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BARONESS MINOUCHE SHAFIK: WHAT WE OWE EACH OTHER – A NEW SOCIAL CONTRACT

Thursday 20 April 2023

LECTURE TRANSCRIPT



WHAT WE OWE EACH OTHER:
A NEW SOCIAL CONTRACT



Baroness Minouche Shafik

Well, good afternoon, everyone. It is such a pleasure to be here and thank you for that very kind and generous introduction and warm welcome. It's really an honour to be here today, to give this lecture and a genuine pleasure to share this beautiful day in Edinburgh with all of you in this historic space.

I wanted to particularly thank Professor Richard Williams for hosting me and Professor Dame Helen McGregor for extending the original invitation and to all the staff here at Heriot-Watt University and Panmure House for their hospitality and for making this such a wonderful occasion.

Now, of course, as an economist, a policymaker, and now President of the London School of Economics and Political Science, at least for a couple more months, it is really the culmination of a dream to be able to give a lecture in memory of Adam Smith in his only surviving residence and in the 300th anniversary of his birth. Smith, of course, was the founder of the discipline to which I've devoted my career, and so I feel a deep and abiding connection to any institution associated with him. I should also point out that as a graduate of Oxford and having an honorary doctorate from Glasgow University, I also share both of Smith's alumnnatas.

Even beyond his towering contributions to the dismal science, Adam Smith's ideas have shaped my life and the lives of people across the planet. He was, of course, a key figure of the Scottish Enlightenment and his evangelism for the power and necessity of reason, empirical evidence

and civic engagement in resolving conflict and advancing human flourishing really did change the world for the better.

I've devoted the last six years of my career to preserving and championing that transformative legacy in the higher education sector in the UK, and I look forward to trying to do the same in my new role in the US. I think it's never been more important to defend that intellectual inheritance in the face of populism and tribalism.

So along with it being an honour and a pleasure, it's also a challenge to have been invited to give this lecture. Not only because of the eminent and distinguished people who have spoken before me, including my former colleague Andy Haldane and, of course, the venerable Sir Angus Deaton. But it's also a challenge to speak at this particular time on this subject. With the pandemic, the war in Ukraine, the cost-of-living crisis, and geopolitical tensions, it can sometimes feel a bit perverse to discuss anything but these immediate challenges and pressures.

In moments like this, I draw inspiration from one of my esteemed predecessors as director of the LSE, Lord William Beveridge. His famous report, which provided the conceptual foundation for the British welfare state, was published in late 1942. As British soldiers were still engaged in a life-or-death struggle on the continent with no guarantee of success. Beveridge knew that as a society we can never allow our urgent present to obscure our important future. He was famously good at making a complete nuisance of himself in Whitehall, making arguments for the creation of a National Health Service or widespread unemployment insurance even as the bombs were dropping onto London. And we must learn from his example and recognise they'll never be a quiet moment to shape to Morrow, and accept that, for better or worse, now is the only chance that we have.

And of course, I also draw inspiration from the namesake of this lecture, standing here in this place, where Adam Smith completed the final edition of *The Wealth of Nations*, arguably the most famous and influential work in the history of the social sciences. Of course, one has to reckon with both its genius and the fact that it has been used for political purposes in many contexts. Indeed, the fame and influence of *The Wealth of Nations*, while not of course Smith's fault per se, is in some ways responsible for the caricature of Smith and modern economics as singularly obsessed with growth, competition, and the primacy of individual concerns, reducing some of his most important insights in intellectual history to a narrow justification of self-interest.

While it's not novel in an audience of what I'm going to guess are Smith devotees, I think it's always important to share the necessity of reading Smith's second book only in the context of his first of course, written 23 years before Adam Smith was a moral philosopher, long before he was an economist.

In *The Theory of Moral Sentiments* Smith qualifies his later insights into human beings self-interested nature with a focus on sympathy. He writes about the importance of fellow feeling as the basis for our moral sentiments, what today we might call empathy. This is part of a long philosophical tradition from the early Stoic philosophers. Hierocles, who developed a theory of how we belong to concentric circles, which he called *oikeiosis*, the innermost circle, being the individual, surrounded then by the immediate family, the extended family, the local community, citizens, and ultimately all of humanity to whom we had a relationship. Of course, others like Aristotle, Aquinas, Rawls, and many other others follow in that tradition.

In Adam Smith's sympathy moderates our passions and enables us to live in harmony with others in a social order. Much of economic thinking has focused too much on Adam Smith's self-interest legacy and not enough on his sympathy legacy. And in my book, *What We Owe Each Other*, I try and balance these two aspects to show that an economy can only function when it operates in a spirit of inclusivity, rest, and reciprocity, and that that is both good for efficiency and opportunity.

Let me turn to what I think a more modern application of this approach would look like, and I can't help but of course bring us to some of our contemporary problems. If you look at the British economy today, it has two major problems. One is a cost-of-living crisis in a time that, well, a cost-of-living crisis, which is fuelled by dramatic shifts in the supply and demand for goods, particularly energy, in a time of war, plague and other disruptions to trade. The second problem, perhaps the more severe one, is an is an is an entrenched and toxic blend of structurally low growth and productivity? Or what the *Economy 2030 Inquiry*, which I'm participating in and is a joint product of the LSE and the Resolution Foundation, memorably calls stagnation nation.

With the highest inflation rate in the G7, labour productivity at the bottom of the OECD, shrinking real wages since 2010 and a host of other terrible economic indicators, it's no surprise that the Bank of England projects that in this year and last year British households will have seen the biggest collapse in living standards since such records were first kept 60 years ago.

Now you may think that I'm going to say that the problems of the UK stem from too much emphasis on self-interest and not enough on sympathy, but I think it's actually the failure to see

the interaction between the two that is the problem. The economic problems in the UK and in many other countries reflect the breakdown of the basic set of norms, rules, benefits, and obligations that bind individuals, firms, States and states together and lay out what we owe each other, what I call the social contract.

Quite simply, over recent decades we've seen a breakdown in the consensus about the way the economy functions and most people's expectations of what society will provide them and what we should ask of them. From the recent spike in energy prices to the NHS backlog were failing to provide a decent minimum level of security for the worst off. Our failure to put in the maximum investment in the capabilities of citizens we're ensuring sluggish future growth and embedding greater inequality between people and places. In our flexible but insecure labour markets and our haphazard approach to decarbonisation, we're failing to share risks intelligently and equitably across society.

So, what I hope to accomplish tonight, and what I hope to that I accomplished in my book, is to make an argument that our social contract is broken but also suggest how we might organise ourselves differently to provide greater security and opportunity to our society. And such an approach will both increase well-being, but I think also provide a set of responses to not just our current challenges but our long-term ones.

What are these long-term questions that shape the social contract and that I think are no longer working? Let me give you some of the kinds of questions that we should consider:

Are children raised at home by mothers or grandparents?

Or does the state provide childcare centres or paid parental leave so that both parents can work and continue to raise their children?

How much of health and social care is the responsibility of individuals, and how much of it should we pay for collectively through insurance or public funding?

Do we expect employers to provide contracts with regular hours and benefits such as sick leave and pensions?

Or do we expect workers and their families to carry those risks of illness and old age? And how much do we invest in future generations?

And what endowment do we leave them in terms of physical, human, and natural capital?

Let me start by saying why I think the current social contract is broken. Until the late 20th century, the social contract was built on the premise that families would have a primary male breadwinner and that women would take care of the young and the old. There was a presumption that people would stay married until they died and give birth to children only when married. They would have steady employment with very few employers over a career, and the education and skills that they accumulated at school would be sufficient for their lifetime, and most would have only a limited number of years of life after retirement, and the support that they needed in their old age would be provided by their families. Those assumptions still underlie many aspects of our current social contract, and yet they could not be more irrelevant.

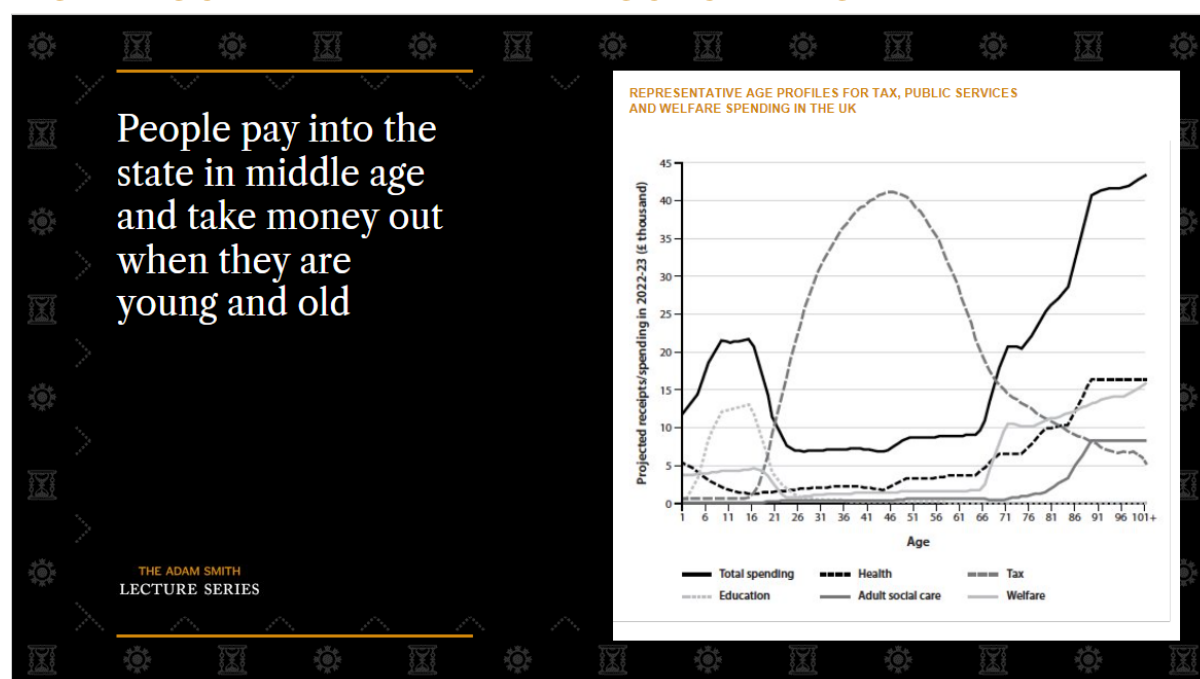
Today, half of the women in the world are employed in the labour market globally, and the upward trend is universal. In advanced economies, between a third and a half of marriages end in divorce, and in most developing countries the rates of divorce are lower but are increasing steadily. A growing proportion of children are born outside of marriage. The average worker has more jobs over the course of a lifetime, and technology is likely to only increase that over time. And while many developing countries are still transitioning to get more workers employed in the formal sector, there are growing signs of informality in labour markets in advanced economies as more and more people are employed in precarious work with few benefits. And of course, climate change brings massive risks that could disrupt our economies and the sustainability of our societies. I think the biggest disruptors to the social contract thus far have been the changing role of women, which have fundamentally affected how we think about childcare, an elderly care and technology which is fundamentally changing work and education. And looking ahead, I think there will be even more disruptions as a result of ageing and climate change.

Of course, the pandemic revealed the cracks in our social contract even more, with women struggling with home schooling, precarious workers unable to take sick leave when they had COVID, and those in the most vulnerable groups suffering the greatest loss of life. On the flip side, the pandemic also showed us that education can be done differently and work as well, and we're only at the beginning of adjusting to those new possibilities.

Now, before I move to some examples, I wanted to first start by making an important distinction between what I call the social contract and the welfare state, because they are not synonymous. The social contract reflects all the ways that we organise things to deliver collective goods through families, communities, employers and the state.

The welfare state is just one mechanism for delivering common goods. There's often a misconception that the welfare state is primarily about redistributing income from the rich to the poor, what my colleague at the LSE, Nick Barr, calls the Robin Hood function of the state. But the main purpose of the welfare state is actually to redistribute income over our own lives, what is sometimes called the Piggy Bank function of the state. That is about 3/4 of what the state does. So if I'm a clever child, I can't walk into a bank and ask them to finance my education. The welfare state finances that child's education and then expects that child to pay taxes when they're adults as a form of repayment that enables everyone in society to benefit from their education. In some ways, the current system of financing higher education in the UK embodies this concept. Students are lent money by society through the student loan scheme and are expected to pay it back when they have earned above a certain level.

PEOPLE PAY INTO THE STATE IN MIDDLE AGE AND TAKE MONEY OUT WHEN THEY ARE YOUNG AND OLD



I'll just show you an example for the UK, which comes from my wonderful former colleague John Hills, who we lost a couple of years ago, who shows, which shows how much we put in and take out of the state in the UK at different stages in our lives. And what it shows you is that when you're young, people tend to be beneficiaries of the state because of spending on education and health.

And so when we're young, we're beneficiaries of we're net recipients of money from the state because we benefit from education in the middle of our lives. When you see that great big hump, we are net contributors to the state through the taxes that we pay. Then later in life we again are

net recipients from the state because of pension and adult social care spending and health spending. What John Hills shows in his book is that for the typical person in the UK over the course of your life, you put into the state about as much as you take out. You might think that wealthy people pay more in tax, but wealthy people live longer, and they benefit from pensions and healthcare for longer than poor people. So, on balance, people tend to put in about as much as they put out. And so, this Piggy Bank function role of the welfare state is really the most important thing. It is at the heart of what economists call predistribution policies, policies that invest in and around citizens to enable them to be productive and to contribute to society throughout their lives.

COUNTRIES SPEND MOST ON PRIMARY AND SECONDARY EDUCATION



Now let me turn to why I think the current social contract is broken and what would be a better way to organise it. And I'll give you 3 examples, one from education, one from employment and one from the intergenerational social contract. And I'll start with education.

So, we have made huge progress at globally in getting more children into school, particularly in primary and secondary education. I spent a big part of my career when I worked in International Development trying to get, as we used to say, bums on seats, getting kids into school because of the huge social benefits. And here's just an illustration of a bunch of countries which shows where spending happens. And in most countries, most of the spending is spent on primary, secondary and tertiary education, roughly between the ages of five or six to early 20s.

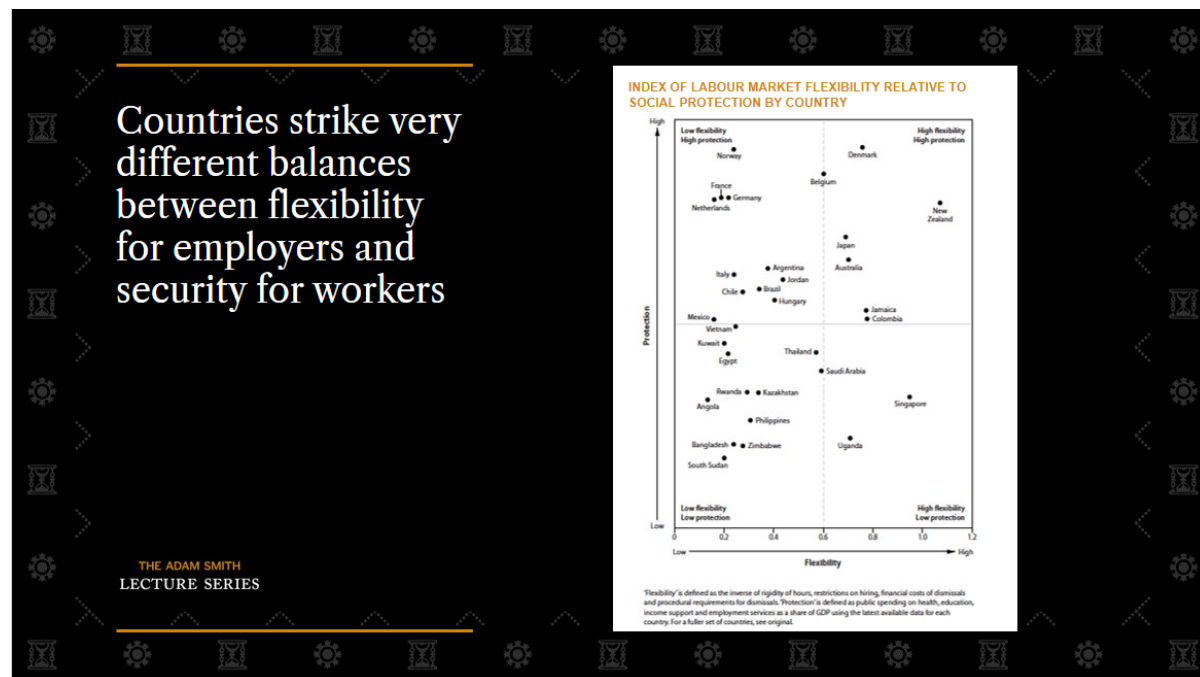
What the chart also shows is that spending on what's called pre-primary education, the black line rectangle at the beginning, and adult learning, which is the very end of the of the bar charts, tends to be far smaller in most countries. But research from places as different as Jamaica and Chicago show that providing extra nutrition to preschool children and supporting parenting skills results in better education outcomes and higher incomes later in life.

The study, a well-known study in Jamaica and The Lancet, for example, showed that a weekly visit by a community health worker resulted in those children having 40% higher incomes as adults relative to a control room. In the UK we used to have a programme called Sure Start, but we never ran a randomised controlled trial, nor sustained it long enough to be able to comprehensively evaluate its benefits. But longitudinal evidence from other countries, again in The Lancet, shows how acting in the 1st 1000 days of life, when brain development is highly influenced by nutrition and mental stimulation, can generate benefit to cost ratios of roughly 17 to one. And that builds the foundation for future learning. So, I would argue that if you care about social mobility, the early years education is about the best investment that you can make.

At the other end of the spectrum, the forces of technology and ageing will mean that people will work for much longer and must change jobs more often. Hundreds of studies of adult learning have demonstrated that strong links to employers, early intervention and sustained funding can increase employability of adults. In the UK we have some of the best universities in the world, but we have failed about half the population that does not go to university through endless tinkering and chronic underfunding of further education.

So, I would argue a better social contract in the realm of education would invest more in the early years when the possibility of equalising opportunity is the greatest, and more in adult education, where longer careers and technological changes mean re-skilling throughout life will be essential.

COUNTRIES STRIKE VERY DIFFERENT BALANCES BETWEEN FLEXIBILITY AND SECURITY FOR WORKERS



Let me turn to another example, which is employment and how we could organise a better social contract in employment. One of the most striking things about modern labour markets is that informality which we used to associate with poor countries, has become a feature everywhere. I often joke that the gig economy is just a cool name for the informal sector. More workers are on flexible contracts as our labour force has become more diverse and technology has made that possible for firms to outsource ever more activities. And this flexibility has had huge benefits for employers as well as consumers, who have seen falls in the costs of many goods and services, ranging from low-cost airlines to taxis and transportation to consumer goods. For those employed on flexible contracts, they may now have jobs that they might not otherwise have had, but it comes with a great deal of insecurity about their incomes, hours of work and what happens when they're sick or old.

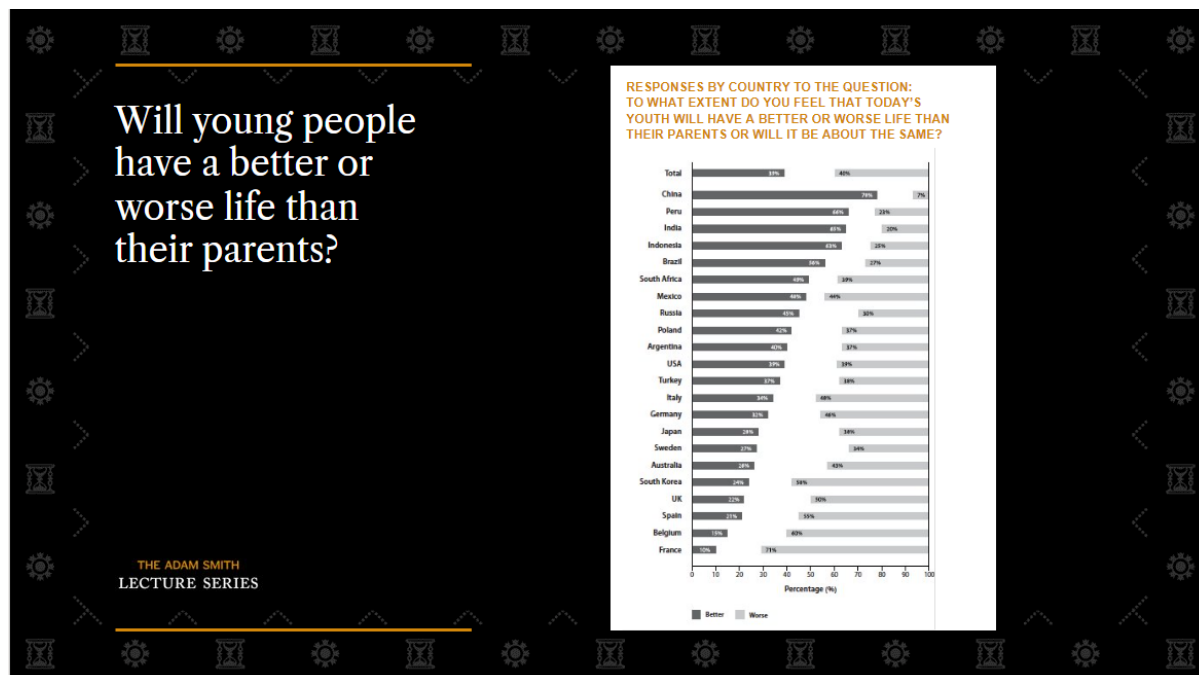
I think a better social contract would retain those benefits of flexibility while providing workers with more security in the form of mandatory benefits for all workers, generous unemployment insurance and opportunities for retraining throughout life. I'll show you a chart here. It's a little bit small, but I'll talk you through it. This shows how countries have made very different choices between flexibility and security. The bottom axis is flexibility. As you move to the right, the labour market is ever more flexible, the Y axis is employment protection. So, as you move up, workers have more protections. Now most, most advanced economies are in the upper left-hand quadrant where you have low flexibility and high levels of employment protection. So countries like France and Germany and the Netherlands are in that quadrant. Many developing countries

have dual labour markets where you have high protection and low flexibility for those few workers in the formal sector. So that's why the lower left-hand quadrant, you see lots of developing countries, Bangladesh, Zimbabwe, the Philippines, etcetera, where you have low flexibility, and low protection.

The sweet spot is countries like Denmark and New Zealand, which is the upper right-hand quadrant. There you have employers have a high degree of flexibility, being able to hire and fire as the market changes. But workers also get high levels of protection. In those economies, the social contract protects the worker, not the job. In fact, in many Nordic countries you have the highest rate of labour turnover of anywhere in Europe and workers don't even get severance pay or notice periods, high degree of flexibility. But they get very generous unemployment insurance which maintains their previous level of income or close to their previous level of income and retraining. And they tend to be very quickly re employed. So, I think a better social contract would adopt this flex security approach and combine it with mandating benefits for all workers regardless of their employment contract, including for self-employed workers.

Just as we had now have got used to the idea of workers having many of us having portable pension pots that as we move from 1 employer to another, we take our pension with us. I think we should move to a world where workers have portable benefit pots. And those benefit pots would involve contributions from all their employers to pay for holiday pay, health insurance, training allowances and sick leave and parental leave as well. Over time we could imagine that benefit pots for all workers would be funded in such a manner. So that's my example from employment.

WILL YOUNG PEOPLE HAVE A BETTER OR WORSE LIFE THAN THEIR PARENTS



Let me turn then, finally, to the intergenerational social contract. In every society, every generation wants to leave the next one better off. And yet I think we are at risk of leaving the next generation worse off with poor prospects for their livelihoods, a legacy of very high debts and a severely damaged planet. In most advanced economies parents actually think their children will be worse off than them. Here's the result of some polling where people are asked to what extent do you feel that today's youth will have a better or worse life than their parents, or will it be about the same? And what's incredibly striking about that is that the advanced economies which are at the bottom, most people think their children will have a worse life. Whereas in the developing world at the top, China, Peru, India, Indonesia, most parents still believe that their children will have a better life than them. It shows the very different expectations in those parts of the world.

Of course, the pandemic has also disrupted the education of millions of children around the world and resulted in the accumulation of debts never before seen in human history. But I think you would also agree that there is no doubt that the Earth our children will inherit, whether they're in rich or poor countries, we'll have less biodiversity, will be hotter and will carry more environmental risks for them.

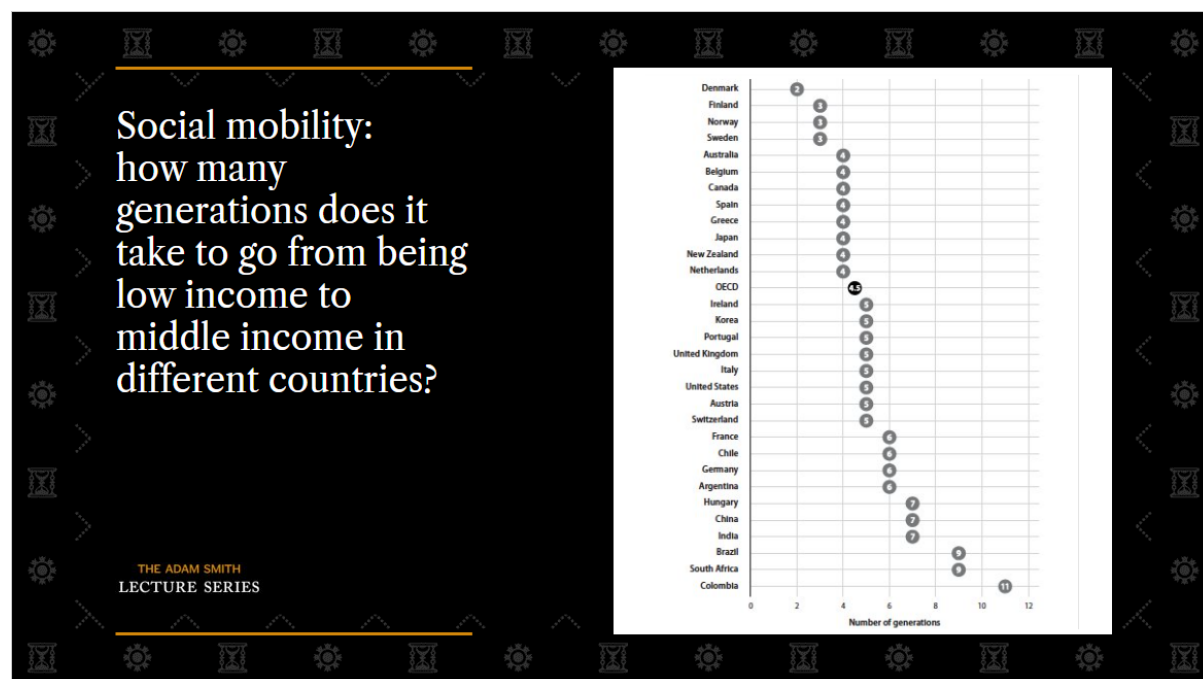
So how can we put this intergenerational social contract right? I think we need to invest hugely in the education of young people to enable them to be productive over what will be very long working lives. The resulting gains in productivity will help pay for the elderly care needs of an

ageing population and also generate some economic growth which will make those debts they're going to inherit more sustainable. I think we should also give younger people an educational endowment for life so that they can adapt to changes in work. And everyone should have access to better reskilling opportunities so that they can contribute to society for longer. We must do much more to redress environmental damage and find ways to help reduce the fiscal burden on future generations. To achieve that, today's older people will need to work longer and that is, I know, a very controversial issue and a timely issue which we can discuss later. To achieve that, I would link eligibility for pension to life expectancy in a mechanical way. And so that as people live longer, they will automatically expect to have to work a little bit longer. And I think that would be an enlightened investment in by one generation in the next and provide the basis for a new social contract between the generations.

Let me now try and pull together what I think are the three principles that should guide us in thinking about what a better social contract would look like. And they are minimum security for all, maximum investment in opportunity and capability and better risk sharing. Let me just describe what I mean by each of those minimum security for all in every society. I think it's possible to put a floor on people's incomes below which no one should go. I am not a proponent of universal basic income. We can discuss that too, because I think it fundamentally violates the notion in the social contract that everyone who can contribute should, in exchange for being looked after when they can't contribute. But you can achieve a minimum security for all through cash transfer programmes in developing countries, many of which I've worked on over the years, or tax credits for low wage workers in advanced economies.

That minimum, of course, should include access to basic healthcare and a minimum state pension in old age to avoid destitution in the among the elderly, it should also include sick leave and unemployment insurance, regardless of the type of employment contract. In developing countries that means bringing more people into the formal sector. In advanced economies, it means mandated that employers contribute to benefit parts for all workers. What about maximum investment in opportunity and capability? My second principle.

SOCIAL MOBILITY: HOW MANY GENERATIONS DOES IT TAKE TO GO FROM BEING LOW INCOME TO MIDDLE INCOME IN DIFFERENT COUNTRIES?



So, I think in too many places talent is wasted because opportunities are not provided to all, and disaffection is often greatest in those Kent countries where prospects for improving your lot are the worst. This chart shows a very simple figure, which is how many generations does it take to go from the bottom of the income distribution in a country to the middle. And in the UK, it takes 5 generations to go from the low, the 10th decile, the lowest decile in the income distribution, to the middle. Same in the US, five generations. In Denmark it takes just two. In South Africa or Brazil, it takes 9 generations. That means that as a parent, you have no prospect of ever seeing any descendant of yours ever become middle class if you're born poor. Now, much of this talent that has no chance to rise is embedded in women, in minority groups and children who happen to be born into families or in places that are unable to give them opportunities. If you look at the US economy between 1960 and 2010 / a fifty year. Better use of all the talent has contributed between 20 and 40% of the productivity gains in the US economy. Why? Because of its Instead of just drawing on a narrow talent pool of white men, employers could employ women or black people and as a result, could put people in the jobs that suited them best. And that resulted in massive gains in productivity.

Similarly, if today's lost Einsteins, women, minorities, children from low-income families were enabled to invent to the same degree as men from high income families. And this draws on a wonderful piece of research done by Raj Shetty at Harvard and John Van Reenen at LSE. They

show that if you could get those lost Einsteins to produce at the same levels, at those who have opportunities, the rate of patenting the rate of innovation in the economy would quadruple. So how could we better use the talent in our societies?

In addition to investing in the early years where intervention is very powerful, we could give all young people an endowment to invest in their education for life, as I mentioned earlier. And while most countries have equalised education opportunities for girls and boys and close the gender gap in education, in fact globally today there are more women who go to university than men everywhere. But women still have huge disadvantages in the workplace because they do on average about two hours more of unpaid work every day in terms of housework and childcare. So more generous parental leave, public funding to support families and a fairer division of labour at home would mean that we would better use all the female talent in our societies. I should mention that in the UK, the government's proposed lifelong learning entitlement is a good example of movement in this direction.

The idea of allowing all citizens to gain skills over the course of their lives will encourage people to invest more in their future skills and prosperity. Of course, one of the reasons this programme is needed is because we've seen a massive collapse in workplace training, particularly after COVID, over and more so over the last decade, as employers and employees are less connected to each other. And so that means that having another way to for people to be able to re skill themselves is even more important. Now let me turn to my third principle, which is sharing risks better. Too many risks in our societies are being borne by individuals when they could be more efficiently borne by others or managed collectively. And we've seen a huge shift in recent decades of more and more risk risks being put onto individuals. The move from, for example, defined benefit pension schemes to defined contribution schemes is a good example of that.

You know, when you think about the fact that 90% of the population doesn't know the difference between a stock and a bond. The rationality of asking people to manage their pensions individually is not obvious anyway. But it is possible to maintain flexibility for employers in being able to hire and fire workers depending on market conditions. If those workers know that they will receive unemployment insurance and retraining and that will provide them with security to find a job. And so, managing that risk of economic shocks could be done much better in a different way.

A similar rebalancing of risks and where they're born needs to be needs to occur around childcare, around health, around old age. It's not it's never been clear to me, for example, why the cost of maternity leave is usually borne by employers when parental leave paid through, for

example. General taxation would create a more level playing field in the labour market for men and women, and would reduce the burden on firms, particularly small ones. Similarly, many health risks are much more efficiently managed by pooling them across a large population and providing very strong incentives for individuals to manage the risks around things like diet and exercise, which we know are going to be the key drivers of long-term life expectancy gains. Automatic enrolment in pension schemes is clearly a good example and insurance for old age care which gives individuals more security at the end of their lives. Countries like Japan and Germany for example, require people to buy social care insurance once they reach a certain age as a way to pull the risks around old age and not knowing what care needs people will have. So let me just say a couple of words about is all this affordable? Because that's the obvious question to ask. In the book I provide some examples of the fiscal consequences of a better social contract. Increasing publicly supported childcare, early years, education, and lifelong learning would require more spending, but some of the spending would be investment and that will generate higher future tax returns. In the UK, for example, the returns to tertiary and higher education are over 20%.

That's a pretty good return. Some of them would also generate net benefits if we measured things properly, such as investments in the environment. And those investments could sensibly be financed through borrowing, particularly in advanced economies who are less credit constrained than developing ones. But some of this spending, like pensions on pensions and elements of health care, for example, will be recurrent and will need to be financed from tax revenues. And so, the question is, where do you finance them?

So in some countries, there is room to raise income and corporate taxes since we've seen a decline in both of those over the last 30 years. In the UK, I think the obvious place to look is a better system of property tax reform through reform of council tax and business rates. Some people argue for a wealth tax, but of course 2/3 of global wealth is held in the form of property, and property is a lot easier to tax than wealth and so I think it's a pretty good proxy. The other thing about property taxes is it helps address the intergenerational social contract and the inequities in property ownership between the old and the young.

The other obvious place to look is to tax carbon to accelerate the transition to a more sustainable economy. So much of the policy of the debate around what to do around, say, financial sector, taking sustainability into account or labelling of what's green and what's brown, most of those problems would disappear if we had a carbon tax, because then the price would tell you everything that you need to know. And of course, to avoid the adverse income distribution consequences of a carbon tax a sort of gilet jeans, yellow vest backlash, one can look at tax and

dividend approaches that achieve changes in relative prices and compensate those on lower incomes.

Now it is tempting to invoke the Robin Hood solution of taxing the rich and giving money to the poor to fund a better social contract. But most countries find that in practise, measures that fundamentally change and equalise the distribution of opportunities in a society are far more powerful than anything the state can do through redistribution retroactively. So my approach to the book is to focus much more on these pre-distribution policies, such as equalising access to good education or providing additional investments in deprived communities, because they're also more empowering to the individuals affected and reduce the risk of chronic dependency on state support. And if we're able to achieve fairer outcomes via the labour market by helping the poor into higher, better paid work, this has the advantage of reducing the need for benefit payments and the taxation that pays for it. If a society has to do a lot of redistribution, it means that its pre-distribution policies have failed.

CONCLUSION

So let me conclude. A new social contract is not just about higher taxes and more redistribution and a bigger welfare state. It's about a fundamental reordering and equalising of the distribution of opportunities and security in our society. The result of this would be higher productivity and the possibility of sharing risks more efficiently around childcare, health work and old age that are such a source of anxiety in today's societies. I think we owe each other more than our current social contracts deliver. We need to combine the invisible hand of the market with the visible hand of sympathy and a better social contract going back to Adam Smith. It's combining self-interest with sympathy.

A new social contract, I think is possible, that gives everyone the possibility of a decent life, shares risks more humanely and draws on everyone's talents. A better architecture of security and opportunity could be based on the three principles that I've outlined, minimum security for all, maximum investment in human capability and opportunity and sharing risks more efficiently and equitably. And these principles provide the foundation for a society built on recognising our interdependence, enabling everyone to fulfil their potential and asking everyone to contribute as much as they can for the common good.

I think this would marry the two halves of Adam Smith's intellectual legacy, *The Theory of Moral Sentiments* and *The Wealth of Nations*, in a way that I think he would have thoroughly approved of. Thank you very much.

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