of their basic rights. However, there have also been influences along the way seeking to roll back the role of the welfare State anchored on a social contract. For instance, in the 1980s, United States President Ronald Reagan and United Kingdom Prime Minister Margaret Thatcher sought to reduce the role of the State, including by eliminating regulatory restrictions on the private sector. The collapse of Soviet communism in 1991 and the accession of Eastern and Central European nations to the European Union a decade later required those countries to embrace a more market-based social contract (Cook 1993). The adoption of structural adjustment programme measures, inspired by the International Monetary Fund (IMF) and the World Bank, in most developing countries also entailed the embrace of a more market-based social contract. Notwithstanding, a foundational component of the social contract has been employment, not just in the modern era but throughout history.

The social contract and the world of work

Undoubtedly, employment has been a major structural element of the social contract, shaping the rights and responsibilities of workers and employers, labour and capital, and strongly influencing the distribution of resources and power in a society. In this sense, how individuals contribute their labour, and how they are compensated for it, are themes that are indispensable in a social contract. For many individuals, the labour market is key to their satisfaction – or discontent – with life. In fact, the labour market and institutions therein are an economy's main channel for sharing aggregate gains in the population. Within this context, a social contract between all relevant labour market actors and the State (i.e. the government or any other actor in power) defines their rights and obligations towards each other. It is also the basis of the employment relationship in the world of work (Behrendt et al. 2021). However, the social contract is not static, but evolves, even in the world of work. Its effectiveness and relevance in the world of work depends on how it can adapt itself to new economic, social and political realities to meet individuals' expectations.

The twenty-first-century world of work has undergone profound changes and tensions have heightened within the existing social contract, presenting both opportunities and challenges for shaping a new one. Multiple transformations in the world of work, growing decent work deficits and income inequality are cases in point. The recent disruption that COVID-19 has inflicted on the world of work, and particularly on employment, is another. Overall, the economic fallout of the last few decades, compounded by the pandemic, has resulted in millions losing their jobs or having their lives upended, as work has been radically transformed and the existing social contract is no longer able to hold.

The debate and growing consensus on the reinvigoration of a social contract

It is in this context that the social contract narrative has come to dominate the policy pronouncements of many international organizations in recent years. In November 2011, as G20 leaders gathered in Cannes, France for a second day of talks over deficits, bailouts packages and the euro, the then UN Secretary-General Ban Ki-moon made a clarion call that the time had come to write "a new social contract for the 21st century", emphasizing that the social contract must include a "Global Jobs Pact" (UN 2011). He observed that, too often, short-term financial profits had been put ahead of investing in the kind of world everyone wanted to live in.

In July 2020, the UN Secretary-General, António Guterres, made a speech entitled "Tackling the Inequality Pandemic: a New Social Contract for a New Era" (UN 2020), in which he argued that building a new social contract must form the basis of the response to the global pandemic and the widespread discontent that preceded it. Further, in his report *Our Common Agenda* (UN 2021), he proposed a new social contract based on rebuilding trust in institutions, inclusion, protection and participation, and rethinking the measurement of gross domestic product to reflect what matters to people and the planet.

The World Bank has also enthusiastically adopted the social contract narrative, with its *World Development Report* of 2013 centred upon the creation of “a social contract aimed at improving fairness in society” (Devarajan and Mottaghi 2015). The World Bank has argued that the social contract approach is progressive, presenting the opportunity to harness technology and globalization for the benefit of workers to foster inclusion and prosperity. The IMF has also made its pronouncement on the social contract narrative, in which it argues that social spending must be a core component of the social contract. In June 2019, the Managing Director of the IMF, Christine Lagarde, made a speech to the International Labour Conference entitled “Forging a Stronger Social Contract—the IMF’s Approach to Social Spending”, in which she argued that “social spending is a core component of the social contract needed to fulfil the missions of our respective institutions”. She added that “it is a lesson learned in the postwar era, when the three decades of strong and shared growth in the advanced economies – *les trente glorieuses* – were underpinned by an accompanying social contract with broad participation and widespread social and political support” (IMF 2019).

The call for a new social contract has also been made by the International Trade Union Confederation (ITUC). In January 2021, the then ITUC General Secretary, Sharan Burrow, argued during the World Economic Forum that “the choices made by world leaders and by business in 2021 will either heed the call of workers and civil society to reform the economic model and help create a just and sustainable future or maintain business as usual and see a model of corporate greed entrench inequality, exclusion and despair, perpetuating instability for our communities and our planet”. She emphasized that “along with the tragic loss of so many lives from the pandemic, almost 500 million jobs have been lost and two billion people are struggling in informal work, including in new internet mediated businesses” (ITUC 2021).

On this basis, she called for a new social contract that delivers recovery and resilience (ITUC 2021). Consequently, the ITUC Congress in November 2022 adopted six building blocks for a new social contract: (1) investment in decent climate-friendly jobs with just transition; (2) respect for labour rights and implementation of a labour protection floor; (3) minimum living wages and equal pay policies; (4) universal access to social protection through a global social protection fund; (5) promotion of greater levels of equality and an end to discrimination; and (6) an inclusive development model and inclusive multilateralism based on social dialogue.

Likewise, the International Organisation of Employers (IOE) has welcomed calls for a new social contract. IOE argues that “the employers support a ‘New Social Contract’ that avoids politicization and commits governments and international institutions to strengthen their efforts and impacts to improve lives and livelihoods, increase social inclusion, rebuild trust and to better meet the needs and aspirations of all segments of society through more effective and efficient public policies, services and governance and legal certainty”. According to the IOE, the new social contract should provide a consensus on the conditions needed to build individuals’ capabilities fundamental to attaining economic and social well-being, contributing to the society, and benefiting from development (IOE 2023).

On a related note, the European Trade Union Confederation (ETUC) Resolution on an Updated Proposal for a Social Progress Protocol adopted in March 2022 reiterates a longstanding call for a Social Progress Protocol. Noting that the European social model is characterized by the indissoluble link between economic performance and social progress, in which a highly competitive social market economy is not an end in itself, but should be used to serve the wellbeing of all, in accordance with the tradition of social progress rooted in the history of Europe and confirmed in the Treaties, ETUC has called for a Social Progress Protocol that should guarantee that: 1) fundamental social, workers' and trade union rights take precedence over economic freedoms and other EU policies in the event of conflict, 2) the autonomy of social partners and well-functioning national social dialogue and industrial relations systems must always be respected, and 3) the EU and its Member States must strive to constantly improve working and living conditions, as well as the promotion and protection of the highest standards in terms of social rights, whether they flow from national, European or international law (ETUC, 2022).

The ILO Director-General, Gilbert F. Hounbo, has also called for a new social contract to promote social justice: "My vision for the ILO is anchored in the opening words of the ILO Constitution: 'universal and lasting peace can be established only if it is based upon social justice'" (Hounbo 2021). Progress made in the last decades in terms of social justice must be preserved and protected, while the global solutions to new challenges and opportunities must be centred on human, environmental, economic and societal values. In short, a new global social contract is required.

A recurrent theme from the ensuing debate for a new social contract appears to be widespread discontent that the current system is not working for everyone. For instance, four out of five people in China, Europe, India and the United States feel that the system is not working for them, and in the 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 social justice, security and opportunity in an environment where most countries are growing increasingly more unequal and insecure. Old arrangements have been broken by varied forces, including those whose overall impact on society has been positive, as well as those which posed challenges. These include technological change, which is revolutionizing work while its regulation is lagging behind, or the modest gains of past years on gender equality and increased entrance of women into the labour market, which have since seen a reverse in many countries during the COVID-19 pandemic. Looking ahead, population ageing in some regions means that society will need to find new ways to support the elderly while, in others, an increasingly younger population presents challenges due to an oversupply of labour. Furthermore, climate change compels society to work even harder to make the world environmentally sustainable.

As outlined above, a new consensus is that a new social contract is needed and that it is possible for this to satisfy people's expectations for a life that they value, while also addressing the challenges that affect society, accelerated by the poly-crises in many regions.

The global socio-economic context and decent work

To situate the call and consensus on a new social contract, it is important to understand the underlying causes of the existing discontent and dissatisfaction. This section addresses that question. It examines the global socio-economic context to highlight challenges to decent work that are reinforcing a growing consensus on the urgency of reinvigorating a social contract.

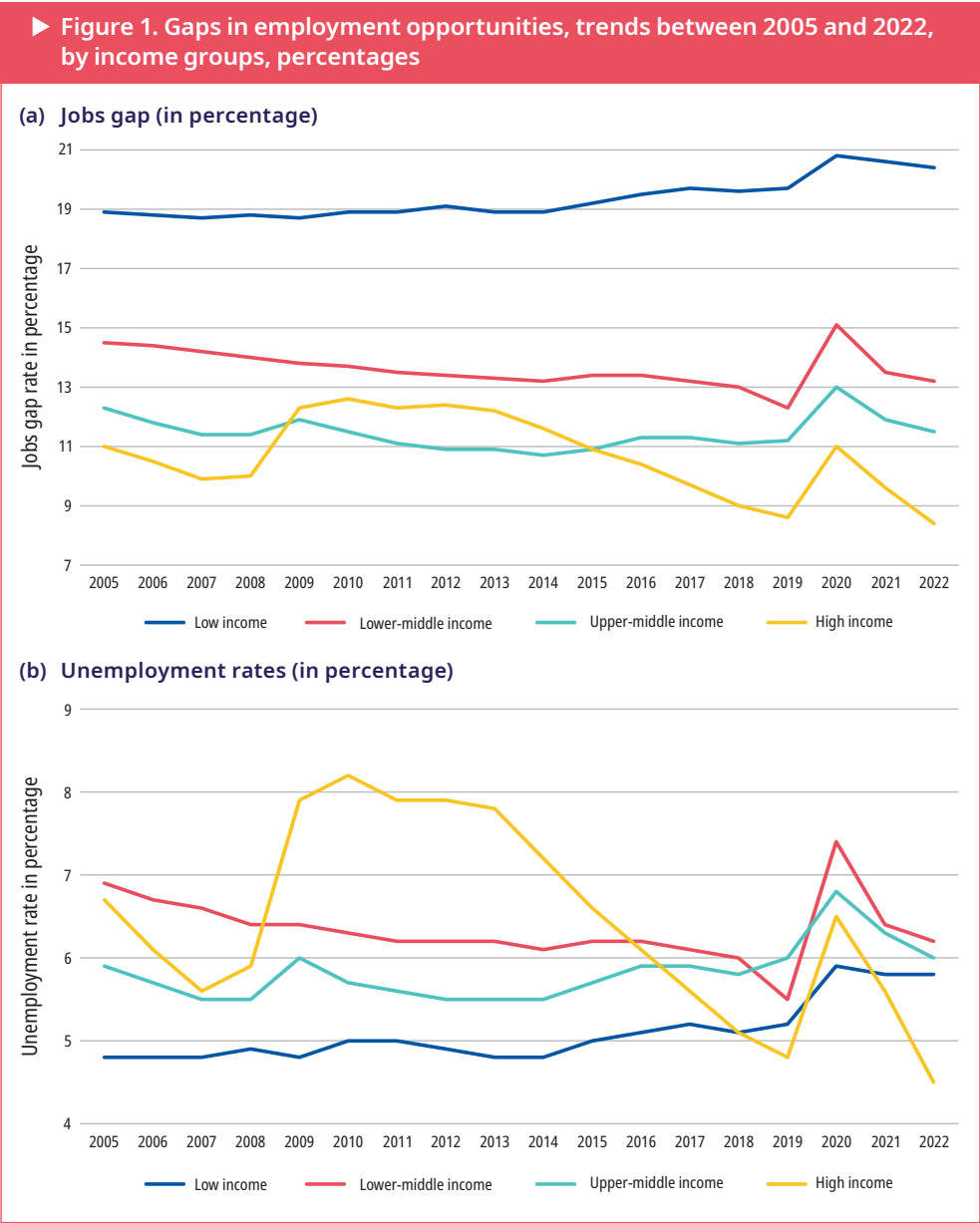
The importance of labour market outcomes in assessing the functioning of the social contract stems from the fact that the labour market is the cornerstone on which the well-being of the whole of society rests, including justice in society. This is because the labour market has a decisive role in shaping and conditioning all kinds of social outcomes, starting with inequalities in society and the possibilities for workers and their families to satisfy their needs (people's capabilities). Indeed, alongside quality and accessible public services, including health, education and social protection floors, decent employment would enable people to increase, or even guarantee, their ability to feed themselves, care for themselves, educate themselves and better integrate socially, while also improving their participation in the political life of the nation, as well as their access to freedom of expression, association, and the other numerous freedoms that contribute to their well-being (Sen 2001).

All these opportunities offered by decent employment make it a powerful and effective means of achieving all the sustainable development goals of the 2030 Agenda for Sustainable Development. For this reason, it is essential that public policies, including macroeconomic policies, all work coherently towards the massive creation of decent employment opportunities for all, while taking care to adapt to a changing world. However, the figures show that we are still a long way from achieving this.

Growing jobs gap

The global socio-economic context is characterized by a persistent and pervasive joblessness and insecurity which could explain the growing discontent and dissatisfaction. The ILO report *World Employment and Social Outlook: Trends 2023* (ILO 2023) observes that the global jobs gap stood at 473 million people in 2022, corresponding to a jobs gap rate of 12.3 per cent. The global jobs gap is a new measure of the unmet need for employment in the world. It consists of the 205 million unemployed – corresponding to an unemployment rate of 5.8 per cent – and 268 million people who have an unmet need for employment but are outside the labour force because they do not satisfy the criteria to be considered unemployed. This is particularly evident for low-income and lower-middle-income countries, with present job gap rates of 20 per cent and 13 per cent, respectively, whereas upper-middle-income countries show a gap of around 11 per cent and high-income countries register a gap of only 8 per cent (ILO 2023).

Looking at trends over the last two decades (figure 1), it is quite concerning to see that the jobs gap is gradually, albeit slowly, increasing for lower-income countries, where it was already relatively high, well above that of other groups, suggesting that public policies in these countries have not been sufficiently effective in creating decent jobs over the last two decades. For other income groups, efforts to create jobs also remain insufficient, with only very slight improvements observed between 2005 and 2022.



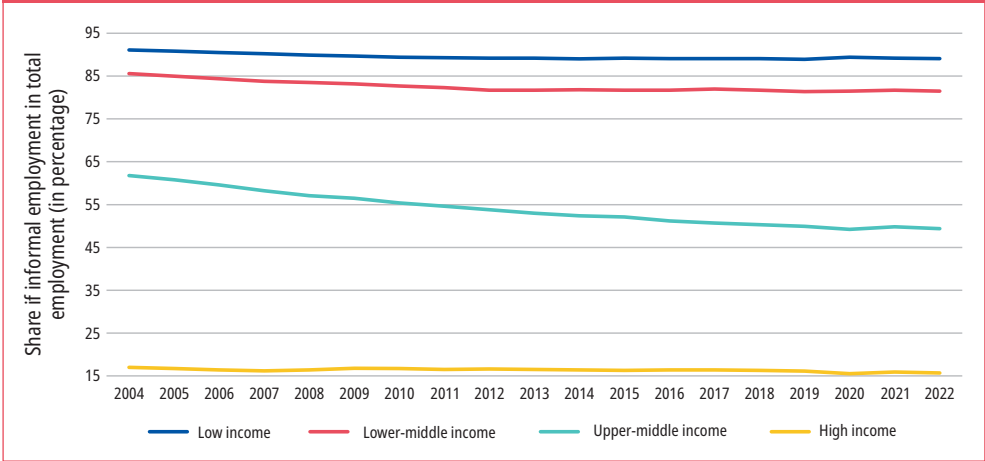
Source: ILOSTAT (n.d.).

The jobs gap is particularly large for women and in developing countries. Although men and women currently face similar global unemployment rates, the jobs gap for women is 15.0 per cent, compared with 10.5 per cent for men (ILO 2023). Personal and family responsibilities (including unpaid care work), discouragement owing to the lack of decent employment opportunities, and scarcity of possibilities for (re)training can prevent many women from seeking employment or limit their availability to work at short notice. This also explains that globally, the labour force participation rate of women stood at 47.4 per cent in 2022, compared with 72.3 per cent for men (ILO 2023). The gap of 24.9 percentage points means that for every economically inactive man there are two such women (ILO 2023). Other vulnerable groups, including young people, migrant workers, persons with disabilities and other minority groups, also face severe and disproportionate difficulties in accessing employment, let alone securing decent employment. For instance, young people (aged 15–24) face an unemployment rate which is three times as high as that of adults (aged 25 or more) (jobs gap estimates are missing by age group) (ILO 2023).

Growing incidence of insecure employment

ILO estimates (see ILOSTAT n.d.) show that, despite a slight decline in the incidence of informal employment (a decline of 5 percentage points between 2004 and 2019), there were still globally around 2 billion workers in informal employment in 2022, around 60 per cent of all jobs (ILO 2023). Note that such trends hide huge disparities between income groups, as informal employment decreased by around 12 percentage points in upper-middle-income countries, while the decrease was considerably smaller in lower-middle-income countries (around 4 percentage points). The incidence of informal employment remained almost stable in low- and high-income countries, while the high prevalence of informal employment in lower-income countries calls for major efforts to reduce it significantly – around 89 per cent of jobs were informal in lower-income countries, compared with just 16 per cent in high-income countries in 2022. Yet, the recovery following the COVID-19 crisis has been driven by informal employment, mostly in low-income countries, where such jobs were already highly prevalent, which shows an “informalization” of jobs for the first time in 15 years, thereby exacerbating decent work deficits. This is the consequence of insufficient or ineffective measures to support a strong recovery focused on decent job creation, including the impacts of a tightening of monetary policy in the phase of recovery (ILO 2022a).

► Figure 2. Incidence of informal employment, trends between 2005 and 2022, by income groups, percentages



Source: ILOSTAT (n.d.).

Incidence of working poverty

The phenomenon of working poverty is rising. As at 2022, an estimated 214 million workers were living in extreme poverty (earning less than US\$1.90 per day per person in purchasing power parity terms), corresponding to around 6.4 per cent of employed people (ILO 2023). While low-income countries are estimated to have the same rate of extreme working poverty as in 2019, the number of the working poor has risen. This is due to the fact that many workers, particularly salaried employees, are excluded from the scope of wage laws and policies (those in informal employment, agricultural and domestic workers), or to the inadequacy of these laws and policies, which makes them incapable of guaranteeing a sufficiently decent level of remuneration. Without significant measures to break this stagnation, the achievement of Sustainable Development Goal (SDG) 1 – the eradication of poverty in all its forms – will be impossible.

The fact that there are so many workers in extreme poverty and the high levels of informality in the world suggest that there is still a long way to go before every job can offer a good, or at least decent, standard of living, along with adequate job protection. One of the main bottlenecks is labour productivity. Indeed, many workers occupy low-productivity jobs, particularly in lower-income countries that suffer from a lack of job-rich structural transformation and are characterized by a high prevalence of informality. Only high-productivity activities can provide people with productive jobs, which in turn means higher incomes, and thus improved living conditions. Here too, efforts don't seem to be enough, as labour productivity growth seems to have slowed down in recent years (ILO 2023).

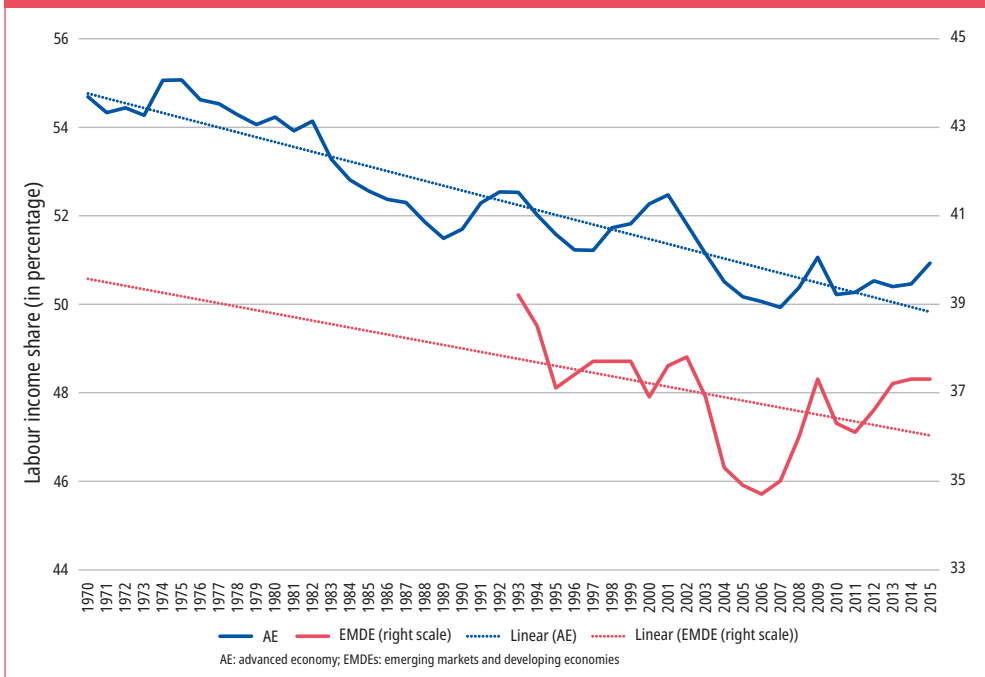
Rising cost of living

The phenomenon of working poverty is compounded by the rising cost of living. The ILO report *World Employment and Social Outlook: Trends 2023* (ILO 2023) finds that a series of supply shocks, predominantly in food and commodities markets, have raised producer prices, causing spikes in consumer price inflation over the last two years. As a result, an acute cost-of-living crisis has emerged since the beginning of 2022, with deteriorating real wage growth, which was negative in 2022 for the first time in this century, with a consequent drastic fall in the purchasing power of workers, in particular that of the lowest-paid workers (ILO 2022b).

Declining labour income share

It can be observed that labour income share has been in a downward trend over the last decades (see figure 3). In advanced economies, long trends going back to the 1970s show that labour income share has progressively declined from around 55 per cent in 1970 to 51 per cent in 2015. In emerging markets and developing economies, data from 1993 show a similar scenario of decline in labour income share, although the estimated share was already much lower than in advanced economies, which is a matter for great concern.

► Figure 3. Labour income share, trends between 1970 and 2015, percentages



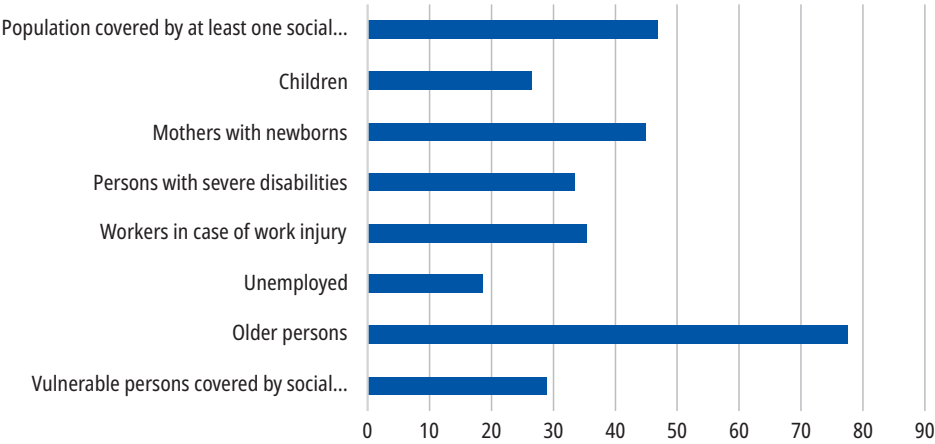
Source: IMF (2017).

Inadequate social protection coverage

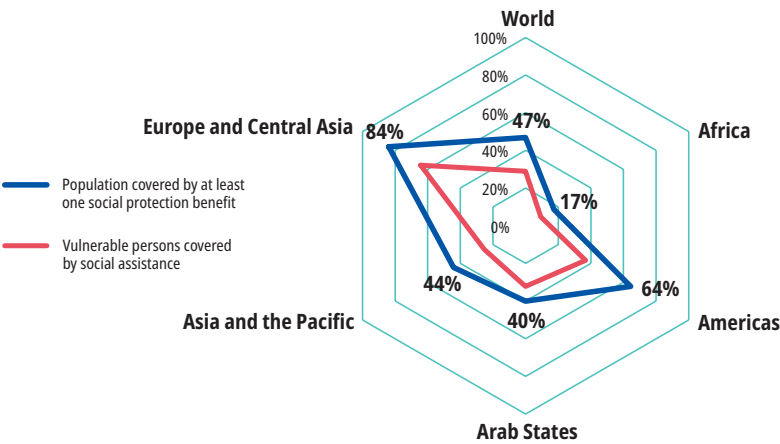
The *World Social Protection Report 2020–22* (ILO 2021) estimates that only about 47 per cent of people worldwide are effectively covered by at least one social protection benefit, meaning that more than 4 billion people still lack any social protection in the current global socio-economic context. Panel (a) of figure 4 shows that only one worker in five is protected by unemployment insurance, while fewer than 30 per cent of vulnerable persons are covered by social assistance. In panel (b) of figure 4, important disparities are observed from one region to another. In Africa, where the worst coverages are observed, only 17 per cent of the population are protected by at least one social protection benefit.

► Figure 4. Effective social protection coverage, global and regional estimates, 2020 or latest available year, percentages

(a) Global estimates of different types of social protection coverage



(b) Regional estimates of selected social protection coverage



Source: ILO (2021).

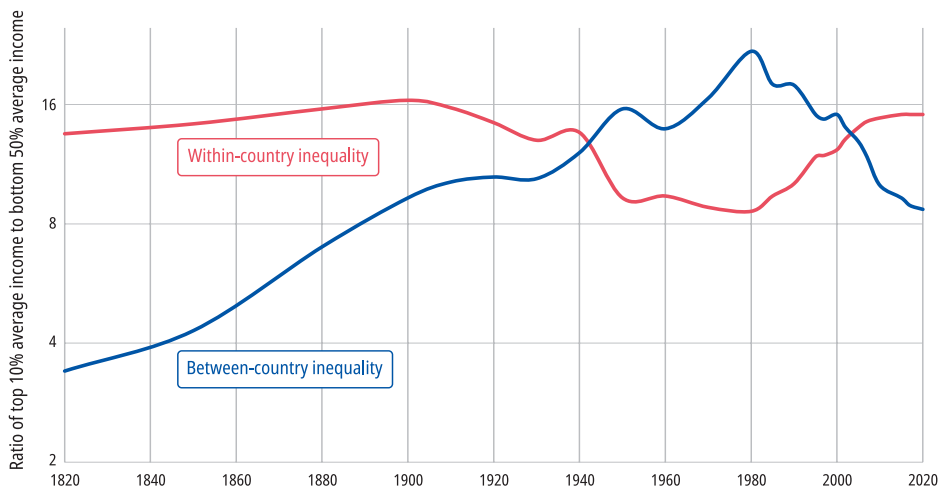
High global income inequality

Significant deficits in decent work worldwide, together with the progressive decline in the share of income from employment, indicate that the labour market is not functioning well enough to advance social justice and bring well-being to all. Serious gaps in social protection further complicate the situation. All this explains the high levels of inequality the world has reached. Comparing the average income of the richest 10 per cent of people with that of the poorest 50 per cent, estimates from the *World Inequality Report* (Chancel et al. 2021) suggest a widening of the gap between the two groups: while the average income of the richest 10 per cent of people was 8.5 times that of the poorest 50 per cent two decades ago, it has now doubled to almost 15 times. Inequalities have therefore increased within most countries, threatening social cohesion and peace.

Furthermore, while income inequalities between countries have fallen over the past two decades, thanks in particular to the economic progress made in many emerging countries, global income inequalities remain at a very high level (see figure 5, panel (a)), similar to that at the beginning of the twentieth century. What is more, while the share of labour income has tended to decline, there has been an acceleration in the growth of the wealth of the world's richest 1 per cent. Indeed, while the poorest 50 per cent have only been able to benefit from 2 per cent of global wealth growth over the last three decades, the richest 1 per cent have captured almost 40 per cent (see figure 5, panel (b)).

► Figure 5. Trends in global income and wealth inequality, percentages

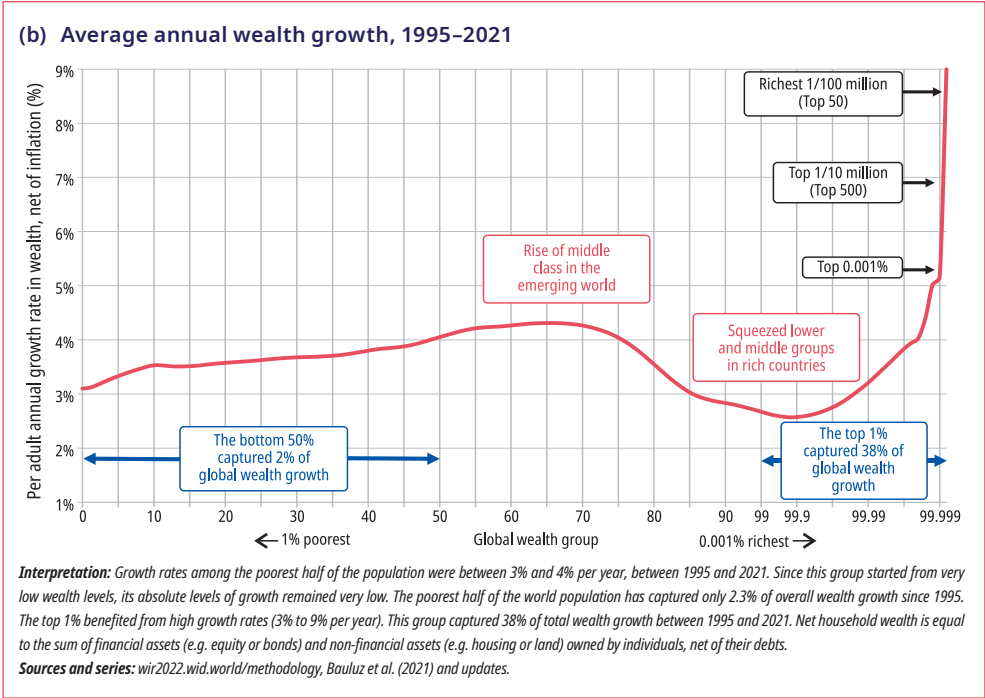
(a) Global income inequality (within- and between-country inequality): ratio of the average income of the richest 10 per cent of people to that of the poorest 50 per cent, 1820–2020



Interpretation: Between-country inequality, as measured by the ratio T10/B50 between the average incomes of the top 10% and the bottom 50% (assuming everybody within a country has the same income), rose between 1820 and 1980 and has since strongly declined. Within-country inequality, as measured also by the ratio T10/B50 between the average incomes of the top 10% and the bottom 50% (assuming all countries have the same average income), rose slightly between 1820 and 1910, declined between 1910 and 1980, and rose since 1980. Income is measured per capita after pensions and unemployment insurance transfers and before income and wealth taxes.

Sources and series: wir2022.wid.world/methodology and Chancel and Piketty (2021).

Source: Chancel et al. (2021).



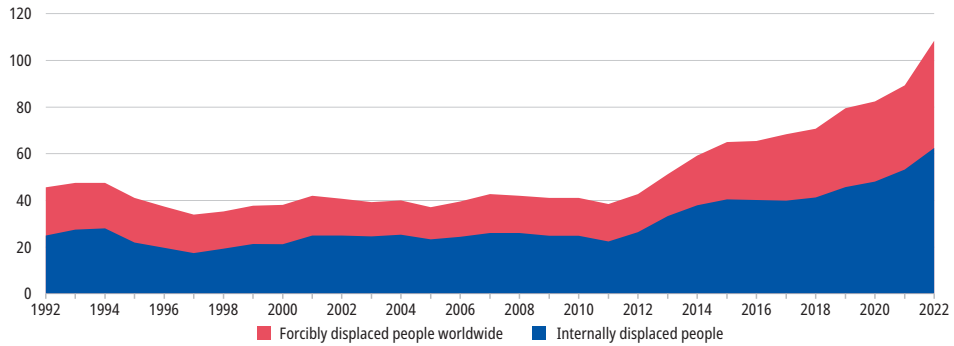
Social tension, peace and serious deprivations in access to basic needs

The growing inequalities and deteriorating socio-economic context in many regions provides ample evidence of the inability of the current social contract to provide people with adequate protection. Too many are not adequately covered by public policies or social security provisions, and therefore the present social contract is unable to guarantee social progress and social justice for all. This situation has been reinforcing a deterioration of social cohesion and peace, the first effects of which have already begun to be felt in recent years (see figure 6).

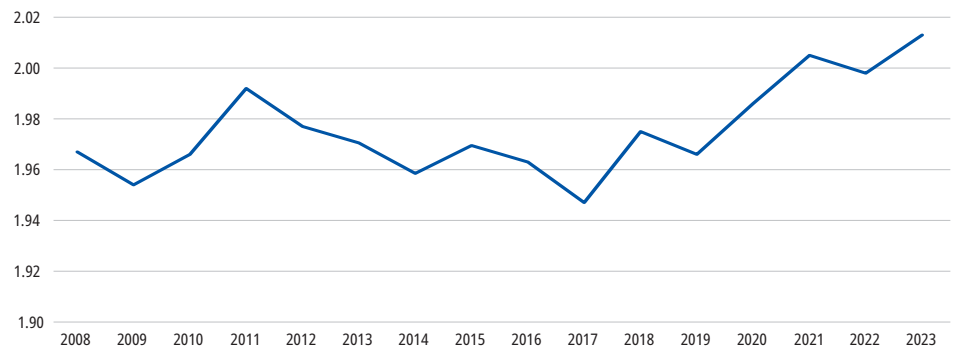
Figure 6 shows three indicators that provide some overview of a breakdown in social cohesion. Panel (a) shows the evolution of the number of forcibly displaced people, including internally displaced people, over the last three decades. This is a fairly effective measure for assessing social tensions around the world as many of these displacements are the consequence of persecution, conflict, violence, human rights violations or other serious events. Panel (b) showcases a rise in global conflict, with the Global Peace Index rising since 2017 (an increase is synonymous with a deterioration in global peacefulness). This goes hand in hand with the state of democracy, which seems to be deteriorating in all parts of the world, with the exception of Europe and Oceania (see panel (c) of figure 6).

► Figure 6. Evidence of increasing social tension (violence and conflicts) around the world

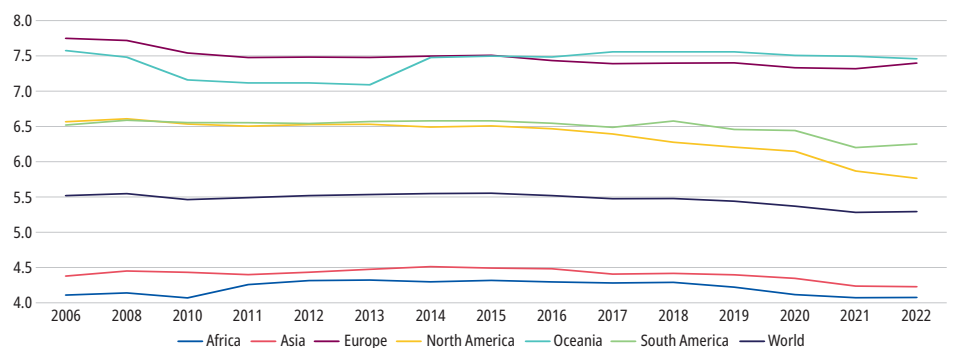
(a) Forcibly displaced people and internally displaced people, millions, 1992-2022



(b) Global Peace Index, 2008-2023



(c) Democracy index, 2006-2022



Notes: In panel (b), the Global Peace Index is an index that measures the peacefulness of countries, covering 99.7 per cent of the world's population. The higher the index, the less peacefulness there is. In panel (a), the Democracy Index measures the level of democracy in the world looking at five dimensions of democracy: electoral process and pluralism, civil liberties, functioning of government, political participation, and political culture. The higher the index, the more democracy there is.

Source: Authors' own calculations based on data from the Office of the UN High Commissioner for Refugees, the Vision of Humanity (GPI) and the Economist Intelligence Unit Democracy Index 2022 (Economist Intelligence Unit 2022).

Figure 6 shows that a greater precarization of work and the inability of public policy to protect all people in society is mutually reinforcing trends in conflict and displacement in many regions.

This has led in part to the existence of serious deprivations in several basic needs that many populations face. For instance, today, 710 million people worldwide suffer from hunger (an estimate as of 21 September 2023, see WFP n.d.). Although access to safe water is defined as a human right, 2 billion people were lacking access to safely managed drinking water services in 2020 (around one fourth of the global population), while almost half of the world's population do not have access to safely managed sanitation services (UN-Water 2021). Another striking example is the proliferation of young people not in employment, education or training (the so-called NEETs), who represent more than one in five young people (23.5 per cent), both due to lack of employment opportunities and to the lack of access to quality education. Although not the sole cause, deficits in decent jobs and the many examples of deprivations mentioned above also contribute to the fact that 160 million children are engaged in child labour and 28 million workers are in forced labour in 2023 (ILO 2023). In sum, the *Sustainable Development Report 2023* suggests that huge efforts still need to be made to achieve the Sustainable Development Goals by 2030 (only around 18 per cent of the targets are on track to be met) (UN 2023, UN n.d.).

Climate and technological changes

Other factors that are influencing decent work within the current socio-economic context include climate and technological changes (ILO 2023). Adjusting to these new realities will require major adaptation initiatives, including significant infrastructure investment. Yet these adaptation measures also present opportunities for job creation, particularly in some of the poorest areas of the world, including Africa. At the same time, technological change, pertaining especially to new digital devices and tools such as artificial intelligence, has yet to live up to earlier optimistic projections about its potential to increase productivity growth and alleviate much of the drudgery of work. But such innovations are needed to address some upcoming labour shortages resulting from demographic shifts.

Addressing these threats to decent work and well-being, including widespread poverty, informality and lack of safe and secure workplaces, will require a coordinated and coherent set of public policies, all having as their "raison d'être" the creation of decent jobs for all, including investment, innovation and the diffusion of technological progress. A new social contract anchored on decent work could provide a basis for restoring trust in public institutions and establishing social cohesion and peace.

Proposals towards a new social contract

The world is in the process of assessing its common ambition to promote a strong and inclusive development agenda through the Sustainable Development Goals. The

ambition of the multilateral system, as outlined by the UN Secretary-General, is to create a new social contract. As in earlier contexts, the social contract must assume that all human beings are equal, and that the only justified authority is based on agreements or covenants with the entire society.

The new and invigorated social contract should set out to make public policymaking responsive to the needs of all workers and the community, to forge the integration of economic and social policies and to recognize more completely the whole spectrum of work relationships and their value. Owing to the centrality of the world of work, such a new social contract must be anchored on the achievement of social justice and decent work. The danger of continuing with the post-Second-World-War notion of a social contract is that the integration of human, environmental, economic and societal values into social and economic policy occurs only as a secondary concern; policies remain tied to narrow economic programming models and the formal economy, which respect the sanctum of free market enterprise, but fail to be truly transformative towards all workers, especially those in vulnerable situations.

Indeed, public policymaking must be involved in the ambitious renewal of the global social contract. This social contract must reject narrow economic programming models, which can only lead to widening social and economic inequalities and a lack of social justice for workers. Instead, the global social contract must be underscored by a vision which sees the reduction of social inequality at the heart of both economic and social progress. Moreover, that vision should recognize and underscore the centrality of collectivity as central to both human experience and social progress.

In terms of rethinking or redesigning the social contract, it is important to consider three policy principles that, considered jointly, could help to level the playing field and establish a sustainable social contract. Essentially, the reoriented social-economic context must focus more on the consequences of the current context on dimensions of decent work based on jobs and social security, conditions of work and life, and industrial relations and social dialogue.

Jobs and social security

- **Employment promotion:** The new social contract should ensure that policy coherence between macroeconomic and employment policies increases decent employment opportunities and standards, taking into account the employment policies and objectives of governments, as well as security of employment and the long-term development of the enterprise. Business organizations are expected to consult workers' organizations in order to keep their employment plans in harmony with national social development policies. Multinational enterprises should give priority to the employment, occupational development, promotion and advancement of nationals of the host country at all levels in cooperation, as appropriate, with representatives of the workers employed by them or of the organizations of these workers and governmental authorities. The new social contract should also discuss

how multinational enterprises use technology to generate employment, both directly and indirectly.

- ▶ **Social security:** It is imperative to establish universal social protection systems, adapted to developments in the world of work, that are resilient, effective, inclusive, adequate and sustainable over the long term.

Conditions of work and life

- ▶ **Wages, benefits and conditions of work:** The new social contract should ensure that wages are adequate and that wage-setting mechanisms promote living wages, benefits and conditions of work. According to the ILO Minimum Wage Fixing Convention, No. 131 (1970), elements to be taken into consideration should include: (a) the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits and the relative living standards of other social groups; and (b) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment. Where the employer provides workers with basic amenities such as housing, medical care or food, these amenities should be of a good standard. The European Union Convention on Adequate Minimum Wages in the EU provides a useful example. Pursuant to the ILO Minimum Wage Fixing Convention No 131 (1970), the European Union Parliament and Council directive of October 2022 (Directive 2022/2041) urges member states to ensure adequate minimum wages in the European Union that provide for a decent standard of living and thus meet a threshold of decency that can contribute to the reduction of poverty at national level and to sustaining domestic demand and purchasing power, strengthen incentives to work, reduce wage inequalities, the gender pay gap and in-work poverty, and limit the fall in income during economic downturns.
- ▶ **Safety and health:** The social contract should prioritize coherent national policies on occupational safety and health. This includes obligations for enterprises to maintain the highest standards of safety and health, in conformity with national requirements and international labour standards, including any knowledge of special hazards. They should also make available to workers' representatives the safety and health standards relevant to their local operations that the enterprise complies with in other countries. Multinational enterprises should cooperate in the work of international organizations concerned with the preparation and adoption of international safety and health standards. They should cooperate fully with the competent safety and health authorities, representatives of the workers and their organizations and established safety and health organizations.

Industrial relations and social dialogue

The new social contract must be based on the ILO fundamental principles and rights at work, especially those governing industrial relations and social dialogue at local, national and international levels. They include the following.

- ▶ **Freedom of association and the right to organize:** Workers should, without any distinction whatsoever, have the right to establish and, subject only to the rules of the organization concerned, to join organizations of their own choosing without previous authorization. They should also enjoy adequate protection against acts of anti-union discrimination in respect of their employment. The enterprises should support representative employers' organizations.
- ▶ **Collective bargaining:** Workers should have the right, in accordance with national law and practice, to have representative organizations of their own choosing recognized for the purpose of collective bargaining. The enterprises should provide workers' representatives with the facilities necessary to assist in the development of effective collective agreements.
- ▶ **Information and consultation:** Enterprises should ensure that there are systems devised by mutual agreement for regular consultation on matters of mutual concern. Such consultation should not be a substitute for collective bargaining.
- ▶ **Access to remedies and examination of grievances:** Enterprises should use their leverage to encourage their business partners to provide effective means of enabling remediation for abuses of internationally recognized human rights.
- ▶ **Settlement of industrial disputes:** Enterprises, jointly with the representatives and organizations of the workers whom they employ, should seek to establish voluntary conciliation mechanisms.

Conclusions

Employment insecurity and the socio-economic uncertainty and risks for democracy it generates undermine the relationship between workers, employers and the State, with consequences for people's trust in public institutions that cover fewer and fewer workers owing to an increase in the informalization of work. Indeed, trust in governments remains low in many developing countries and has declined in many developed countries over the last few decades as a result of deficits in decent work, economic insecurity and widespread dissatisfaction with the quality of public services. Low trust, in turn, leads to a general disengagement with public mandates, foregone tax revenues and therefore less fiscal space to make those public investments that would build trust and ultimately help achieve the SDGs – investments to improve the quality and reach of public services, renew infrastructure, expand social protection and implement far-reaching employment policies. Low trust also poses a danger to democracy and affects compliance with laws and public recommendations and therefore challenges the capacity of the State to meet the expectations of society.

In the current socio-economic context, it appears urgent to develop an effective and sustainable social contract which reflects changing realities. A reinvigorated social contract has the potential to make public policymaking responsive to the needs of workers, to forge the integration of economic and social policies and to recognize more completely the whole spectrum of work relationships and their value.

The danger of continuing with a post-Second-World-War notion of a social contract is that the integration of human, environmental, economic and societal values into social and economic policy occurs only as a secondary concern, and policies remain tied to narrow economic and financial programming models which respect the sanctum of free market enterprise, but which fail to be truly transformative towards workers. By contrast, the adoption of a new social contract with decent work as its cornerstone will inevitably expand the boundaries of public policymaking and enable the creation of policies for social progress which will be sustainable well into the future.

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