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# A NEW SOCIAL COVENANT

THE 'NEW SOCIAL COVENANT' DOCUMENT PRODUCED BY THE WORLD ECONOMIC FORUM GLOBAL AGENDA COUNCIL ON VALUES HAS GENERATED A SIGNIFICANT AMOUNT OF POSITIVE INTEREST AND FEEDBACK, BOTH WITHIN AND OUTSIDE THE WORLD ECONOMIC FORUM COMMUNITY.

This has taken place at plenary sessions as well as private sessions at Davos, at the World Economic Forum regional meetings, at the extraordinary conference held at Georgetown University, USA, in September 2013 (private and public sessions), and at the Summit on the Global Agenda held in Abu Dhabi, United Arab Emirates, in November 2013. At the latter, Professor Klaus Schwab endorsed the Covenant in the closing plenary.

The next event where this document will be discussed will take place in Stellenbosch, South Africa, from 27 to 29 August 2014. This event is co-hosted by the World Economic Forum Global Agenda Council on Values and Stellenbosch University, and sponsored by Barclays. The original document that was released in Davos-Klosters on 23 January 2013 appears below.



# DAVOS-KLOSTERS

SWITZERLAND, 23-27 JANUARY 2013

The world is facing a series of difficult challenges and adjustments: We face a broken social contract and declining social trust in developed economies. There are very difficult choices that come with austerity and retrenchment. We see serious resource mal-distribution and constraints, and experience growing conflicts. The need for equitable growth in developing nations is clear, and the need for a moral agenda to overcome extreme poverty.

The choices made about each issue are determined by the values we hold – the values applied by government, business, civil society and individuals. Those choices need to be self-conscious – not based merely upon the inertia of accumulated interests. This is not merely a philosophic enterprise; it is an urgent matter that requires moral courage. The stakes are high.

**So this is our call:** for a period of intentional, global reflection on the values we bring to the largest decisions of our time. A method to foster that reflection is the development of a New Social Covenant.

Many previous efforts have focused on individual rights – which are essential. But our focus is on what we owe to one another – both within nations and among nations. If the goal is the restoration of broken trust, it requires the restoration of mutual responsibility.

There is great cultural diversity when it comes to values. But there is also a broad consensus – across cultures, religions and philosophies – on some shared, human aspirations.

- The dignity of the human person – whatever their race, gender, background or belief.
- 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. It is necessary to bring values into public life – to bridge the gap between aspiration and practice. Discussion is not enough; we must make different decisions. And this depends on transformational, values-based leadership in every field of human endeavour. We need to cultivate, encourage and honour the models, at the World Economic Forum and beyond. We must engage the people who can respond to global challenges in effective, productive, healing ways – people who will build and leave behind a more just, generous, and sustainable world.

# THE BROKEN SOCIAL CONTRACT

The collapse of financial systems, resulting in unanticipated economic crises, has generated a growing disillusionment in and a fundamental distrust of the ways things operate and how decisions are made. Old social contracts have unravelled. Former assumptions and shared notions about fairness, agreements, reciprocity, mutual benefits, social values, and expected futures have all but disappeared.

The historic social contract between business, government and society seems to be broken, and the legitimacy of corporations has reached a new low point, with business running the risk of losing its license to operate. We see a growing public indignation at the perceived disconnect between perks for a few and the rights of many. Citizens are demanding more collaborative, sustainable and inclusive methods of value(s) co-creation.

It is clear that effective leadership must incorporate a values dimension. However, while many leaders espouse principles including transparency, integrity, and the common good, actual practice often lags far behind. Due to growing interdependencies and interconnectivity, this gap between values and behaviour is increasingly open to public scrutiny and subject to systemic effects. It appears that even well-articulated and generally supported principles are difficult to translate into day-to-day decision-making and into the behaviours observed by suppliers, dealers, customers, and employees, sometimes with diverse and conflicting value systems.

In the democracies of Western Europe and North America and in other advanced industrial democracies elsewhere in the world, there was, for some 35 to 45 years after the Second World War, to a lesser or greater extent, a clear social contract between citizens and their governments. In some countries, this was implicit and in others explicit. 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 the provision of varying degrees of safety nets 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, of course, but even for marginalized groups the ideal of a social contract provided a powerful moral framework for them to assert their rights.

Perhaps most importantly, many states had as a clear goal the achievement of full employment and citizens had the expectation that if they worked hard, they would get a just and fair reward for their labour. They could expect to enjoy economic security and even attain a higher standard of living than their parents, and in turn better prospects for their children

than for themselves. Moreover, this promise was widely enjoyed: income inequality declined substantially in many countries during this period. They also had a clear expectation that the state would help protect the value of their savings and assets. This was the era of 'as safe as houses'. Of course, many Governments failed at times to deliver on some of these goals, but there was reasonable consensus that these were the appropriate goals.

Over the last 20 to 30 years, we have witnessed a massive breakdown in trust between citizens and their governments. This is true whether we look at populist movements in the U.S., various protest movements across Europe and Arab countries, and throughout the world. We have economies that are widely seen as unsustainable, unfair, unstable and deeply unfulfilling. In addition, inter-class mobility is now blocked, even in countries like the U.S., which has always held out hope to the dispossessed that they could lift themselves out of poverty through hard work. These are systemic and interlinked problems which require a 'Great Transformation' to overcome.

Most pernicious are instability and unfairness. The economies of the advanced industrial countries have in general been constructed with a view to short-term efficiency rather than resilience. Indeed, longstanding institutions and practices that were intended to secure stability have been attacked explicitly on grounds that they undermine efficiency—institutions like labour unions that had provided working families with representation in economic and political affairs. These institutions were faulted for having brought politics into economics—and as a consequence, for distorting 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. Insufficient safety nets, firewalls and rescue mechanisms have been designed into our national and international systems. As a result, we have suffered major shocks across worldwide systems with increasing frequency. A sub-prime housing crisis in the USA triggered a banking crisis which, partly as a result of necessary bailouts in turn resulted in a sovereign debt crisis. This in turn, as a result of flaws in the original design of the Euro has since triggered a Euro Crisis. People who have lost their jobs, houses, and savings through no fault of their own feel a massive loss of trust and sense of unfairness. Many others are fearful and have no faith that their children's futures will be better than their own. And yet, in our new political context, these victims of the financial crisis are often blamed for their profligacy.

# INEQUALITY

The issue of inequality has more recently commanded public attention, due in great measure to the “Occupy” international movement. Until now, the subject has been the elephant in the room in our discussions about the economy that few wanted to say out loud. This has given voice to the unspoken feelings of countless others that something has gone terribly wrong in our societies. And this message has resonated widely. Indeed, the most recent WEF survey of its participants (2012) indicates that economic inequality is now among the two most frequently cited threats to economic stability.

In the last hundred years, there have been two peak periods of great inequality—just before the Great Depression, and in 2008, right before the Great Recession. Social movements have created the space for a new conversation, a moral discussion, about inequality. The 1% and the 99% is now a metric and template that is widely discussed and is changing the cultural and political framework. What is fair, what is just, what is right, are all on the table now. And both economics and politics will have to answer those questions.

At the end of the 19th Century, the ratio of the richest 20% in the world to the poorest 20% was approximately 7:1. At the end of the 20th Century, it was 75:1. 80% of the real increase in wealth in the USA between 1980 and 2005 went to only 1% of the population. Now in the USA, the richest 400 people have as much wealth as the poorest 155 million people. Economic inequality in the UK is the highest in recorded history – it went from having inequality levels similar to the Netherlands in 1979 to being one of the most unequal developed countries in the world. In most advanced countries the ratios of chief executive officer pay to the pay of the average worker in their company has risen astronomically over the last 30 years. And inequality has grown rapidly in many countries around the world, often fuelled by corruption and excessive greed. The stability conversation that is also taking place is about the dangerous and growing conflicts over the resources of food, water, land, and energy—because of both scarcity and mal-distribution.

As Richard Wilkinson and Kate Pickett demonstrate in their book ‘The Spirit Level’, inequality, even more than poverty, is harmful to everybody in society. Unequal countries have far more social problems (including crime and corruption), lower trust levels and everybody’s well-being is depressed compared to more equal countries. In a similar vein, Nobel Laureate Amartya Sen has argued that those who suffer from inequality (even in wealthy societies) face a diminution in their basic economic and political freedoms—such as their ability to achieve political efficacy. Inequality is also weakening the foundations of economic systems.

There is increasing evidence that the financial system meltdown of 2008 was partly caused by a combination of the falling wage share of lower income earners combined with too easily affordable consumer credit, leading to an unsustainable rise in personal debt for these groups. There is also evidence that too much spare cash at the 'top' led to reckless behaviour on behalf of the rich. Furthermore, the continuing failure to exploit available talent means there is less capacity in an economy which impacts innovation, tax-take and aggregate economic prosperity and growth.

## LOSS OF TRUST

But underneath all that, a deeper issue of 'trust' is being raised—that leaders have betrayed the public trust, that systems aren't fair, that the rules of the game don't apply to the people at the top, and that most other people are really on their own in this modern economy. Indeed, there was also a lack of empathy from the people at the top regarding the common humanity with the people offered subprime mortgages. Empathy, like trust, can be learned and practiced. A recent report by the Pew Research Centre demonstrated for example that trust in US Federal Government was at one of its lowest levels in half a century. Similarly, the Edelman 2012 trust barometer found the credibility of business CEOs had plummeted recently. The economic and political inequality that we now experience, along with the social immobility now also being revealed, all undermine the public sense of ownership and belonging in society. People have little trust in their governments and institutions; believe they are penalized for the mistakes of others who continue to reap handsome rewards; do not believe they themselves are rewarded fairly for their efforts; and are fearful for their future, their old age and the prospects for their children. They now have little stake in society. Opportunity is a lost hope for many.

At the same time, the public scrutiny and social accountability of companies, institutions, and governments is growing. On blogs, micro-blogs, and social networks on the Internet, organizations and governments are facing a 24/7 public that quickly exposes controversial or unethical behaviour. Empowered by this 'radical transparency,' consumers increasingly expect companies to make a positive social impact their core mission. Citizens around the globe demand new, more transparent, collaborative, and inclusive models of value creation that produce 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 in Davos. 'Shorttermism' is regularly critiqued in the broad conversations about values at Forum meetings. It is time to move from a narrowly defined shareholder economy to a stakeholder economy that includes workers, consumers, rights advocates, the environment, and future generations—all in our economic calculations and decision-making.

In particular, the World Economic Forum is uniquely well-placed to foster a debate about how to move from a shareholder model of companies to a multi-stakeholder model. Businesses are key to the issues of job creation and discussion of fair rewards. There is a growing demand for such a shift, particularly amongst the younger generation. For example, a 2012 Deloitte survey of 1,000 staff born after 1981 showed that 92% believed that the success of a business should be measured by more than profit, suggesting that a company's 'societal purpose' is a key priority and expectation of the Millennial generation. There is increasing evidence that such 'purposeful' companies are not only more successful at recruiting and retaining key staff, they also out-perform businesses whose stated purpose is to maximize shareholder value. Most importantly of all, we believe that a move to multi-stakeholder companies is a vital step if humanity is simultaneously going to be able to create enough new 'good' jobs and manage to live within planetary environmental limits. The most pertinent new principles for corporate design for multi-stakeholder companies are those produced by the Corporation 20/20 initiative of the Tellus Foundation in the USA. They are as follows:

- 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 amongst 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?

We believe that a New Social Covenant between citizens, businesses, and government urgently needs to be designed. We believe that this should be a Covenant, not a Contract, as values and trust are much more important in a Covenant than in a Contract. A contract is transactional; while a covenant is moral. By definition, this will require the engagement and collaboration of all stakeholders – governments, business, civil society groups, faith groups, etc. Such Covenants will vary from country to country, and it is not possible to be prescriptive about either content or process. It is expected though, that 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.

However, it is clear to us that new social covenants must take into account the changed nature of the world in which we live. Furthermore, given the importance of business, new social covenants should arguably be between citizens, businesses and governments.

Key elements that are likely to be present include:

- Agreement on basic, universal ethical values
- Agreement on the need for these values need to be reflected in the legislation adopted and regulations promulgated by individual countries, and in the international economic agreements that define countries' duties to each other
- Education systems which are open to all and which foster equality of opportunity
- A goal of providing enough 'good' jobs. This requires a much greater focus on 'good' jobs for non-graduates; strong technical education opportunities; apprentice schemes; a pro-active tax and incentive system and 21st century industrial strategy
- 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 preserve natural capital for the benefit of future generations-even 'the seventh generation' out as indigenous people use this as a moral metric.
- Financial sectors that are widely perceived to be stable, socially useful, and accountable
- Strengthening the reality of both opportunity and social mobility



- The promotion of human well-being, happiness, flourishing and equality of freedom to live a valued life as key societal goals
- Adapting new measurement systems to measure progress at both national and company levels
- As we move more deeply into a digital and virtual world, infused with complex technologies, personal privacy and public transparency will become crucial to the trust we need
- Moving from a shareholder model of companies and a client model of other vital institutions (like 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?

We have set out, above, some ideas and design principles for a new social covenant(s). These are designed to start a dialogue rather than to be definitive. The crucial issue, though, is that a discussion is started. A new covenant cannot come from a document but, rather, will be the product of a conversation between citizens, businesses and governments. Such a dialogue will need to address aims, discuss barriers, and above all, build trust. The World Economic Forum – as the key convener of representatives of all three stakeholder groups – is ideally placed to host and catalyse such a dialogue. We propose that this dialogue commences at Davos 2013.

A conversation about a social covenant could ask what a ‘just economy’ should look like and who it should be for—how we could do things differently, more responsibly, more equitably, and yes, more democratically. In forums where business and political leaders meet, the conversation could discuss the meaning of a ‘moral economy’ as a way to safely interrogate our present failed practices—and driving both ethical and practical decisions about the economics of our local and global households.

Social covenants could be entered into on the basis of trust, but this trust must be monitored, incentivized, and rewarded. Reforms must yield new institutional arrangements that secure meaningful representation for the 99%. How might new social covenants rebuild our trust in political and business leadership?

Lack of trust is bad for politics, bad for business, and bad for overall public morale. It undermines people's sense of participation in the society, undermines feelings of social responsibility and makes people feel isolated and alone—worried more about survival than solidarity.

While the 'contract' was broken, a sense of "covenant" is now more needed—fused with the sense of moral values and commitments. The process of formulating new social covenants could be an important part of finding solutions.

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