‘Things fall apart; the centre cannot hold … Surely some revelation is at hand …’

So wrote W. B. Yeats in the wake of the horrors of World War I as his pregnant wife lay gravely ill from the 1918–19 flu pandemic. The phrase ‘things fall apart’ was quoted more often in 2016 than at any time in previous years.¹ Yeats’ poem captures a sense of foreboding, when change seems inevitable. Recent years have seen the economic aftermath of the 2008 financial crisis, increasingly divisive politics, environmental protests and the coronavirus pandemic. Periods of great instability can result in a radical reordering of our societies. What that reordering looks like depends on the institutions that are in place, which leaders are in power and what ideas are in the ascendance.²

Over these recent years, I have seen many of the assumptions and increasingly the institutions and norms that have shaped my world fall apart. I spent 25 years working in international development and witnessed first hand how ‘making poverty history’ resulted in huge improvements in people’s daily lives. Humans really have never had it so good. And yet in so many parts of the world, citizens are disappointed, and this has revealed itself in politics, the media and public discourse.
Rising levels of anger and anxiety are associated with people feeling more insecure and lacking the means or power to shape their future. Support for the system of international cooperation that has existed since the post-war period, and in which I spent much of my career, is also waning as nationalism and protectionism come to the fore.

The global pandemic of 2020 brought all of this into sharp relief. The risks that the poor, those in precarious work and those without access to health care were exposed to were laid bare. The interdependencies between us were revealed as ‘essential workers’ were largely the lowest paid without whom our societies could not function. We could survive without bankers and lawyers, but grocers, nurses and security guards were invaluable. The pandemic revealed how much we depended on each other for survival but also for behaving in socially responsible ways.

Moments of crisis are also moments of opportunity. Some crises result in decisions that change society for the better – such as the New Deal measures introduced to counter the Great Depression or the rules-based international order that emerged after World War II. Other crises sow the seeds of new problems – such as the inadequate response to World War I or the 2008 financial crisis and the populist backlash it spawned. The impact of the coronavirus crisis remains to be seen. Whether it results in improvements or not depends on what alternative ideas are available and how politics evolves to choose among them. After much reading, listening, thinking and talking, I found that the concept of a social contract, the policies and norms that govern how we live together in a society, was a useful construct for understanding and defining alternative solutions to the challenges we face.

Over the years many of the ideas that shaped thinking about social contracts around the world were forged at the London School of Economics and Political Science (LSE), where I currently serve as the Director. There is a long tradition of thinking about the relationship between the economy and society, starting
with the founders of the Fabian Society and the LSE, Beatrice and Sidney Webb. Beatrice spent years collecting data in the poorest parts of London and seeing the impact of deprivation first hand. As a member of the 1909 Royal Commission on the Poor Laws, she authored a dissenting minority report that rejected the harsh system of workhouses and Britain’s piece-meal approach to supporting those in poverty. In it, she argued that a new social contract for the UK would ‘secure a national minimum of civilised life … open to all alike, of both sexes and all classes, by which we meant sufficient nourishment and training when young, a living wage when able-bodied, treatment when sick, and a modest but secure livelihood when disabled or aged’. More than one hundred years later, that is still an aspiration in most countries in the world.

Her arguments were reflected in the hugely influential report authored by William Beveridge (LSE director 1919–37) that designed the modern welfare state in the UK, including the National Health Service and a comprehensive approach to minimum incomes, unemployment insurance and pensions. The Beveridge Report (1942) was revolutionary, and more copies were sold than any previous government document as the public queued to buy copies to understand this fundamental reordering of the rights and responsibilities of citizens in the UK. Much of its implementation occurred under Prime Minister Clement Attlee, who had previously been a lecturer at the LSE and won the election in part by backing the Beveridge Report. While the focus of the Webbs and Beveridge was on the UK, their ideas had a huge impact across Europe and in much of the post-colonial world, especially in India, Pakistan, East Asia, Africa and the Middle East.

The LSE was also at the heart of the next reordering of societies, when Friedrich Hayek, a recent émigré from Vienna, professor at the school and Nobel prize winner, published *The Road to Serfdom* (1944). Hayek thought the interventionist state advocated by Beveridge would take society down the path of totalitarianism. He laid the foundations for classical
economic liberalism with his focus on individual liberty and the efficiency of markets. Hayek left the LSE in 1950 and went to the University of Chicago, where his ideas influenced Milton Friedman and provided the basis for what later became known as the Chicago School, dedicated to liberalism and laissez-faire economics. Both Margaret Thatcher and Ronald Reagan credited Hayek with their political philosophies and their emphasis on individualism and free markets. Hayek was also hugely influential in central and eastern Europe, where his books were widely read by dissidents who helped bring about the collapse of the Soviet Union.

The subsequent Third Way was an attempt to define an alternative to the interventionist state of the Fabians and the laissez-faire market liberalism of Hayek. Many ideas on how to use markets to achieve more egalitarian ends emerged at the LSE, with Anthony Giddens (another director of the school, 1997–2003) publishing *The Third Way* in 1998. These views were embraced by social-democratic politicians around the world, including Bill Clinton in the US, Tony Blair in the UK, Luiz Inácio Lula da Silva in Brazil, Gerhard Schröder in Germany, Thabo Mbeki in South Africa and many more. The Great Recession of 2008 saw the collapse of support for the Third Way, which lost credibility in the wake of the financial crisis as centrist leaders were increasingly replaced by populists around the world.

And so here we are again, in need of a new paradigm. Profound changes in technology and demography are challenging old structures. The climate crisis, the global pandemic and its inevitable economic aftermath have revealed the extent to which our existing social contract is no longer working. This book is an attempt to understand the underlying causes of these challenges and, more importantly, provide an alternative view on what a social contract fit for the twenty-first century might look like. It is not a blueprint, but I am hoping it is a modest contribution to fostering debate and providing a direction of travel for future policy.
I have spread myself thin in this book, trying to cover so many issues from a global perspective, and some readers will be able to identify exceptions to many of the points that I make. I draw heavily on academic research in peer-reviewed journals and meta-analyses – summarised findings of sometimes hundreds of pieces of research. The sources for most of this technical material can be found in the endnotes. I am a strong believer in evidence, the value of expertise and the importance of rigorous debate, but I also express my own judgements about what this literature teaches us about how different countries have developed solutions to what we owe each other in society.

Those judgements are inevitably rooted in my personal experiences of family, education, work and the impact of society and the state. My interest in economics originated from a desire to understand the architecture of opportunity in society. As a child, I would visit my mother’s family’s village in Egypt and see girls who looked just like me but who couldn’t go to school, worked hard in the fields and had few choices about who they would marry or how many children they would have. It seemed so random and unfair that I had opportunities that they did not – I could have easily been them and they been me. Those opportunities changed radically when most of my family’s land and property was nationalised by the Egyptian state in the 1960s and we emigrated to the United States, where my father had studied.

For my father, who had a PhD in chemistry and little else, education was the only path to success. ‘They can take everything away from you except your education,’ was his oft-repeated adage. But the educational opportunities open to us were mixed in the American south during the turmoil and tensions of desegregation. I was bused to more schools than I can remember, some of which had inspired teachers, some in which the main objective was survival. My salvation was the local libraries, where my mother dutifully took me on the weekends. I had memberships in several to maximise the number of books I
could take out each week and spent long hours on the sofa at home discovering the world.

After climbing the ladder of educational quality, that curiosity about the architecture of opportunity led me to a career in economics and development that spanned the World Bank, the UK Department for International Development, the International Monetary Fund and the Bank of England. I love universities and spent eighteen years in them, but most of my career has been in the trenches of policymaking. Perhaps what is unusual is having done it in such a broad array of countries – from some of the poorest in the world like South Sudan and Bangladesh to some of the richest, such as the UK or the Eurozone. I have also worked with politicians from across the political spectrum – in the UK, I was a permanent secretary for both a Labour government and the coalition of the Conservatives and Liberal Democrats. In my years at the World Bank and IMF, I worked with hundreds of politicians of every imaginable political stripe. That perspective of having been a practitioner of policy as well as a student of policy permeates this book.

After 25 years working in international economic institutions, I saw how much benefit came from sharing experience across countries. Of course, every country has its distinctiveness, especially on issues such as the balance between the individual and the collective in the social contract. Countries like the US put more emphasis on individual freedom; Asian societies tend to prioritise collective interests above individual preferences. Europe is somewhere in the middle, trying to strike a balance between individual freedom and collective interests. Behind each of those generalisations are many exceptions and examples that can teach us how to tailor solutions for different contexts. Rarely is there one right answer, but a set of options and trade-offs that involve various costs and benefits reflecting different value judgements.

In addition to being global and focused on solutions, I have also tried to make this book personal. For me, the terms of the social contract are not some abstract activity reserved for technocrats
and policy wonks. Policy decisions on how an education system is organised or how health care is funded or what happens when you lose your job have huge consequences for everyone. They make the difference between the life I have led and that of those little girls in the village. That is why this book is organised around the stages of life that most of us experience – raising children, going to school, getting sick, finding work and growing old. My hope is that this perspective will make these important issues accessible and encourage us all to have opinions on these vital matters.