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The American Social Contract: From Drift to Mastery

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THE NEXT SOCIAL CONTRACT

New America Foundation

EXECUTIVE SUMMARY

Our social contract—the formal and informal, public and private arrangements by which we ensure economic security and opportunity—has evolved over the course of American history in response to changing economic and political conditions and demographic realities. This evolutionary process, in which the balance between individual responsibility and the responsibilities of government, employers, and civil society has been struck and restruck, has proceeded in fits and starts. Change has come quickly at times of crisis and slowly, almost invisibly, at other times. Over the past three decades, transformations in the economy, in corporate governance, and in the nature of work have pushed the social contract out of balance. Unfortunately, these decades were also marked by political timidity regarding public action and have led to a period of drift. As a consequence, entry into the middle class is closing, American families are increasingly insecure, and inequality of income and wealth has reached unprecedented levels. Our social contract is overdue for rethinking.

To take command of our economic future and restore balance to the social contract, we would do well to be guided by three principles. First, we should keep in mind that security and opportunity are not mutually exclusive alternatives. If individuals are to take advantage of the opportunities inherent in a dynamic economy, they will need the security provided by social insurance, individual assets, and portable benefits. Second, we should not be constrained by preconceived notions about the appropriate size of government or levels of federal taxation. For example, we should be open to the idea that a system in which health care costs were effectively socialized, lifting a burden from private enterprise, could lead to strong economic growth. Third, the next social contract should be future-proof. We do not know what challenges we will face in the global economy of the future; the only safe bet is that change will come faster than we can imagine. We must make the next social contract resilient enough to help Americans navigate the global economy for many decades to come.

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The history of our nation can be described as a series of deals, an evolving contract by which we have agreed to make our way together. From John Winthrop, who in 1630 foresaw a society in which "every man might have need of others, and from hence they might be all knit more nearly together in the Bonds of brotherly affection," to Bill Clinton, who more recently proclaimed that "if you work hard and play by the rules, you ought to be able to get ahead," the American credo has never been one of pure individualism. Throughout our history, we have met our aspirations by first defining our mutual obligations, the fulfillment of which has in turn made individual achievement possible.

These bonds and rules—our social contract—define our expectations for ourselves as individuals and for our society as a whole, and what we desire from government and the economy. Government programs such as Social Security or laws such as the National Labor Relations Act, which are part of this complex arrangement, are merely the visible manifestations of the aspirations and responsibilities embodied in an informal, quasi-constitutional agreement that has evolved over time. When President Clinton used the phrase, "play by the rules," we knew more or less instinctively what he meant: that citizenship is not just a matter of obeying the law but of meeting all the obligations that go with our place in the communities of which we are a part, from the local to the national. In return, we should be able to expect a level of security that allows us to flourish as individuals.

For the individual, the rules involve the obligation to get an education, to work when work is available, to take care of one's family, and to raise children with the same sense of responsibility. For the employer, the rules include the obligation to pay a fair wage, to treat workers with dignity, to compete on fair terms, and to respect common assets. Government's role is to create adaptable institutions to manage and enforce those obligations.

When these responsibilities are balanced and well understood, we have a sense that the social contract is working, even when the economy is underperforming. It is when they are out of balance that feelings of discontent arise—we hear mumblings that "the system" is not fair, or that the government is not working—and our economy loses some of its potential. In this sense, the social contract is both a political agreement and a set of economic and social programs. It is where politics and the economy, democracy, and regulated capitalism meet.

THE SLOW MARCH TOWARD A UNIVERSAL SOCIAL CONTRACT

The story of progress in America—at least the story we like to tell ourselves—is one of the steady expansion of citizenship to include those left out at the founding of the Republic, from those without property to African-Americans (in law and much later in fact) to women. The evolution of the social contract has paralleled—though lagging 50–75 years behind—this broadening of citizenship, making it possible for more and more of us to make the most of our talents and fulfill our

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aspirations.[1] By understanding the evolution of the material social contract, and particularly the means by which it has struck and restruck a balance between freedom and equality in light of changing economic circumstances, we can begin to see the outlines of its next iteration.

While the economic dimension of the social contract can be traced to the 18th and 19th centuries in such measures as the Homestead Act and the establishment of the limited liability corporation, it was not until the 1930s that the idea that government could or should provide a modest base of security for the masses took hold. Even then, as the Great Depression took its toll, we moved slowly and cautiously in this direction. Having no experience of a politically viable socialist movement and having been spared the devastation visited on Europe by two major wars, we gave smaller supporting roles to government, centralized planning, and social insurance than most other Western nations. Even so, the American experience gave rise to a state that is more active and expansive than our laissez-faire self-image would suggest.

Until very recently, it was a point of pride for Americans to look at the Western European model of the corporatist welfare state and declare it "sclerotic" in comparison with our own economic model, because its larger role for government and stronger protections for workers raised the cost of employment and led to higher rates of persistent unemployment. The European model has shown remarkable resilience, leading some Americans to reconsider its strengths,[2] but over the last eight decades it is the balanced American social contract among all others that has had perhaps the best track record in creating a base of economic security, a sense of opportunity, social as well as economic mobility, broadly shared prosperity, and a strong middle class.

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BALANCE AND ADAPTABILITY

The unique success of the American social contract rests on two qualities: balance and adaptability. Its distinctive balance of free market capitalism and modest but real social supports has enabled us to participate in the economy as autonomous producers, workers, and consumers, and to live our lives to the fullest. This combination is not a function of a specific ideology, original plan, or even a coherent vision of society. Rather, it has been achieved through a vague and always contested notion of shared responsibility and opportunity for all. This concept has meant different things at different historical moments. As our economy evolved, as we moved from the farms to the cities and then to the suburbs, as women became full participants in the labor market, changing the nature of the family, as the rewards for brawn gave way to rewards for brains, this underlying, if amorphous, idea has led us in new directions. Our public institutions and government programs have changed, at times expanding and at other times contracting. The conventions by which we manage our family and communal lives have also evolved.

However, the social contract does not adapt automatically to changing conditions, or in a particular direction. The history of the social contract in the American context is not one of steady progress toward greater inclusion, economic security, or shared prosperity. The social contract has evolved by means of false starts and half-steps. Throughout our history, political conflicts and economic crises have broken down the constitutional balance, and the ensuing political settlements and realignments have had an impact on the social contract. Thus, for example, the "switch in time" of 1937, when the Supreme Court suddenly revised its rigid interpretation of the Commerce Clause to allow Congress to create programs such as Social Security and unemployment insurance, or the two-year period in the 1960s when Medicare and Medicaid were created, or the late Carter and early Reagan years when tax cuts and devolution to the states curbed a steady expansion of federal power. These historical moments had in common the obsolescence of old structures and ideas, the emergence of a new economic order, and a new political alignment.

HOW THE SOCIAL CONTRACT CHANGES

As adaptable as it may be, the social contract never adjusts smoothly. Change comes late at times, abruptly at other times. Viewed from a historical perspective, however, we can judge when the social contract is likely to adapt to changing circumstances:

At rare moments of economic crisis, as during the Great Depression and the New Deal.

In wartime and in its aftermath. Every major war in which the United States has been engaged has led to the creation of economic benefits for whole classes of citizens. Long after the Civil War, a majority of American men who had been of fighting age during the conflict were receiving military pensions. After World War II, the GI Bill opened up the possibility of higher education to an entire generation of men.

At moments of staggering prosperity or opportunity, as in the period after World War II, when the U.S. industrial economy dominated the world, and the great "pattern bargaining" agreements were set in place in the automobile and steel industries, giving workers unprecedented bargaining power throughout the economy and leading to a narrowing of economic inequality that lasted until the 1980s. Indeed, it was the one-two combination of economic crisis in the 1930s, which led to massive and rapid enactment of many of the reforms that Progressives had been pursuing without success since the 1890s, followed less than two decades later by global economic hegemony continuing well into the 1970s, that shaped almost everything about the postwar social contract.

At moments of rare political unanimity or presidential power, as with the passage of Medicare and Medicaid in the Johnson administration or, conversely, the retrenchment of the early 1980s. The Washington Consensus, with its emphasis on the role of market forces and de-emphasis on the role of the state that emerged in the 1990s as a response to globalization, reflected near-unanimity across party lines.

Often the social contract changes almost invisibly in ways that do not reflect open political choices, sometimes as the consequence of other choices, or as subtle economic changes shift the nature of programs or allow for sneaky policy shifts. For example, during the 1970s, inflation brought the federal government steadily increasing revenues, which permitted a dramatic but little discussed expansion of programs such as Social Security, which were for the first time indexed to inflation. More recently, subtle changes in Medicaid and in the Earned Income Tax Credit have resulted in a dramatic shift in the nature of the social safety net: no longer a protection against falling into abject poverty, it is now primarily a support for the working poor. While some of the changes that led to a work-based social contract were visible and politically contested—such as the welfare work requirements of the 1990s—others were enacted quietly or with other purposes in mind.

The dynamics of change create the sense of erratic jumps and half-steps in the evolution of the social contract. At moments of crisis, we build institutions for crisis; at moments of prosperity, we build on the assumption of continued prosperity. When one political party or political faction controls the instruments of government, we often see dramatic changes in the social contract, some of which reflect an underlying political consensus, and some of which do not. In the absence of political pressure, a broad social movement, and leadership from the president, we drift. As a result of this

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LIFE OUT OF BALANCE

Unlike in 1932, America is not in crisis, but it has lost its balance in the destabilizing wave of economic and societal changes that have been underway since at least the late 1970s.

Many of the changes of the last 30 years have been for the better. Through a combination of sophisticated monetary policy and the shift to a service economy, we have essentially mastered the business cycle. Recessions are much shallower than before 1979, recoveries longer and smoother.[3] Corporate profits are more stable.[4] Technological advances led to radical jumps in productivity that began to be realized in the 1990s. Technological development also had an impact outside the workplace, in the form of improvements in medical care and well-being that have led to jumps in life expectancy, and in a changing workplace that often places much greater demands on workers' time.

These developments coincided with a significant change in the norms and governance of American business, in which the doctrine of "shareholder value"—the idea that management's highest obligation is to deliver short-term value to current shareholders—replaced the older model of long-term stewardship of corporate assets. As corporations came under pressure from predatory buyers in the early 1980s, they responded by shedding nonproductive lines of business, cutting costs, and—either because of or to avoid a takeover—taking on high levels of debt. This was mostly a positive development because it forced American business to take on an edge and an intensity that it desperately needed at a point when U.S. industries were losing their position of global dominance. In the ensuing decades, business placed an ever greater emphasis on short-term earnings, efficiency, and disaggregating lines of business, often moving less profitable manufacturing processes offshore or seeking low-wage suppliers. The revolutions in transportation and communications, which accelerated globalization at a pace not seen since before World War I, were accompanied by a financial revolution that increased the pressures on companies for short-term earnings and shifted the risks to workers.

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At the same time that the interests of shareholders in near-term earnings growth became the paramount concern of the corporation, increasing numbers of individual Americans were becoming enmeshed in the rapidly evolving financial economy. The number of households that owned stocks directly or indirectly rose from 15.9 percent in 1983 to 56.9 percent in 2005. Savings accounts were abandoned in favor of money markets and mutual funds, a shift from security to risk that was matched by the shift toward the uncertain benefits of defined-contribution pension plans. And, like corporations, households began to use credit more aggressively—often for the good, in order to move ahead economically. But with households taking on high levels of debt and risk, and highly leveraged companies watching short-term profits, we have drawn ever closer to the economic edge.

Both of these changes put great stress on the programs and norms of the old social contract. While corporate profits are more stable, family incomes have become more volatile.[5] In this era of innovation and entrepreneurship, almost 600,000 businesses dissolve each year, taking 3 million jobs with them, and contractions in larger firms tend to be permanent, not the temporary layoffs of the industrial-era cycles.[6] Yet much of the current social contract, from unemployment insurance (with its 26-week limit) to pensions, was designed for an economy based on long-term employment in cyclical industries.

Today's longer life spans make traditional pensions much more costly for employers and increase Social Security and Medicare costs. Likewise, medical innovations, accompanied by a lack of cost controls, have caused medical costs to rise 34 percent faster than other costs,[7] placing another heavy burden on employers. The aging of the population has made the generational trade-offs in the social contract more apparent and potentially a source of political tension, which could lead to a backlash against the very programs that have been most successful in providing economic security: Social Security and Medicare. The Congressional Budget Office estimates that by 2010 the federal government will spend $8.44 on those over 65 for every dollar spent on a child.[8]

For the elderly, the middle-aged, and the young alike, the promise that hard work and responsible choices can lead to a solid base of personal and family security is slipping away. Reliable pension plans are a thing of the past, the number of Americans without health coverage is quickly approaching 50 million,[9] real wages are stagnant or declining,[10] and more families are falling out of the middle class than are rising into it. Men in their thirties earn less than their fathers did at the same age,[11] a recent development and a tangible break with the American promise of generational upward mobility.

Economic and societal changes underway since at least the late 1970s have presented a challenge to the social contract that our public policy and politics have not caught up with. A greater share of the benefits of economic growth and productivity gains has gone to the wealthiest 1 percent of Americans than at any time since the late 1920s. And even families that are doing well can do so only when both parents are in the workforce, often in multiple or high-intensity jobs, and by taking on high levels of debt. Moreover, families are experiencing more uncertainty about future income than we have seen since before the New Deal. When jobs are lost, it is not to temporary layoffs, but to the permanent shutdown of plants, firms, and entire industries as a result of globalization, deindustrialization, and the rapid pace of innovation.

After remaining almost unchanged for four decades, the share of income going to the top 10 percent of Americans began its steady march upward around 1980, from 32 percent to almost 45 percent of all income. Union membership has been cut in half since the 1980s, removing one of the vital components of the old social contract: the ability of labor to bargain for its share of the benefits of growth. Traditional pensions, the kind that provide a guaranteed income in retirement, began to decline around 1979 as companies shifted the risk onto employees by converting to 401(k) plans and other "defined contribution" pensions, which can provide workers with an adequate retirement if they do not outlive their savings.

The programs that are meant to protect people from the risks of unemployment, illness, and retirement were designed for the era of cyclical but permanent employment. We have traded a system in which economic risk, while sometimes severe, was predictable and borne in part collectively for one in which risk is much less predictable and falls increasingly on individuals because social insurance programs were built around specific, foreseeable circumstances.

> At a time when government should have been stepping forward to act as a countervailing force against the trends in corporate governance and finance that were stripping away individual security, political timidity meant that public policy often reinforced the effects of these trends.

THE ERA OF TIMIDITY

The beginnings of the modern, deindustrialized, high-risk/high-reward economy coincided with a significant political sea change. In 1977, at a time when Republicans were vastly outnumbered in the House and Senate, two Republican legislators introduced the Kemp-Roth proposal, which provided for an across-the-board tax reduction based not on Keynesian theories of economic stimulus but on a new theory that taxes should be permanently reduced to encourage economic growth. A year later, California voters passed Proposition 13, a ballot initiative that capped property taxes and resulted in a slow cutback in state services. Three years later, Kemp-Roth had gone from the audacious gambit of a couple of back-benchers to the law of the land; by indexing tax brackets to inflation, it cut off the invisible revenue increases that had driven the expansion of social programs.

Thus began an era of tax revolts and political timidity, three decades in which the reduction of both taxes and the size of government became ends in themselves, without regard for the challenges presented by the new economy. This was a cross-partisan political era, incorporating parts of two Democratic presidencies (one of which proclaimed the "era of limits" and began a trend toward deregulation, and the other that "the era of big government is over"), three Republican presidencies, and five changes of control of Congress.

As Americans moved closer to the economic precipice, the safety net was fraying. At a time when government should have been stepping forward to act as a countervailing force against the trends in corporate governance and finance that were stripping away individual security, political timidity meant that public policy often reinforced the effects of these trends.

With the approach of the 2008 elections, both Democrats and Republicans appear to recognize that public policy has a role to play in creating a platform of economic security that makes both dynamic capitalism and strong families possible, but the timidity of the last three decades still seems evident in the dearth of constructive solutions being put forward. Tax credits that create incentives for individuals remain the primary, and sometimes the only, policy tool of even the more liberal Democrats. But the result is a tax system that has become distorted by all sorts of social purposes that are unrelated to the principles of fair and adequate taxation. Tax credits are a weak tool for achieving the goals once provided through social insurance or regulation. They reveal a lack of confidence on the part of politicians, who seem to have forgotten that by acting together to create public structures—Social Security, Tennessee Valley Authority, our great public universities—we were able to counter the destabilizing trends in the economy.

Of course, some think that the government should reinforce these trends, so that in an era of higher risks and greater rewards, it should encourage households to take even greater risks, such as by shifting mandated savings through Social Security into private equity accounts. The rejection of Social Security privatization in 2005 reflects an understanding on the part of the public that the role of government is to counter, not reinforce, the trends toward higher risk, higher reward, and greater uncertainty driven by the larger private economy.

AN OPPORTUNITY TO RETHINK THE SOCIAL CONTRACT

This is not, let us be clear, a crisis. We have an opportunity to rethink the social contract without panic or undue urgency. It is an opportunity to take command of the social contract, to move forward with confidence rather than drift wherever the economic currents may take us.

To move from drift to mastery of the social contract, we should reexamine not just the programs that are failing, but the premises behind them. We need to ask ourselves certain questions:

- What in the economy are we ready to change in the interest of justice, equality, or future prosperity?
- What aspects of the economy are we unable or unwilling to change?
- What forms of risk or social insurance do we need to protect ourselves against the harshest aspects of the economy that we cannot change?
- What tools, such as education or protections against exploitation, do we think we should provide our fellow citizens to help them succeed?
- In what circumstances do we think people should be considered to be on their own?
- In what respects do we think that people working collectively—such as through labor unions or the institutions of civil society—can provide security for themselves?

We can look at the evolution of the American social contract as different ways of answering those questions.

In the 1800s, for example, as the United States became an industrial nation, we assumed that there was very little we could change about individual circumstances, and that private charity—often tied directly to religious observance—should support the very poor, though principally the native-born "deserving" poor. Outside of the cities, land was seen as the key tool of economic opportunity, and so the Homestead Act was one, albeit insufficient, way of equipping people with that asset. Later in the century, as unions began to develop, the power of nongovernmental collective action provided the first counterweight to the brutalities of laissez-faire industrialization.

In the Progressive Era, we began to take control of the economy, creating the government-licensed limited liability corporation, which enabled large-scale production, passing antitrust laws to preserve competition, and establishing the beginnings of basic workplace protections. We also began to see education as essential to economic survival, which led to the establishment of the great public universities and the founding, in 1901, of the first community college. The states began to establish public pension systems and the basics of a public safety net for widows and orphans.

The Great Depression gave rise to the first wholesale vision of the social contract. Roosevelt's New Dealers at first sought to control prices and production. When that approach ran aground on the shoals of political opposition and was blocked in part by the Supreme Court, the administration used fiscal policy and public investment to propel aggregate demand. This so-called Second New Deal also built the modern social insurance state to protect people from the rough seas of the business cycle. Much of our current social contract was built on that shift, which led to the creation of Social Security, unemployment and disability insurance, protections for unions, and the first proposals for universal health care.

With the exception of the war years, when the government did manage key parts of the economy, the social contract over the next several decades involved the expansion of the social insurance state, particularly in the 1960s. Concurrently, there emerged an accidental, unplanned system of private social insurance, mainly in the form of pensions and health care. The government also expanded its role in equipping people with the tools they needed to compete in the economy, as first the Cold War competition with the Soviet Union and later the beginnings of trade competition with Japan prompted investments in both K-12 and higher education. Welfare benefits became more generous, the definition of disability broader. The obligations of employers became clearer as well, with steady increases in the federal minimum wage and occupational health and safety measures. And while government did not intervene directly in the economy, public investment in physical infrastructure, such as the Interstate Highway System, not only encouraged full employment but also created the basis for a robust private sector economy.

THE FREE LUNCH PUZZLE

Historically, every moment of crisis with respect to the social contract has resulted in a political settlement that has ultimately been enormously beneficial to individuals, business, and economic growth. The Progressive Era social contract staved off the twin threats of socialism and monopoly. The New Deal social contract restored economic and political stability. The social insurance model that arose enabled employers to manage the business cycle, maintaining a flexible, skilled, long-term workforce. This is what the economic historian Peter Lindert, in writing about the positive economic effects of social spending, refers to as "the free lunch puzzle": the fact that higher levels of taxation and spending can result in improved long-term economic growth and productivity, if the tax system is geared to encourage growth and the spending encourages and supports work.

Today, business bears much of the cost of the lapsed social contract, in the form of rising and unpredictable health care costs, pension costs that burden some companies but not others, and a labor force unprepared for the challenges of a globalized economy.

> A new social contract that is attuned to and supportive of a more entrepreneurial and dynamic economy would shift responsibilities among individuals, employers, the government, and civil society so as to relieve business of burdens—such as the financing of health care—that are more appropriately the duty of the citizenry, through government.

A new social contract that is attuned to and supportive of a more entrepreneurial and dynamic economy would shift responsibilities among individuals, employers, the government, and civil society so as to relieve business of burdens—such as the financing of health care—that are more appropriately the duty of the citizenry, through government. Although such a shift might increase the share of total spending on health care borne by government, it could also reduce total health care spending and free up other resources in the private sector. Those who argue that any such increase in the size of government is inherently antibusiness misunderstand the essential role that a robust social contract can play in supporting capitalism and entrepreneurship, and would foreclose the most promising possibilities for the next social contract.

Once again, as at previous moments in our history, we have both the opportunity and the obligation to take up the questions related to the social contract and answer them for our time: What in the economy do we want to change? What risks do we accept but want to insure people against? What are the skills or assets that we believe citizens should be endowed with in order to participate to the full extent of their abilities and ambitions in the productive economy? How do we align the mutual responsibilities of individuals or households, employers, government, and civil society?

We should not be afraid to meet head on the problems we see in the economy, from the reemergence of monopolistic business practices to the deindustrialization of the heartland to the decline of unions. We need not be passive riders on an unchangeable tide of globalization and corporate maximization of short-term profits.

> Equipped with secure savings, protections against unemployment or illness, and the opportunity to gain new skills, workers would be able to brave the rough waters of the new economy.

> If we decide beforehand what the size of the government's role should be, we will preclude many creative options.

RULES FOR RETHINKING THE SOCIAL CONTRACT

The next social contract could take any of a number of different forms. The New America Foundation has proposed and will continue to propose specific reforms in health care, pensions, and family policy to address urgently needed reforms. There are solutions to the problems presented by our outdated social contract to be found along the entire ideological spectrum, in the results of state and community experimentation, and rooted in historical experience. As we attempt to devise the next social contract, we should keep a number of things in mind:

Economic security and economic opportunity are not mutually exclusive. Conservatives argue that in the modern economy the government's role is largely to encourage citizens into the high-risk and high-reward economy, as in policies such as welfare reform. Traditional liberals argue that the government's role is to provide an expansive safety net for the needy, the elderly, and vulnerable families.

This is worse than a false choice; it misinforms the public debate. In the past, it was such government programs as unemployment insurance or labor laws that made unions viable that made it possible for Americans to embrace the opportunity and risks of a dynamic private economy. Equipped with secure savings, protections against unemployment or illness, and the opportunity to gain new skills, workers would be able to brave the rough waters of the new economy and quit an unrewarding job, start a small business, join a start-up, take a chance in a new field, or take a few years off to raise a family. Equipped with a base of secure retirement savings, individuals could invest the remainder of their savings more aggressively in the private equity markets, which in turn would make more capital available for creative entrepreneurship.

We should not begin with preconceived notions about the size of government or the level of federal taxation. In the current political climate, many visions of the next social contract are rejected because they appear to support "big government" or because they might lead to higher taxation. Yet the magnitude of federal investment is not the appropriate measure of whether a particular vision of the social contract limits or frees private enterprise, as the example of health care clearly demonstrates. Under our current health care system, with its declining and insecure coverage, and skyrocketing costs, responsible employers bear a heavy burden in terms of their costs today as well as their inability to anticipate the cost of health care in the future. A system in which government bore the responsibility for health care coverage would free business to innovate and to hire. In exchange, all businesses would pay taxes or fees that would be less costly to them than what responsible employers are now paying for health coverage, and since the costs would be predictable firms would be better able to plan for the future. Furthermore, the system could be designed to significantly reduce health care spending as a share of GDP, even while expanding coverage. The share of GDP represented by federal government spending would increase, but the private sector would benefit greatly from such a shift. This is not the only possible solution to our health care conundrum. As with other elements of the social contract, there are likely to be any number of approaches that fall somewhere between the status quo and a fully public system. The point is that if we decide beforehand what the size of the government's role should be, we will preclude many creative options.

The next social contract must be future-proof. Our social contract has fallen out of balance because it is tied to the economic circumstances and norms of the era of postwar U.S. industrial hegemony. We do not know what challenges we will face in the global economy of the future; the only safe bet is that change will come faster than we can imagine. Any vision of the next social contract needs to make a case for itself not just in terms of today's economic assumptions (such as, for example, that private equities will always increase in value faster than other forms of investment) but in terms of the full range of economic and demographic possibilities over the next 50 years or more. A vision of the social contract tied to current circumstances, or to a particular prediction about the medium-term future, needs to be tested against other plausible outcomes as well as the most likely trend. We also need to see the social contract along a generational continuum. The problem of "generational equity"—the fact that we spend considerably more on the elderly than on the young under our current social contract—is evidence of our shortsightedness. Creating adaptable models, relaxing current economic assumptions, and vesting benefits in individuals rather than in employers or other institutions, will make the next social contract resilient enough to continue to help Americans navigate the economy for many decades to come.

We have been drifting for far too long. Enormous economic, social, and political changes have swept away the underpinnings of the social contract that led to the greatest era of prosperity and human fulfillment in modern human history. In order to re-create the social contract for the 21st century, we need to begin with an understanding of the history and political assumptions that shaped our outdated contract, not to be bound by that history but to transcend it. We must fully appreciate the changing economics, social norms, demographics, and technology that have gradually pulled the social contract out of balance. And we must take on the task with confidence and a willingness to change our approach to the economy and government. We have many tools at hand to redesign the social contract for ourselves and generations to follow. We need to get to work.

Creating adaptable models, relaxing current economic assumptions, and vesting benefits in individuals rather than in employers or other institutions, will make the next social contract resilient enough to continue to help Americans navigate the economy for many decades to come.

ENDNOTES

[1] Women gained the right to vote in 1920 but began to achieve full economic autonomy only in the 1970s. African-Americans gained basic legal rights during Reconstruction, but even in the North, economic opportunity was a broken promise until the 1920s. And economic and political participation are not completely independent variables: many have argued that full political participation is impossible under conditions of radical economic inequality.

[2] GDP has grown at a faster average rate in most EU countries than in the United States over the previous eight quarters (OECD data, September 20, 2007).

[3] See Gergios Karras, Jim Man Lee, and Houston Stokes, "Why Are Postwar Cycles Smoother? Impulses or Propagation?" *Journal of Economics and Business* 58 (2006): 392–406.

[4] Bureau of Economic Analysis, National Income and Product Accounts Table 1.7.5, "Relation of Gross Domestic Product, Gross National Product, Net National Product, National Income, and Personal Income," http://bea.gov/national/nipaweb/SelectTable.asp.

[5] Exactly how much more volatile is a subject of considerable discussion among scholars. See, generally, Jacob S. Hacker, *The Great Risk Shift* (New York: Oxford University Press, 2006); Karen E. Dynan, Douglas W. Elmendorf, and Daniel E. Sichel, "The Evolution of Household Income Volatility," Brookings Institution, Washington, D.C., 2007, http://www.brookings.edu/views/papers/elmendorf200706.htm; Peter Gosselin, "If America Is Richer, Why Are Its Families So Much Less Secure?" *Los Angeles Times*, October 10, 2004, http://www.latimes.com/business/la-fi-riskshift3oct10,0,3849444.story.

[6] Small Business Administration, *The Small Business Economy, 2005: A Report to the President*, table A.8, http://www.sba.gov/advo/research/sb_econ2005.pdf.

[7] Centers for Medicare and Medicaid Services, "An Overview of the U.S. Health Care System Chart Book," January 2007, http://www.cms.hhs.gov/TheChartSeries/Downloads/Chartbook_2007_pdf.pdf.

[8] Congressional Budget Office, "Federal Spending on the Elderly and Children," http://www.cbo.gov/ftpdoc.cfm?index=2300&type=0.

[9] Robin A. Cohen and Michael E. Martinez, "Health Insurance Coverage: Early Release of Estimates from the National Health Interview Survey, 2006," Center for Disease Control, Washington, D.C., June 2007, http://www.cdc.gov/nchs/data/nhis/earlyrelease/insur200706.pdf.

[10] Real wages in the bottom four income quintiles either are stagnant or have declined since 1973. See Lawrence Michel, Jared Bernstein, and Sylvia Allegretto, *The State of Working America 2006/2007*, Economic Policy Institute (New York: Cornell University Press, 2007), fig. 3D.

[11] John E. Morton and Isabel V. Sawhill, "Economic Mobility: Is the American Dream Alive and Well?" Brookings Institution, Washington, D.C., May 2007, http://www3.brookings.edu/views/papers/sawhill/200705.pdf.

THE NEXT SOCIAL CONTRACT INITIATIVE aims to reinvent American social policy for the twenty-first century. Through a program of research and public education, the initiative will explore the origins of our modern social contract, articulate the guiding principles for constructing a new contract, and advance a set of promising policy reforms.

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