

Our social contract needs to be renewed

Economist Minouche Shafik puts public policy at the heart of her vision.

by [Andrew W. Stevens](#) in the [November 17, 2021](#) issue

In Review



What We Owe Each Other

A New Social Contract for a Better Society

By Minouche Shafik
Princeton University Press
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Minouche Shafik has spent years trying to hold up society's end of the social contract. She previously worked as deputy governor of the Bank of England, deputy managing director of the International Monetary Fund (IMF), permanent secretary of the Department for International Development, and vice president of the World Bank. Now, as director of the London School of Economics and Political Science, Shafik is integrating her decades of experience to reflect on the state of the social contract around the world.

In *What We Owe Each Other*, Shafik makes a compelling argument that the social contract—our mutual understanding of what people owe each other as part of a shared society—is in need of renewal. For her, strengthening the social contract is not so much about crafting a shared philosophy; it is more concretely about governments implementing policies that put such a philosophy into practice.

Over the course of the book, Shafik takes her reader on a whirlwind tour of research and public policy about child care, education, health, work, old age, and our intergenerational obligations. Although she continually frames her arguments as forming a new paradigm for the social contract, none of her proposals seems terribly novel. Instead, I see this book as an effective summary of neoclassical European liberalism. In contrast to Margaret Thatcher's famous quip that "there is no such thing as society," Shafik opens her book with the simple, strong claim that "society is everything."

There are limits, of course. Shafik does not advocate for a planned economy or for equal outcomes. She writes:

It is tempting to invoke the Robin Hood solution of taxing the rich and giving the money to the poor in order to fund a new social contract. But most countries find that in practice measures that fundamentally change and equalise the distribution of opportunities are far more powerful than anything the state can do through the retroactive redistribution of incomes.

Similarly, she acknowledges that different societies and countries will arrive at different decisions as to the socially optimal split of responsibilities between individuals, families, and government.

Shafik effectively argues that there are some challenges that society—that is, the government—is uniquely suited to address. In the language of economics, these are called market failures. For example, it is privately beneficial for each of us to receive an education, but children do not have the money (or access to credit) to finance their own schooling. Shafik explains that “the welfare state is often less about transferring money from the rich to the poor (the Robin Hood function) and more about helping people even out consumption over their own lives and, crucially, providing them with insurance when things go wrong (the piggy bank function).”

At its root, this “piggy bank function” of the social contract is not so much generous as it is efficient. Shafik explains that “in many areas bearing risks individually is not just inequitable, it is also far less efficient and productive than sharing them across society.” Readers looking for a radical treatise condemning capitalism will be left disappointed. Shafik certainly believes in markets and is essentially advocating for governments to provide a more robust set of social policies à la Denmark or Sweden.

At the same time, Shafik treats the concept of society much more seriously than many neoclassical economists. For her, society is more than a collection of individuals and has its own limited scope for agency. At one point, she argues that society has the “right” to incentivize individual actions that will make the population as a whole healthier. On one level, this is obvious: of course the government can tax cigarettes. But on another level, the point is quite provocative: the government can tax cigarettes because the collective has the right to make value judgments.

Shafik continually emphasizes that history, culture, and resources will impact what the social contract looks like in different places around the world. Public policies (and the trade-off between government and familial responsibilities) will look different in Germany than they do in Uganda. Unfortunately, however, she leaves some of the most interesting questions unexamined: Is it morally acceptable that German citizens have access to a public pension when Ugandans do not? Are democratic systems necessary for a functioning long-term social contract? Is there a point at which the social contract becomes unacceptably paternalistic?

This final point in particular deserves more attention. Despite (or perhaps because of) her experience at the IMF and World Bank, Shafik spends little time exploring the power dynamics between rich and poor countries in the policy-making process. And more broadly, she does not sufficiently address the fact that those with resources disproportionately drive the conversation. In the entire book, Shafik spends only a single paragraph discussing the role of philanthropy, faith-based institutions, and charities in the social contract, despite the outsized role these organizations can play in many people's lives.

In the end, *What We Owe Each Other* is a useful book that articulates why, when, and how government policies can help society reach its goals. Shafik wields her compelling personal experience and a wealth of academic research to argue for a more robust social contract and renewed commitment to shared responsibility. Readers will be left cautiously hopeful that governments can be a force for good and that a better tomorrow is possible.