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The New Social Contract  
From Representative to  
Participative  
Democracy (4.0)

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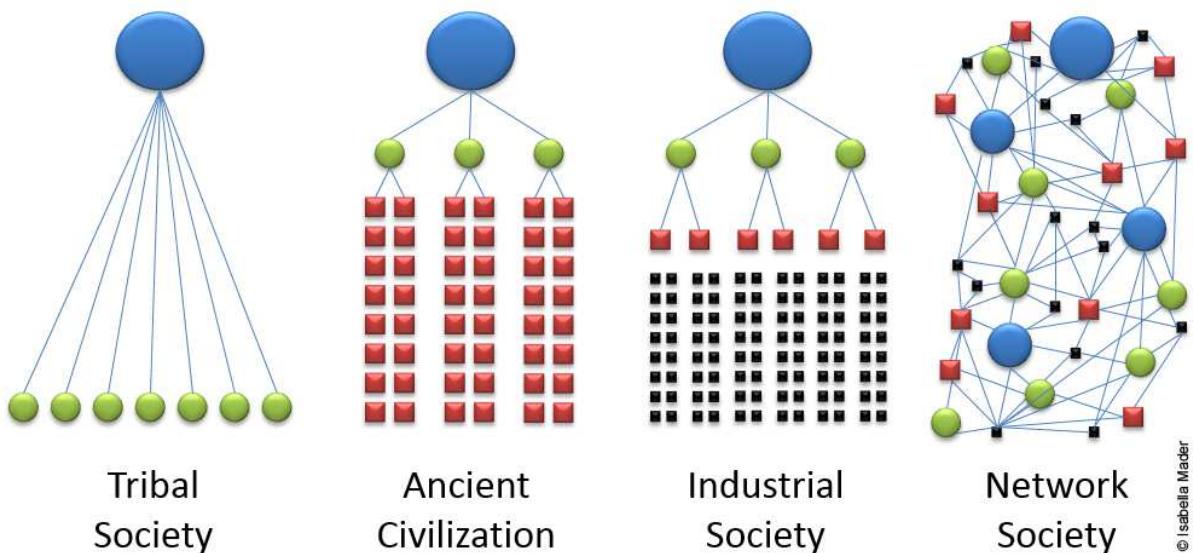


EXCELLENCE INSTITUTE  
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# The New Social Contract: From Representative to Participative Democracy (4.0)

Author: Isabella Mader

Networks are the new, successful structure of organizations, be it in trade and commerce (Amazon, Alibaba, Uber, Airbnb, ...) or in organizing work. Employed work is being increasingly replaced by freelance: platforms offer virtually everything from secretarial to project management. **The concept of employment is dying** while it still serves as the main basis of a social contract that is the result of an epoch of negotiations shaping something like a symbiotic connection of mutual dependencies between employers and employees. The further development of society suggests that this is no longer viable. The current social contract is dissolving before our eyes: the relation of the players involved in economic life needs to be redefined to reflect the changes that are currently materializing in society.



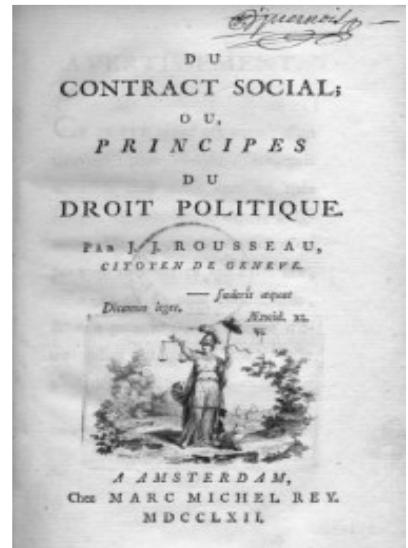
During the transition from the Industrial Society to Network Society, light-weight network structures are replacing the slower, heavily process-laden silo structures of the Industrial Age. Networks in this sense orchestrate assets instead of owning them. By rigidly adhering to old structures or trying to preserve them by tightening up regulation, we could miss the opportunity to design a new framework that is going to be inevitable some time soon anyway. Employment is being continuously replaced by freelance and short-term contracts. In the US more than 40 percent of workers held so-called “insecure contingent jobs” in 2015 [1]. The tendency of this is strongly increasing.

The transition to a new epoch hasn't only manifested itself in a radical transformation of society and organizational structures as well as the disruption of business models. We also see phenomena resurface that were typical around the advent of the last epoch when craftsmen and farmers were driven out of their work and had to queue for underpaid labor in the new factories that disrupted basically all types of business. Those recurring patterns are

1. **a social disconnect**, i.e. a loss of trust between citizens and the elites;
2. **increasing inequality** and
3. **increased insecurity in personal life planning** – considerably more than during other times.

Previously as well as currently the reason for an emerging imbalance between societal groups lies in the ability to use or own the new culture techniques. This enables the (new) elites to gain a substantial economic advantage or power over those who do not own or cannot yet use the technologies of the new age. The other reason for a tilt of economic scales in society lies in the fact that the social contract of the ending epoch doesn't work with the social and economic structure of the new age.

It seems that a new epoch demands a new social contract. The current social contract in its broader sense dates back to the 18th century when, among others, Jean-Jacques Rousseau published a draft in 1762. This foundation has seen negotiations and an evolution of adaptations across the entire Industrial Age, but the necessary amendment for the Network Society hasn't surfaced so far. Some of the following may be useful to discuss in this context.



Cover of the first edition of *Du Contract Social ou Principes du Droit Politique* by J.-J. Rousseau, 1762. Public Domain.

## Part 1:

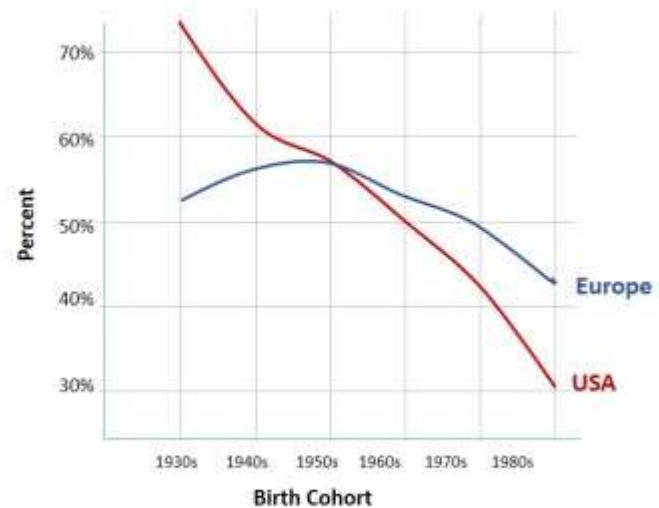
### From representative to participative democracy

As a cornerstone, every social contract lays out the form of government that respectively determines with whom the will shall be vested in a society. With the current provision of democracy increasing difficulty has surfaced recently.

Currently, the appreciation for democracy is in a free fall: The World Values Surveys [2] show a scary decrease in the appreciation for living in a democratically governed country. In the US the

#### APPRECIATION FOR DEMOCRACY IN DECLINE

"Essential to live in a country that is governed democratically"



Source: World Values Surveys, Waves 5 and 6 (2005 – 14). Consolidated data from EU member states. Valid answers: USA 3,398; EU 25,789.

What can such a necessary advancement of democracy look like? The social contract of 1762 placed a strong emphasis on the rights and duties of the individual. From today's viewpoint, a new version would need to add duties and responsibilities for the community and for the collective. In short, participation would need to be established as a right and a duty. The

proposal: Advance democracy from the current representative democracy to a participative democracy.

How could this be organized? Participation can neither come as a sheer plebiscite inflation nor as pure online voting. Referenda as such are extremely open to abuse when misused as a legitimization tool where badly informed citizens vote on issues that have been populistically manipulated. Pure online participation without offering a follow-up live discussion (in whatever format) basically conveys the underlying message that “We actually don’t want to talk to you anyway.” Participation is also not to be imagined as 7,000 people gathering in a conference hall and speaking simultaneously.

Participation that works comes in two useful forms: The one is personal engagement in civil society projects like in disaster relief and in all kinds of social services. On the other hand, participation may materialize in contributing to public projects, where persons who are interested or competent in a topic will join the discussion and development of public policy and programs. One example could be the Digital Agenda of the City of Vienna, where citizens co-created the digital strategy of the municipality and collaborated even in follow-up projects. This type of co-creation leads to better endorsement and legitimization of programs that have been developed together. Besides, the complexity of today’s society and factors of influence can be considered and integrated much better by the wisdom of the many than by any small team.

The new paradigm would need to be rooted in a personal obligation and readiness to take responsibility for ourselves as well as for others and the community as a whole. In a participative democracy, it’s less about being important but more about making a contribution.

## Part 2: Commitment to balanced economic policies

Small incomes and securing the subsistence of people earning them will be one major touchstone and key challenge of a freelance Network Society. Countries in which medium and lower incomes slide into poverty or considerably lowered life standards see a massive erosion of voters turning to radical or populist leaders or parties. Two examples: In 2015, the real wages in Great Britain were 7 percent below the level of 2007 (while they were 5 percent above 2007 values in Canada). The real wages of the lowest 10th percentile of incomes in the US today are below the values of the year 1979 (!) – the medium real wages are more or less unchanged since 1979 (!) – only the highest 10 percent of incomes saw a decent increase. Trump and the Brexit vote seem explained (the same applies to a series of other countries). A further delay of tax relief for small incomes avenges itself on the parties of the political center.<sup>[3]</sup> Fortunately, some countries have quite recently improved on their corresponding policies.<sup>[4]</sup>

The social contract in the narrower sense governs – among other things – the responsibilities of employers and employees and will have to address the aforementioned, specifically with regard to small incomes. Social achievements of successful democracies like health insurance and retirement funds as well as continuing professional education will solely burden the freelancers in a network economy without a revision of the current social contract. In addition, freelancers will have to administer themselves and usually need to pay for their own assets with which they do their work: the car of the Uber driver is paid/repaired/insured by the driver himself. Failure to achieve a suitable solution regarding payment and social security will inevitably build up a social time bomb simply by the enormous size of the affected cohort alone. Portable benefits, a share in social insurance as well as new regulations of minimum wages are being considered, but seem to fight a fruitless battle against the fact that companies aren’t bound to contracting services locally (besides services that can only be rendered on site). Nothing can stand in the way of choosing a web designer in Bangladesh via one of the numerous

freelancer platforms. Possibly, the deliverables will be similar, but the fee may cost a tenth of what a US or European professional may need to charge to support himself. The competition in the labor market doesn't need to immigrate anymore. At the same time, the western corporate world cannibalizes the buying power of its own client base: precarious pay and a middle class slowly sliding toward lower living standards, instability and even poverty certainly do not make a decent and solvent consumer base. Demand and growth vanish. The way to a solution needs to consider the negotiation power of the parties involved: The negotiation power of the platform enterprises is evident, while the workers are currently on their own without much weight in the negotiation scale besides their skills. In a labor market that continues to be highly competitive, this may not suffice to wrest decent conditions, especially because workers do not sign individual contracts anymore but sit with standard terms of service on a platform instead. A new way to organize labor will be needed: On the one hand, the negotiation power of workers needs to be re-established and, on the other hand, the uneconomic self-administration issue needs a workable solution. This is where **platform cooperatives** come in as one possible solution: workers can hold a membership or share and receive services like the administration of their taxes, accounting etc. (that can be delivered much more easily and cost efficiently than if each freelancer did it individually) – while the platform offers the products and services of its members. Such initiatives may be organized as a cooperative or as a not-for-profit organization, with varying membership fees or commissions depending on the numbers of services each member wishes to use. Such cooperative or non-profit platforms would need to reside on community values regarding payment and social standards. Such **quality platforms** could create a counterweight, as a **Cooperative Economy**, to the common wage and social dumping in the so-called Sharing Economy – and establish negotiation power and increased efficiency through joint administration. **Conclusion: The balance of power stabilizes systems.**

Public finance will need rethinking as well: Both in a project at Harvard University[5] and in a much acknowledged paper by IMF economists,[6] underfinanced or badly credit funded systems tend to show higher volatility, instability and overall low growth. Among other things, the authors of the IMF paper point to the austerity regime of their own institution as a cause for the era of low growth that we are obviously in. Mariana Mazzucato explained in a recent Bloomberg interview that if countries manage to achieve a higher growth in GDP with debt financed investment than what the debt service will cost them, they will be better able to rehabilitate their state finances. Underfinanced systems won't manage to do the same: they remain instable and show too little medium and long-term growth. In September 2016 the OECD issued a similar recommendation. **Conclusion: No return without investment.**

Tax policies need to be similarly reconsidered for the Network Society. Currently, many countries tax capital gains on a rather low level while labor often sees a two or three times higher tax rate. This leads to efficiency innovation in companies with the effect of a release of labor and capital, the latter flowing into financial markets. In the US this effect materializes e.g. in the infamous share buy-back programs. No wonder: Due to the massive imbalance in the

## The New Social Contract Industrial Society vs. Network Society



taxation of capital gains on the one hand and labor on the other, investment in labor doesn't pay off well enough. Market generating innovation, as explained by Clayton Christensen, that creates long-term return and invests in labor as well remains, at large, outside of current investment considerations. Harmonization of the taxation between work and added value or capital gains seems advisable. Conclusion: We shape decisions by shaping taxation.

## Part 3: Reduction of rules and regulations

The Sharing Economy demonstrates that a lot less regulation would do. This realization is rather trivial. Every system needs a certain set of rules to work well. The point of stable balance between increased efficiency and preventing misuse or damage on the one hand and an uneconomical burden on the other isn't that trivial a question anymore. Nevertheless, this point of balance should be sought.[7]

## Part 4: New culture techniques education

The invention of the printing press stands at the beginning of the last era as a symbol: Everyone could suddenly own a book. Great! It was also an advantage to be able to read in order to benefit from the blessings of this innovation. We see the same today. The internet connection would be the same as having a book, however, being able to use it wouldn't mean operating a Facebook account without major problems for a year. **Programming and web technologies as well as information and media literacy** are today's culture techniques that need to become as natural as reading and writing to close the digital divide.

Educating children and youth is not going to suffice though: Adults must be included in these strategies quickly. According to the European Commission, the EU alone lacks well over 400,000 IT professionals in jobs that cannot be filled currently (IT is just one example of the new sought-after professions). At the same time, the economy lays off hundreds of thousands of workers who lack the currently needed competencies. At the end of an epoch and the beginning of a new one, series of professions disappear and lots of new ones emerge – considerably more than during the times in between. The list of historic professions on Wikipedia is certainly worth a look. We are no longer lifting heavy stuff by hand – we are using cranes today instead. Mankind continuously rids himself of drudgery.

Another new culture technique that will be needed while we venture into an emerging Entrepreneurial Age: **business and economics education** needs to become a common standard for everyone. There are numbers of promising activities in this field, but a standard integration in curricula still awaits implementation. Experimental programs like school children founding a company and running it across the entire school year serve as lighthouse examples for what will be needed.

A further competence in the Network Age and in times of participative democracy will be a sense of community and helpfulness ... something that we consequently train 'down' in our children: In experiments, toddlers demonstrate that they help each other manage a set of given tasks. At age seven children in the same experiment



*Storming of the Bastille; Jean-Pierre Houël.  
Public Domain.*

watch each other fail. This isn't natural behavior but a consistently trained one. During the Industrial Age "Competition is good for business" was the agreed road to success. In the Network Age, we may need to shift to the more successful precept "Cooperation is good for business" as we enter the age of collaborative culture, where cooperation outperforms the principle of the lone warrior every time. Should we not manage to develop and cultivate a sense of community and helpfulness in society, we may see the highly complex Network Society characterized by the escalation of self-serving interests and confrontation with a strongly damaging effect on growth and prosperity.

## Conclusion

*Could mankind agree to managing the current turning point in history more smartly than the last one (reference: the French Revolution)? To accomplish this, we do not need additional rules according to Peter Drucker, but as he puts it: "No country suffers from a shortage of laws. We need a new model."*



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