

Thoughts for a New Social Contract

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CHAPTER

1

Opening thoughts for a new social contract

As a society we have arrived at a state of inequality so enormous that it resembles features of a civil war. We have the upper class on one side, which accuses the less well-off of abusing the benefit system, and the people of the lower class on the other, who claim that they are being exploited and have lost all faith in political institutions — for they know that power is heavily influenced by money. To put it even more bluntly, the rich are seen as selfish and the poor as lazy. Such perceptions have been a timeless hindrance to all serious attempts at social harmony, for neither side seems prepared to take the first step. Over the last few years, we have put together a collection of our own thoughts and existing concepts on how to overcome this vicious cycle and reignite a sense of community; discovering changes that could help to rebuild networks of trust.

The main idea we will present is our model of a New Social Contract. Although it requires participation by all, its fundamental aim is to overcome the aforementioned conflict between the respective ends of the wealth spectrum. As a primary justification for the measures taken under this New Social Contract we will refer frequently to a reconciliation of interests. When a civil war comes to an end, the two parties may undergo a process of reconciliation; each party gives in on some issues to receive favours on others in return. Extending this metaphor, we propose exactly this type of procedure: a peace-finding process in which both sides agree to certain compromises in the interest of conflict resolution, which will then be implemented in an integrated fashion. For our purposes, it is vital that these compromises stem from the question ‘what can I contribute?’ rather than ‘what can I gain?’ We will also discuss the need for a shift in values; from wanting ever more money to realising that no amount of capital will make us happy if we live in a torn society — using South Africa as an example.

What the rich can contribute is access to a slightly larger proportion of their wealth. So on the one side, taxes would increase under a New Social Contract. The aim here is not a communist state, not a return to the perhaps beautiful but eventually counter-productive ideas of the previous century that resulted in infringement of freedom, economic standstill and, in the end, restricted standards of living. The aim is not to nationalise firms and companies or even to interfere with their daily running, nor is it to prevent people from earning a comfortable home and holidays abroad through hard work. What we are expecting from the side of the rich is to rethink and transform the concept of luxury. Luxury could mean travelling in first class rather than taking a private jet, or owning three cars instead of ten. In this sense, luxury would

still be perceived as something excessive, but the tamed version could lead us to a road of adjustment and a shift in values. Interestingly, in research from the social sciences as to what constitutes happiness or, more broadly, emotional well-being, the assumption that it is infinitely positively correlated with higher income has been disproved. As we will show in chapter three, the monetary value at which this increase is largely saturated is far lower than what is currently reached by some incomes and bonuses. So as from a certain sum upwards you cannot buy any real improvement in subjectively experienced quality of life, it follows that anything above this should be taxed more appropriately — in line with the objectives of our New Social Contract. An interesting idea we will examine further in chapter four is that of 'compulsory philanthropy', whereby those making the greater financial contribution have some say as to how their money is spent.

It is not just individuals who would have to play by new rules. As we will show in chapter five, large corporations such as Starbucks and Amazon have recently been exposed for paying virtually zero taxes. This would not be possible under a New Social Contract. Instead, we could access this money through clamping down on tax avoidance, making funds available primarily to avoid spending cuts and invest in the pillars of equal opportunities: healthcare, education and social projects in particular, as well as a higher minimum wage and larger financial rewards for underpaid jobs of high social value. We will discuss this further in chapter seven.

On the other side, the ways in which benefits are handed out would change drastically under a New Social Contract. There is no reason why money should be given away to people who are capable of working, without expecting anything in return. The negative impact of

overwork and stress on our health is widely acknowledged, but lack of activity can also take its toll. What could be given is dependent on the individual; an unemployed teacher could assist in classrooms, an unemployed plumber in waterworks, and an unemployed builder could help out at a government building site. Hospitals and schools will always need fixing; medics, teachers and other civil servants will always welcome an extra hand. Instead of just being given money, people would be helping out their 'employer', the state, while trying to find a more suitable vocation. Of course, there are exceptions. There are people who temporarily or permanently cannot work, due to ill health or disability, for example. But as we will explore in chapter six, many people on any kind of benefit are able to make some kind of work contribution in exchange for the financial help they receive, and should be required to do so.

The ideas we have introduced here are the foundations of a New Social Contract we propose, which we believe would steer us into the direction of far greater economic and social equality and, ultimately, social wealth. As the word 'new' conveys, we are not the architects of social contract theory. The social contract is a model in moral and political philosophy which involves an agreement between the state and the individuals who choose to live under its jurisdiction. The individual agrees to give up some rights in return for protection of other, more important rights by the state. To give a blunt example, the individual agrees not to kill others, and in return the state uses the law to protect the life of the individual. Philosophers of social contract theory include Thomas Hobbes, John Locke, Jean-Jacques Rousseau and, most importantly for us, John Rawls (whom we will discuss in more detail). Social contract theory is useful when examining the legitimacy of progressive forms of wealth

redistribution. Common arguments against measures such as higher taxes for the rich are based upon the assumption that these would rob us of our freedom. After all, they argue, we live in a free market economy and therefore have the right to work hard and earn endless amounts of money. We are passionate about preserving individual rights and preventing the government from intruding in almost every aspect of our lives. The exceptions, where we believe we must give up some rights in return for protection by the state, are forms of behaviour which damage the people around us. It is under this principle that violence, theft and the like are illegal. We wish to add unlimited incomes to the list, for at some point an income so unnecessarily lavish is reached that you begin living at the cost of others. The state therefore has the responsibility to step in and redistribute. The only freedom which would be infringed is the freedom to receive sums of money that can buy nothing but further luxury; on the other hand, the funds raised through higher taxation and clamping down on tax avoidance could be used to protect the freedom of many other citizens to make the most of their talents. Secondly, we also wish to add to this list the exploitation of the community in all forms, thus including, amongst others, benefit fraud and lack of a contribution to the social wealth system.

In our search for further legitimisation of this process we found inspiration in the *difference principle*, developed by the American philosopher John Rawls. Through this, Rawls managed to incorporate the fact that we must accept, to some degree, that inequality cannot be fully undone. Under the *difference principle* inequality as such is admissible, but only if it works ‘as part of a scheme which improves the expectations of the least advantaged members of society.’¹ In other words, if we have inequality but manage to tax the richest members of our society at high

rates and to reinvest the revenue in services for the least well-off, then, for Rawls, this situation is tolerable. Yet as we will show in chapter two, what we are seeing currently is the *difference principle* turned on its head: inequality is increasing, and working exclusively to the benefit of the rich.

Rawls also established an element called the 'veil of ignorance', which can be used to underline the moral justification for the measures of our New Social Contract. Under this veil of ignorance, people are 'obliged to evaluate principles solely on the basis of general considerations [because] no one knows his place in society, his class position or social status; nor does he know his fortune in the distribution of natural assets and abilities, his intelligence and strength, and the like.'² This ensures, Rawls continues, 'that the parties have no basis for bargaining in the usual sense.'³

In simple terms, the veil of ignorance allows us to reflect on the world without thinking about ourselves or our current situation. Imagine you have no idea into which circumstances you will be born. You could be the child of the Head of the Bank of England married to a neurosurgeon. They are both loving people who make time for you, and they support you throughout your childhood and early adult life. But, and this is key, luck is completely random. So now imagine a different situation entirely: you could just as easily be the child of an unemployed, unhappy couple with a history of addiction and no fixed home, who also happen to see you as an extra burden. Both of these situations are possible. But now that it could be you who is born into poverty, or at least the very disadvantaged circumstances of the latter outcome, would you not want a system which plays to the advantage of the least well-off; which starts to even out the impact of bad luck in the lottery of birth? As

Rawls concludes, a veil of ignorance enables fair decisions about how a system should be constructed as we 'do not know how the various alternatives will affect [our] own particular case'.⁴

Thus we come to a fundamental point of Rawls' 'A Theory of Justice'. Consider this: 'for an agreement to be valid, the parties must be able to honor it under all relevant and foreseeable circumstances [...] they cannot enter into agreements that may have consequences they cannot accept.'⁵ Supposedly for all, being born to an unloving, unemployed couple with an addiction problem and no fixed home will be intolerable. It follows that we must work towards a system which begins to improve the situation of those who would not have accepted their position from behind the veil of ignorance, by making the aforementioned investments. But to do this we first need a surplus of funds, which is how the necessity for increased taxes arises.

Such change will probably not be brought about through the will of our current political parties. Many politicians who rise to power do so by elbowing out others and committing to countless promises and compromises along the way. Thus they are robbed of their independence; decisions are often made on the back of an unpaid favour rather than an exciting new idea. Unfortunately, it is usually those with money who wield such influence, and who can thus demand, through generous contributions, that their interests be respected. It seems that what has been created is an elite group, a so-called 'sphere of influence' between those in power and those with money. In chapters eight and nine we will discuss electoral systems and campaigns, as well as the problem of political lobbying, making suggestions for methods that could be used to break this sphere of influence and thus

placing a higher degree of control back in the hands of the majority.

What's at stake? If the divide between rich and poor continues to grow, we could find ourselves in a situation where the lower class lives in poverty without access to the 'products of social cooperation'⁶, while the people of the higher class are unable to enjoy their financial wealth as they are living in constant fear; caused by a lack of safety. An example of this is South Africa, where in 2009 the top 10% earned 51.7% of total income.⁷ Let us recall the metaphor of a civil war between rich and poor. In South Africa, the highest and lowest groups in society live completely separate lives. In larger cities, the cliché is the sad truth: the rich barricade themselves behind high walls and security gates, while the poor try to scrape a living as best they can. Well-to-do areas are littered with the logos of security companies like ADT; their burglar alarms can be seen on countless house-fronts, often alongside the phrase 'armed response'. The tension is incredible. According to a report by *The Guardian*, in 2012 'six out of 10 South Africans feared burglary more than any other crime and felt less safe in their homes than they did a year previously'.⁸ We don't blame South Africans who have made an honest living for buying a burglar alarm, and in some cases we don't blame (or we can at least understand the behaviour of) those who resort to crime out of bad luck. But what seems clear is that all citizens of South Africa would directly or indirectly benefit from a fairer distribution of wealth.

Yet we need not even look as far as South Africa to find damage caused by inequality and a lack of opportunity. In August 2011, the streets of London erupted with violence and disorder; shops were looted and cars burned to the ground. The rioting quickly spread to other cities throughout

the UK. Groups of youths seized the moment to claim the clothes and electronics which society made them believe to be the most valuable of possessions. The events were unlike protests in the traditional sense, which are carried out by political groups to demonstrate anger and demand change. What we saw was a bandwagon of opportunist looting, which stemmed from an original incident, the killing of Mark Duggan by the police, in which the protesters had good reason to rebel. It was stunning that thousands of people evidently had so little to lose that they could fight, burn and steal for several days without fear of the consequences. These events were very similar to those in Paris and throughout France in October and November of 2005, and more recently in Stockholm in May 2013⁹. They represent a larger problem, which is often swept under the table and only discussed briefly after such crises: the issue of demonising young disadvantaged people¹⁰, who are not treated with respect and struggle to find their own path in our current system. We do not seek to make excuses for the rioting and we are supportive of the consequent disciplinary action. At the same time, however, it must be realised that this type of behaviour is only carried out by people who believe that society has given up on them, or never bothered to give them a chance in the first place. Our current system provides unconditionally only for those from supportive families and those who are talented in traditional subjects at school. So to deal with the broader issue of a lack of perspective and the resulting crimes committed by young people solely by punishing offenders is to ignore the cause of the problem and will, sooner or later, result in similar tragedy.

So it is clear that we are all in this together. Were we to fulfil the measures under a New Social Contract, then we believe

events such as the riots which London witnessed in August 2011 would become extinct. Our approach, however, will sound rather far-fetched to current political camps, as it contains elements of the 'left' as well as the 'right'. A social democrat or green voter in Germany, for example, would probably struggle with the idea of demanding work contribution from people receiving benefits. On the other hand, most of the Conservative supporters in Britain are likely to disagree with any increases in taxes. But herein lies the key: it is time to overcome the simplified left-right dichotomy and take a new approach; to stand behind the veil of ignorance and determine how best to combine existing views. We must do this not as an implementation of isolated measures, but in an integrated fashion; providing for a reconciliatory process which will finally re-establish the common ground in politics and therefore society.

There is one last point we wish to make before proceeding onto the main discussion. The so-called developing world and the new 'big market players' of China and India are now consuming resources at a pace and to a degree second to none in the world so far. These nations are claiming their 'fair share' of the planet's resources and, simultaneously, are allowing their populations to demographically explode to unprecedented levels. Admittedly, there follow strong indicators that the capitalist system in itself is unsustainable, and may one day collapse if the evolutionary process does not overcome wastage in the context of limited natural resources. Notwithstanding other related problems such as industrial pollution and global warming, we will have to find a long-term solution to this issue, through a combination of technological advance and a radical educational shift towards value-based needs fulfilment. This solution can only be a global one, moving away from national interests.

Yet whilst we fully acknowledge this fundamental flaw of the current growth paradigm that underpins capitalism, this matter of sustainability will not be the main focus of our discussion. As has hopefully become clear, all the changes we will be proposing are considerations within our current system of capitalism; we are striving for ‘evolution, not revolution.’ So although appreciating the unsustainable nature of capitalism is important, we will leave it aside for now. Regardless what happens in the future, we must face the injustices which exist in the present day as a precondition for the necessary social cohesion underpinning the more radical and global changes to come.

It is our generation that has perhaps the greatest opportunity of all time to make such drastic change. For the first time, the voice of an ordinary individual can be posted and picked up from anywhere on our planet within seconds. Whistleblowers such as Edward Snowden are able to release classified information which belongs in the public domain, allowing for far greater transparency. Meanwhile, websites such as avaaz.org collect signatures for petitions on pressing issues all over the globe, rising to sizes that cannot be ignored in just days. And every time you meet someone with an interesting idea or the will to make improvements, you are able to connect online. We therefore have the opportunity to quickly and efficiently collect ideas from tens of thousands of people from all corners of the world, to put them together and to present them to those in power, ensuring that we are no longer ignored. Were we to get out of the mindset that this is ‘simply how the world works’, it would surely only be a matter of time until we see some restrictions on the selfish behaviour that is currently legal, but morally indefensible.

¹ John Rawls - 'A Theory of Justice', Revised Edition [Belknap Harvard, 1999, p. 65]

² John Rawls - 'A Theory of Justice', Revised Edition [Belknap Harvard, 1999, p. 118]

³ John Rawls - 'A Theory of Justice', Revised Edition [Belknap Harvard, 1999, p. 120]

⁴ John Rawls - 'A Theory of Justice', Revised Edition [Belknap Harvard, 1999, p. 118]

⁵ John Rawls - 'A Theory of Justice', Revised Edition [Belknap Harvard, 1999, p. 153]

⁶ We refer here again to John Rawls. In 'A Theory of Justice' (see above) he uses this throughout in reference to the identity of interests which all members of society share, for 'social cooperation makes possible a better life for all than any would have if each were to live solely by his own efforts.' [p. 4]

⁷ The World Bank, 2009 Data

⁸ <http://www.theguardian.com/world/2013/feb/14/fear-arming-south-africa-guns>

⁹ This is discussed in detail in an article on our Isolatorium blog: <http://isolatorium.tumblr.com/post/108563871935/lessons-not-learned>

¹⁰ This issue is discussed in detail during a speech by musician Plan B/ Ben Drew: <http://www.youtube.com/watch?v=xhtAflw4qJY#t=12>

CHAPTER

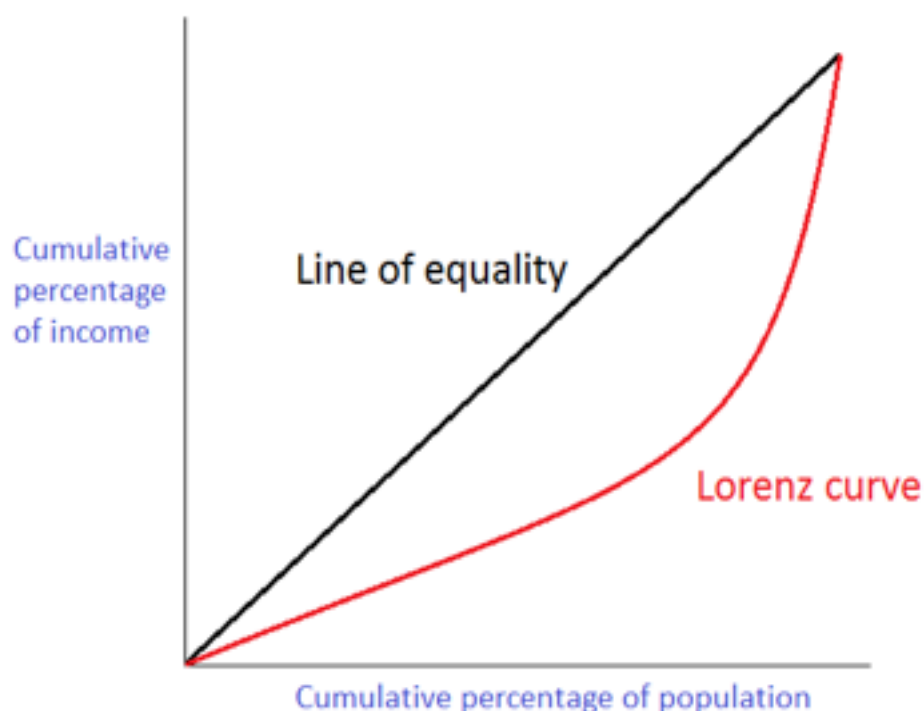
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Current distribution of wealth

We have seen for many years now the workings of a society in antagonism to Rawls' *difference principle*. Inequality of income and wealth have continued to grow, thereby stretching the timeless phenomenon of the 'rich getting richer and the poor getting poorer' to unprecedented levels.

A useful tool for measuring income equality is the Gini-coefficient, named after the Italian statistician Corrado Gini, which measures inequality amongst sets of data. It has been criticised for various short-comings, such as presenting only the distribution of income and thus ignoring [other, e.g. asset] wealth. On the other hand, the Gini-coefficient has been praised for making a simple, numerical statement about equality that is independent of the wealth of the respective population. It has become a well-established device for comparing equality amongst districts or countries and is often quoted in publications. By plotting the cumulative

percentage of population against that of income, we obtain the so-called Lorenz Curve, which can then be used to calculate Gini values. These lie between 0 and 100, with 0 representing perfect equality and 100 expressing perfect inequality. In an ideal system, government tax- and benefit systems will pursue a low Gini-coefficient.



The table below shows Gini data from selected economies in 2013,¹ as well as respective data for each country from the late 1980s or early 1990's:²

Country	Finland		Germany		France		Norway	
Gini coefficient	22.2 (1987)	26.9 (2013)	28.6 (1989)	28.3 (2013)	33.0 (1989)	31.0 (2012)	24.7 (1986)	25.8 (2013)
Country	South Africa		Sweden		United Kingdom		United States	
Gini coefficient	59.3 (1993)	63.1 (2013)	23.7 (1987)	25.0 (2013)	36.2 (1991)	36.0 (2013)	37.0 (1986)	40.8 (2013)

There is no guideline Gini-value and caution is required when using the Gini-coefficient for making comparisons, especially between two countries of different sizes. Substantial changes in the value for a country can, however, make incontrovertible statements about the direction of its income equality. The figures presented here are clear in showing high inequality in many developed countries such as the United States and the United Kingdom, who currently find themselves more than ten Gini points behind their Scandinavian counterparts.

A further useful marker of inequality is the distribution of assets. Even in supposedly 'fairer' countries such as Germany, for example, the richest 10% owned more than 66% of total wealth in 2010; the richest 1% owned 35.8% and thus more than the amount owned by the lower 90% of the population collectively.³ Furthermore, according to a 2013 poverty and wealth report by the German government, the lower half of the population owned just over 1% of private net assets in 2008.⁴

Such figures illustrate that change towards a fairer, more equal society is becoming a hopeless pursuit. There are endless examples of this sad trend. On 26th March 2012, for example, *The New York Times* published 'Total Income Increase' data for 2010, researched by Thomas Piketty and Emmanuel Saez. After adjusting for inflation, the average increase in income per person in 2010 was \$4.2 million (\approx €3.2 million) for the richest 0.01%; \$105,637 (\approx €80,300) for the richest 1%; and just \$80 (\approx €61) for the remaining 99% of the population.⁵ As Piketty and Saez also found, this is not a new phenomenon: between 1980 and 2010 'the incomes of the top 1% of the US population more than doubled... incomes of the top 0.1% more than trebled and the incomes of the top 0.01% more than quadrupled.' But

simultaneously, the ‘incomes of the bottom 90% fell by nearly five percent.’⁶ This continued income inequality has led to some truly shocking statistics, not least the estimate that ‘just six members of the Walton family (of Walmart fame) are worth as much as the poorest 30% of all Americans.’⁷

Not even a global financial crisis stopped this trend. In 2010, the same year that many governments were drafting massive spending cuts, bankers in the city of London received bonuses totalling €7 billion.⁸ That same year there were a staggering 10.9 million millionaires worldwide, compared to 9.5 million before the economic crisis began in 2008, meaning that the number of millionaires rose by almost 15% while countless families were struggling to make ends meet.⁹ In Europe – considered to be as socially aware as never before — figures paint the same picture. In 2011, just three million Europeans owned over €7 trillion between them. This was more than double the combined national debt of Italy, Spain, Ireland, Portugal and Greece.¹⁰ Furthermore, in Germany the income of Dax-CEOs rose by 9%.¹¹ Top of the list was the (former) Volkswagen-CEO Martin Winterkorn, earning €17.5 million, which included a bonus payment of €11 million.¹²

These statistics merely begin to depict the magnitude of the problem. For in July 2012, James Henry, in research carried out for the Tax Justice Network (TJN), found that ‘there is between \$21 and \$32 trillion (\approx €16-24 trillion) of unrecorded offshore financial wealth in the world, conservatively estimated.’¹³ We will discuss this in far greater detail in chapter five, but as the authors of the accompanying report into inequality state: ‘the problem is far worse than we have understood until now... because all

studies exploring economic inequality have systematically underestimated the wealth and income enjoyed by the world's wealthiest individuals.'¹⁴ With Henry's new figures, Piketty estimates that the Gini of the US, for example, 'will probably be somewhere between 50 and 60'¹⁵.

For any remaining doubts regarding the necessity for drastic reform, consider two statistics from a report entitled 'An Economy for the 1%'¹⁶, published by Oxfam in January 2016. 'In 2015', they conclude, 'just 62 individuals had the same wealth as 3.6 billion people — the bottom half of humanity'. Furthermore, 'the richest 1% have now accumulated more wealth than the rest of the world put together.' In our minds, figures such as these are proof that wealth in our current system simply does not 'trickle down'.

In order to increase the well-being of those currently suffering as a consequence of our economic system, this state of inequality will have to be reversed. As we will see in the following chapters, it is not a lack of wealth which is causing problems in our 21st century societies; it is, rather, the nature of its current distribution.

¹ United Nations Development Programme, Human Developments Reports: Income Gini coefficient (the source for these values is the World Bank data, accessed October 2013). Note: the France value is taken from the OECD Income Distribution Database (IDD): Gini, poverty, income, Methods and Concepts, and is from 2012.

² The World Bank - GINI Index (World Bank estimate) — <http://data.worldbank.org/indicator/SI.POV.GINI>

³ Hans-Ulrich Wehler – 'Die Neue Umverteilung' [C.H. Beck, 2013, p. 73]

⁴ Federal Ministry of Labour and Social Affairs: 'Life Situations in Germany – The German Federal Governments 4th Report on Poverty and Wealth', Executive Summary .pdf, English version, March 2013 – <http://www.bmas.de/EN/Service/Publications/a334-4-armuts-reichtumsbericht-2013-kurzfassung-engl.html>

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- ⁵ <http://www.nytimes.com/2012/03/26/opinion/the-rich-get-even-richer.html>
- ⁶ Nicholas Shaxson, John Christensen and Nick Mathiason – ‘Inequality: You Don’t Know the Half of it’ July 2012 [pp. 6-7] — available at the TJN website
- ⁷ Nicholas Shaxson, John Christensen and Nick Mathiason – ‘Inequality: You Don’t Know the Half of it’, July 2012 [p. 7]
- ⁸ fluter. Magazin der Bundeszentrale für politische Bildung, Winter 2011-2012, Nr 41, p. 23
- ⁹ fluter. Magazin der Bundeszentrale für politische Bildung, Winter 2011-2012, Nr 41, p. 36
- ¹⁰ fluter. Magazin der Bundeszentrale für politische Bildung, Winter 2011-2012, Nr 41, Title page
- ¹¹ Spiegel-Online article, 13/03/2012 ,Gehaltscheck: Deutschlands Top-Manager verdienen deutlich mehr’ – <http://www.spiegel.de/wirtschaft/unternehmen/dax-chefs-steigern-gehalt-um-13-prozent-a-821032.html>
- ¹² <http://www.guardian.co.uk/business/2012/mar/12/vw-chief-executive-pay-doubles>
- ¹³ Nicholas Shaxson, John Christensen and Nick Mathiason – ‘Inequality: You Don’t Know the Half of it’, July 2012 [p. 5]
- ¹⁴ Nicholas Shaxson, John Christensen and Nick Mathiason – ‘Inequality: You Don’t Know the Half of it’, July 2012 [p. 1]
- ¹⁵ Nicholas Shaxson, John Christensen and Nick Mathiason – ‘Inequality: You Don’t Know the Half of it’, July 2012 [p. 12]
- ¹⁶ 210 Oxfam Briefing Paper, 18th January 2016: *AN ECONOMY FOR THE 1%; How privilege and power in the economy drive extreme inequality and how this can be stopped* — https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/bp210-economy-one-percent-tax-havens-180116-en_0.pdf

CHAPTER

3

What is a maximum socially acceptable annual income?

As we saw in the previous chapter, there is an increasingly gross divide of income and wealth within our society. Whilst the argument about political systems — both those that have been tried and those that are yet to be created and developed — is of a more theoretical nature, the problems of the status quo can be portrayed in an objective manner. Therefore, before proceeding to the more general questions surrounding the economy and, to some extent, capitalism in the next chapter, we first wish to consider the more intuitive issues regarding income.

In order to offer some perspective of the discussion to follow, average income data from 2013 for a few countries is shown in the table below¹:

Country	Average income (2013)
Finland	€30,954
France	€30,798
Germany	€32,922
Norway	€39,093
Sweden	€30,735
United Kingdom	€31,530
United States	€43,169

We asked ourselves the following question: how much is too much; what is a maximum socially acceptable annual income, which a person may actually deserve to earn? And at what sum do people start living lives so luxurious that they can no longer be justified by any amount of hard work, as long as Rawls' *difference principle* has not been fulfilled. It is difficult, for sure, to decide on such a sum, but there are several factors which we can take into account. (Note: Some small adjustments will have to be made for families where, as an example, only one parent has a high income and there are children to support. Generally, though, we believe that this maximum socially acceptable income should apply to individuals, for we are speaking about sums that are certainly sufficient in providing handsomely for a family of four, and still further luxury.)

In a short, preliminary online survey, we asked 104 people with an average age of 28 what they believe is a 'maximum morally acceptable yearly salary'. Of these, 90% gave an average answer of around €450,000, with just 10% choosing the 'above €5m' option. The belief that people are earning too much seems to be, in our wider circle of friends and acquaintances, widely accepted; yet what is also common is

the submission to this fact, that ‘that’s simply how the world works.’²

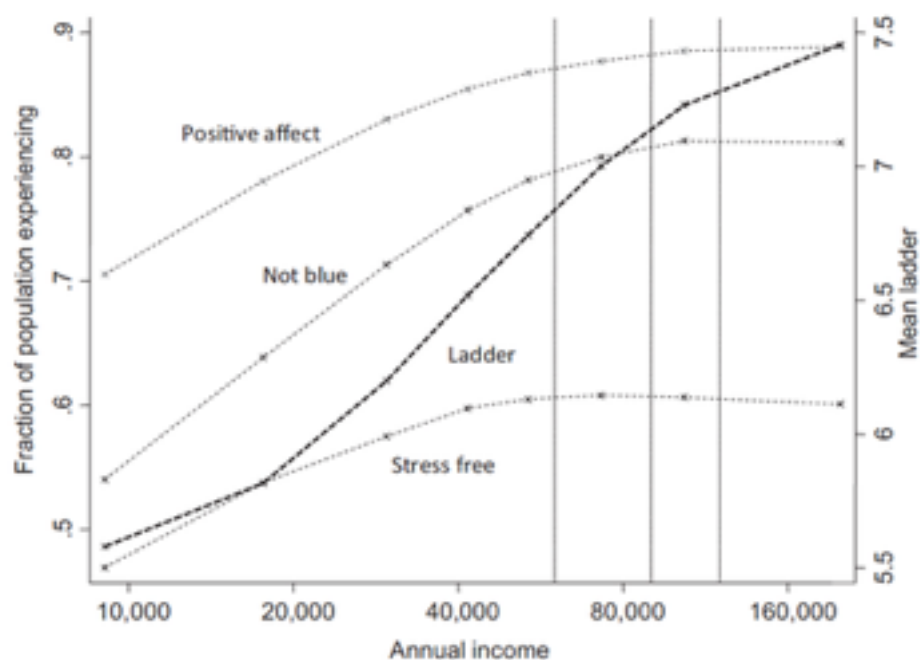
Now while extreme poverty seems to significantly correlate with a low quality of life, a collection of recent studies has shown that the opposite effect does not seem to take place: an increase in income from a certain point onwards no longer correlates with increased happiness or, more broadly, emotional well-being. An impressive example was given in 2010 by Daniel Kahneman and Angus Deaton. After analysing data of over 450,000 telephone interviews which were carried out by the Gallup Organisation on US residents, they produced a study entitled 'High income improves evaluation of life but not emotional well-being'.³

At this point, it is important to familiarise ourselves with the difference between these two factors, for it is precisely these which the study seeks to separate. Emotional well-being is described by the authors as 'the emotional quality of an individual's everyday experience — the frequency and intensity of experiences of joy, fascination, anxiety, sadness, anger, and affection that make one's life pleasant or unpleasant.' Life evaluation, on the other hand, 'refers to a person's thoughts about his or her life'. It is therefore a measure of how people rationally analyse their lives, whereas emotional well-being explores their subjectively experienced quality of life. Two tools were used for the analysis. Emotional well-being was measured using 'positive affect' ("did you feel happy yesterday, did you smile, did you enjoy yourself"); 'blue affect' ("did you feel sad, did you feel worried"); and 'stress'. Life evaluation was measured using the Cantril Self-Anchoring Striving Scale: a ladder of steps from 0-10, with 0 representing the worst and 10 the best possible life.

Kahneman and Deaton report increases in life evaluation with increased log income, 'at least to an amount

well over \$120,000 (\approx €91,000)' (per year). 'Positive affect, 'not blue', and 'stress free', however, all peaked at a much lower sum: 'we infer that beyond about \$75,000/y (\approx €57,000), there is no improvement whatever in any of the three measures of emotional well-being'. Furthermore, this 'satiation level' of around \$75,000 applies to high-cost areas, and could thus be even lower where the cost of living is cheaper.⁴

The following graph was published in the PNAS (Proceedings of the National Academy of Sciences of the United States of America) journal along with the study:⁵



In his book, 'Thinking, fast and slow', Daniel Kahneman discusses the findings of this experiment further. He writes that 'higher income brings with it a higher satisfaction, well beyond the point at which it ceases to have any positive effect on experience.'⁶

What this study demonstrates is the common illusion in our 21st century societies that an increased income is insatiably linked to a higher experienced quality of life. On the contrary: what Kahneman and his colleagues have shown is that incomes have no correlation, from \$75,000 per year onwards, with smiling or laughter, nor with general enjoyment and therefore with actual, experienced quality of life. As Kahneman concludes: ‘life satisfaction is not a flawed measure of their experienced well-being [...] It is something else entirely.’⁷

We should note here that the satiation point will need to be adjusted in order to take into account other members of the family, who are supported through the income of the respective worker. Moreover, there is still large disagreement as to exactly where the satiation point may lie. Some even continue to claim that they could not find evidence of such a point.⁸ It is also clear that the justification for higher taxes is not stable upon the argument of satiated well-being alone, i.e., ‘that those who are already above this point do not need more money.’

The justifications for accessing more financial wealth of the rich include two further aspects. Firstly, our belief that redistribution is a necessity for reconciliation; this is the compromise made by the rich, which is vital in the bigger picture of the New Social Contract. Secondly, the re-establishment of a fair playing-ground with a more representative system of what constitutes the desert of large financial rewards — this we will discuss in greater detail in the next chapter. To be absolutely clear: we still believe that hard work should be rewarded with high income. Current tax systems, with top tax rates of around 40-50% are sufficient up to the sum which we eventually decide on as our maximum socially acceptable annual income. We believe that every Euro⁹ over that amount, however, should

be taxed at much higher rates than we are currently seeing — in line with the aims of the New Social Contract.

We are left with deciding on such a sum. The exact determination of the figure is a decision that should be made collectively and democratically by a society living under a New Social Contract, taking into consideration the varying economic aspects, such as the cost of living and rate of inflation, of the respective country. For argument's sake, let us put this issue into perspective. An average university student in Germany currently has access to around €864 per month¹⁰. This will pay for a single bedroom flat or a room in a shared apartment, for food, clothes, a mobile phone, health insurance, hobbies and even holidays. Per year, that amounts to around €10,500, which does not allow for much luxury but provides for a comfortable, enjoyable and usually happy student life. With time, we may want to buy a house and a car; we may desire more expensive holidays; and we may be required to provide for our families. Subjectively experienced high quality of life seems to be largely enabled by sums of around \$75,000 (\approx €57,000) per year in high-cost areas. Francois Hollande, the current President of France, originally promised to introduce higher taxes on citizens earning over €1m per year. These sums are around 5 and 95 times respectively the amount of money that a student in Germany requires per year. A sum somewhere between these figures should surely be sufficient as a maximum socially acceptable annual income, and it is therefore our belief that every Euro over this should be taxed at a much higher rate.

¹ OECD (2015), Average wages (indicator). doi: 10.1787/cc3e1387-en (Accessed on 07 October 2015)

² In hindsight, we would have asked for a ‘maximum socially acceptable annual income’ rather than a ‘maximum morally acceptable yearly salary’, and hope to do so with a larger sample in the future. With regard to the figures, please contact us if you wish to receive a copy

³ ‘High income improves evaluation of life but not emotional well-being’, Daniel Kahneman and Angus Deaton, Center of health and well-being, Princeton University, September 2010 – <http://www.pnas.org/content/107/38/16489.full.pdf+html>

⁴ Daniel Kahneman – ‘Thinking, fast and slow’ [Allen Lane, 2011, p. 397]

⁵ PNAS (Proceedings of the National academy of Sciences of the United States of America), Issue: vol. 107, no. 38, 21st September 2010 – <http://www.pnas.org/content/107/38/16489.full>

⁶ Daniel Kahneman – ‘Thinking, fast and slow’ [Allen Lane, 2011, p. 397]

⁷ Daniel Kahneman – ‘Thinking, fast and slow’ [Allen Lane, 2011, p. 397]

⁸ Betsey Stevenson and Justin Wolfers: ‘Subjective Well-Being and Income: Is There Any Evidence of Satiation?’.pdf April 16th 2013 [p. 4] — <http://www.brookings.edu/~media/research/files/papers/2013/04/subjective%20well%20being%20income/subjective%20well%20being%20income.pdf>

⁹ For purposes of comparison, we will be using Euros as our currency of choice for all arguments. See appendix.

¹⁰ 20. Sozialerhebung des Deutschen Studentenwerks — durchgeführt durch das HIS Institut für Hochschulforschung, pdf p.19: http://www.sozialerhebung.de/download/20/Soz20_Handout_barrierefrei.pdf

CHAPTER

4

Capitalism and the economy

In our current capitalist system, rewards are given in the form of money, as a medium which can be used in exchange for every type of good that has been commodified (made available for purchase). Over the last millennia, money has thereby become the substance which controls our lifestyle — at least on a material level. The American sociologist Immanuel Wallerstein explains that the 'universalist trio of science, human rights, and meritocracy [...] is the pride of the advocates of capitalist civilization.'¹ The ultimate claim, then, by such supporters of capitalism is that it benefits everyone in the long run: that it is most suitable for allowing advances in science; the implementation of human rights; as well as merit-based rewards for hard work. In his book 'Historical Capitalism', Wallerstein goes on to challenge this statement. Regarding the beneficence of capitalism for science, he writes 'we must measure not merely the

technology it has permitted to be created, but the alternatives that were missed or failed to be pursued. We must recite not merely the credit but the blame'.² Furthermore, with regard to human rights, Wallerstein explains that the lower rate of violations of human rights in richer countries is an argument that can be used by supporters of capitalism. 'But to others,' Wallerstein continues, 'it proves in one more way the concentration of advantages in one zone of the world-system, and the concentration of negative effects in the other, itself seen as the outcome of capitalism, in which human rights are precisely not a universal value but a reward of privilege.'³ Thus it can be argued that both science and human rights, often claimed to flourish under capitalism, could have developed equally well, or in fact better, within a different system.

What remains is the third entity of the universalist trio: meritocracy. Wallerstein uses an example of scoring within an educational setting to highlight the problematic nature of quantifying merit. He claims that the meritocratic scoring system may 'distinguish the small group of quite exceptional persons and the small group of quite incompetent persons, [but leaves] a very large group in between among whom the scoring process'⁴ allows no reliable differentiation. The same argument can be used with respect to jobs: 'The institutionalized meritocratic system helps a few to gain access to positions they merit and from which they might otherwise be barred. But it allows many more to gain access to positions on the basis of ascribed status under the cover of having gained this access by achievement.'⁵ Hence Wallerstein accentuates the inability of the meritocratic system to ensure a fair, universal coverage of citizens, catering only for a select few.

In addition to these shortcomings, what we find so crude about capitalist meritocracy is that it rewards, as the

name suggests, success in just one area, the sole aim of capitalism: the accumulation of capital for the sake of accumulating yet more capital (again a point described in Wallerstein's book⁶). This argument is also examined by Hans-Ulrich Wehler in 'Die Neue Umverteilung' (The New Redistribution). In reference to the imbalance of income received by an elite group of managers at the top, he writes that through various bonuses they manage to complement their already 'excessively rewarded performance', pushing them to further 'dizzying heights.'⁷ At the same time, many people working in the social sector are given a pittance in comparison. Careers in teaching, nursing and social work, dedicated to teaching our children and aiding those of poor health, are indispensable in the daily functioning of our lives and offer huge benefits to our communities. Yet we have continuously failed to do them justice in the meek rewards for their work.

The main protector of such unjust capitalism is the argument that it is the only system which will foster growth; that any other system will end up harming the very people whom we are trying to help. Thus, the argument follows, although it is unfavourable some inequality is created, this is an unavoidable by-product of something which ensures the greatest possible good. This principle is supported by Acemoglu, Robinson and Verdier in their study 'Can't We All Be More like the Scandinavians? Asymmetric Growth and Institutions in an Interdependent World'.⁸ In this paper, the authors argue that the type of 'cuddly' capitalism used in, for example, the Scandinavian countries — which results in far greater equality (see Gini coefficients in chapter two) — relies upon the more ruthless 'cutthroat' system in the United States. This claim stems from the notion that a 'world technology frontier' is vital for economic growth,

which in turn is enabled, or pushed forward, by ‘innovations in the cutthroat leader’, and ‘since innovation is associated with more high-powered incentives, these countries will have to sacrifice insurance and equality.’ So in simple terms, Acemoglu et al. claim that incentives of the current magnitude are vital to ensure continuous growth, as lower incentives would throttle, amongst other things, innovation.

We cannot, however, continue to be held hostage by such theories and the consequent refusal to believe that there are other feasible models. As we described in chapter two, the current system creates gross inequality, and without working to the benefit of the least well-off members of society it is unacceptable under Rawls’ *difference principle*. It follows that to fulfil Rawls’ ideas we must search for economic alternatives; working together to make a new, more just system work. Before labelling us as naïve just take a moment to think: is it really possible that the only system which works is one which is unjust to its very roots? Surely that is a naïve claim in itself. In line with this, we wish to present several counter-arguments to current economic policies, considering research by specialists and portraying the alternative options and theories that already exist. In particular, we will discuss various findings and suggestions by Joseph E. Stiglitz; a key member and economic advisor of the Clinton administration, as well as the former chief economist at the World Bank, co-founder of the ‘Initiative for Policy Dialogue’⁹ and Professor at the University of Columbia.

Firstly, remaining on the topic of innovation, the aforementioned argument (by Acemoglu et. al, that higher taxes throttle innovation) applies to the small group of individuals who are currently earning amounts that are taxed at higher rates in ‘cuddly’ countries. However, this could be more than compensated for by lifting the burdens on other

individuals. Through covering the cost of health insurance and offering training in quality schools, for example, many more would be free to contribute their ideas and make use of their talents. This argument is supported by Stiglitz, who claims in his book ‘The Price of Inequality’ that ‘a large number of [people] are not living up to their potential; we’re wasting our most valuable asset, our talent.’¹⁰ In other words: when considering the pools of talent we have, more potential can surely be found in those who are currently being suppressed, than in those who are suppressing them. The same principle applies to the idea of sufficient rewards necessary for risk-taking. Perhaps smaller rewards will dampen the desire of some to continue taking risks. Yet once again, we are certain that this will be compensated for by the countless additional individuals who are not just willing to take risks, but suddenly in a position financially stable enough to do so. In this sense, a New Social Contract may be considered as a safety net, ensuring the minimum position of all is better and thus in itself reigniting some potential for the necessary risk-taking.

Secondly, as Stiglitz also highlights, ‘far too many of our most talented young people, seeing the astronomical rewards, have gone into finance rather than into fields that would lead to a more productive and healthy economy’ — for example, innovations.¹¹ Here, again, equitable rewards across the board of professions could help to boost growth through innovation, as fewer talents would be blindly pulled away from innovative professions towards the corrupting glow of finance.

Thirdly, let us question the underlying claim that the sole incentive is money. Aren’t innovations often pursued out of pleasure; out of interest, or a willingness to face a challenge? To help evaluate this point, let us consider the ‘Aristotelian Principle.’ As discussed by Rawls, ‘other things

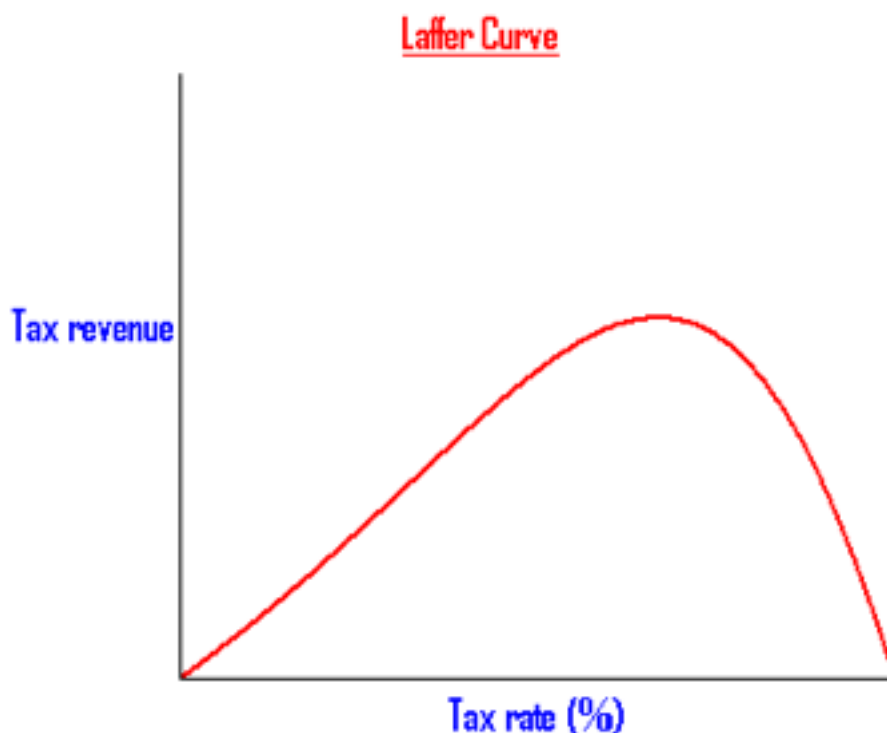
equal, human beings enjoy the exercise of their realized capacities, and this enjoyment increases the more the capacity is realised, or the greater its complexity.’ For example, Rawls continues, ‘chess is a more complicated and subtle game than checkers, and algebra is more intricate than elementary arithmetic, [thus] someone who can do both generally prefers playing chess to checkers, and [...] would rather study algebra than arithmetic.’¹² In line with this, it follows that there is some aspect of many professions, including innovative branches, which provide a value in themselves, completely separate from the financial reward which they are associated with.

Finally, any decrease in the drive for innovations could be further compensated by time. For then the new workers, who have never known any higher rewards than those which would be possible under a New Social Contract, would rightly consider these still handsome sums ‘worth the trouble’.

Consequently, what will help to resolve the underlying problems is an overall shift in our mindsets as to what should constitute a ‘worthwhile’ reward. We act as though changes toward equality would extinguish the ability to earn large amounts. This is not the case: even if we had taxed all of Martin Winterkorn’s 2011 income at 80% (which is more than we suggest), he would still have taken home €3.5 million, more than 100x the German average wage.¹³ To close this gap we must create a surplus of funds that can be used, as introduced in our opening thoughts, for investment into the pillars of equal opportunities¹⁴; a higher minimum wage; and larger financial rewards for jobs of high social value. Such a surplus can be created in two main ways: through clamping down on tax avoidance, which we will discuss in the next chapter, and by raising taxes; this we will take up now.

The widespread idea of higher taxes being counter-productive is well represented by the 'Laffer curve' theory, named after the economist Arthur B. Laffer. Laffer is a 'champion' of supply-side economics, a theory which argues that economic growth can most effectively be achieved by removing the barriers hindering businesses and individuals from producing goods and selling their services. Measures undertaken under this ideology include reducing income tax and capital gains taxes (taxes on profits), while at the same time loosening regulation, thereby reducing the cost of production and thus achieving higher profit margins.

Laffer explains that tax cuts can often serve to actually increase tax revenue, portrayed by the resulting Laffer curve. This plots tax rate against the government's tax revenue, beginning and ending with zero revenue at tax rates of 0% and 100% respectively. Zero revenue at a 0% tax rate is logical, while zero revenue at a tax rate of 100% is explained by the idea that no one would work if all their money then went to the government.



The Laffer curve doesn't account for graduated tax rates. For example, let's assume that the maximum socially acceptable income is €1m, and that the government introduced a marginal tax rate of 100% on every Euro earned over this (which we are not suggesting is a good idea). Now imagine that the person in question earns €1.5m before taxes. Everything under €1m would be taxed at the original, lower rate; therefore they would still be taking home a large portion of the first €1m earned. To then choose not to work would result in forfeiting this large portion, too, rather than simply avoiding the higher tax band. Laffer's argument, it follows, applies mostly to two groups:

- The self-employed; those who can choose to stop working within a tax period when they hit the barrier to the theoretical 100% tax rate.
- Employees who are confronted with the decision of whether or not to take a position of higher responsibility and input in return for a higher income, which could be deemed 'not worth the trouble'.

There is a third point on the Laffer curve which we find the most interesting: the so-called peak at which government revenue reaches a maximum, with any higher tax rates past this point resulting in less revenue. The position of this peak is subject to controversy, for economists do not agree on a consistent position: there are estimates placing the peak at tax rates anywhere between 19 and 83%.¹⁵ The difficulty in determining this peak accurately is due to the fact that it depends on so many factors, which themselves differ from country to country — not least the mind-set of the people.

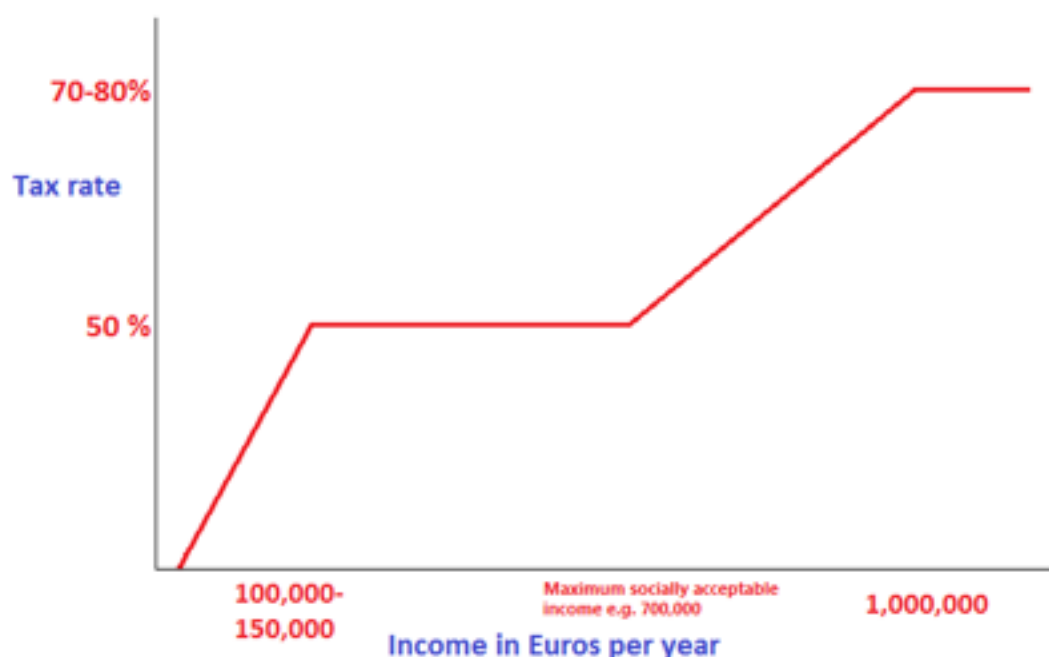
Several studies place the peak at higher tax rates than those which we are currently seeing. For example, a 2010 publication by Mathias Trabandt and Harald Uhlig found maximal labour tax rates ranging from 51-71% for the

EU-14 countries and 52-72% for the US, under varying parameters. Potential additional tax revenues ranged from 2-17% and 14-47% respectively¹⁶. In January 2012, a further study found the revenue-maximising rate for the average EU country to be 54%.¹⁷ And perhaps most importantly: according to ‘The New Palgrave Dictionary of Economics’, across academic studies on this issue the mid-range estimate is around 70%.¹⁸

As discussed, under a New Social Contract we propose an agreement determining the maximum socially acceptable annual income. Everything up to this point, we suggest, should be taxed at reasonable current rates — up to a maximum of 50%. Concerning the Laffer curve theory we should thus, up to this point, have little fear of a decrease in tax revenue, for it can easily be argued that this is to the left of the peak (unless unanimous ‘proof’ emerges placing the peak of the Laffer curve at a lower rate, which must then be adopted). Consequently, the main issue for potential damage to the economy lies in what will happen once we move close to the maximum socially acceptable income, or if we indeed exceed it.

Prior to addressing such concerns, let us introduce the final two parts of this aspect of our New Social Contract. Firstly, once the maximum socially acceptable annual income is exceeded, tax rates will slowly begin to rise — in a progressive manner — until we reach a maximum tax rate, from which point all additional income will be taxed at that rate. For example:

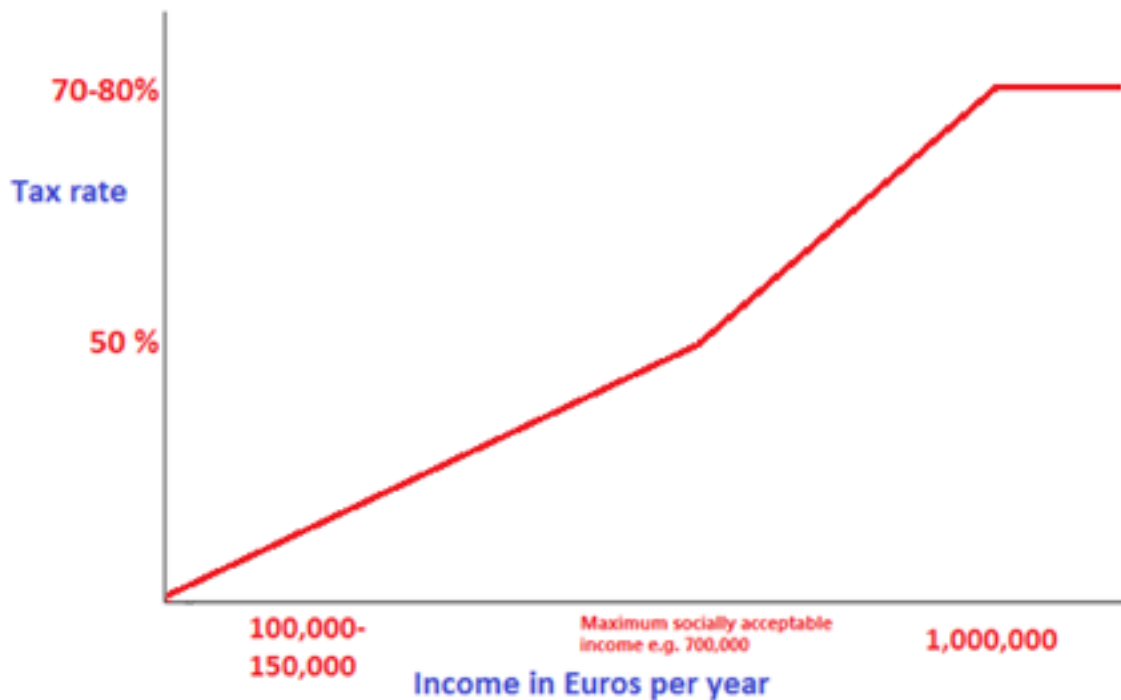
Example of how new tax rates could be applied



Here, the maximum socially acceptable annual income is, as an example, €700,000. Everything up to this point is taxed similarly to the current system: in graduated rates up to 50%. Note, however, the absence of any tax bands. Everything above this sum will begin to be taxed higher, again using graduated tax rates. Thus every Euro above €700,000 would be taxed at an extra 0.0001% per Euro (again just an example) — eventually peaking at 80% from €1m upwards.

Alternatively, below is a second example of how new tax rates could be applied. Again, the maximum socially acceptable annual income in this example is €700,000. However, there is no plateau prior to exceeding this maximum point; graduated tax rates are thus applied continuously up to this point, and indeed afterwards, until a final plateau is eventually reached as tax rates peak.

Example of how new tax rates could be applied



Secondly (returning to the final two parts of this aspect of our New Social Contract), the issue remains of what actually constitutes an annual income. Currently, discussions about higher taxes are made with regard to an annual salary, or wage. We wish to redefine the meaning of income tax for our purposes: a tax on total amount of money, or equivalent, received. Therefore, when talking about higher taxes on income, we mean taking into account all forms of income (salary, profit on investments, bonuses, income on rented property, etc.), comparing this to the agreed maximum socially acceptable sum, and then taxing it accordingly.

Returning to the issue of potential damage to the economy through a higher tax scheme, there appear to be three main arguments: that such measures would result in more tax avoidance; that they would extinguish the incentive to work hard; and that they would lead to a decrease in consumer reinvestment. We will examine these main points separately.

Change in behaviour: tax avoidance

As portrayed by the Laffer curve theory, it is often argued that higher taxes will not raise significantly more money because, at a certain tax rate, behaviour will change. In the UK, official estimates by HMRC confirmed that the 50% top-rate had raised around £1.1 billion (\approx €1.3 billion) from 2010-2011, less than half of the £2.5 billion (\approx €2.9 billion) expected.¹⁹ It seems here, already, there were drastic changes in behaviour. But to quote a paper by Saez, Slemrod and Giertz, ‘if behavioral responses to taxation are large in the current tax system, the best policy response would not be to lower tax rates, but instead broaden the tax base and eliminate avoidance opportunities to lower the size of behavioral responses.’²⁰ Thus, we should be seeking changes not within the system but to the system itself. These include the stronger enforcement of taxation, with heavier punishments as deterrents for tax avoidance (see next chapter), and to increase willingness to pay taxes.

We hope that a New Social Contract comes with a shift in paradigm, whereby paying taxes is no longer seen as a punishment, but as a natural obligation for a member of society. Reconciliation requires both sides to make some compromises and it is here that the role of the rich will be redefined. In the words of Theodore Roosevelt: ‘the man of great wealth owes a peculiar obligation to the state because he derives special advantages from the mere existence of government.’ Or as Stiglitz puts it, ‘there would be no top of the pyramid if there wasn’t a solid base.’²¹ These arguments highlight a key point which we must all recognise: that a progressive form of redistribution, resulting in greater social harmony and wealth, benefits everyone in the long run. In recognising this, we could perhaps one day see paying taxes as a privilege, for paying fair taxes means that we are

earning money and that we are playing our part in a society living under a New Social Contract — one based upon the principle of solidarity.

To further strengthen this argument we propose a more transparent reinvestment of government revenue. An interesting idea is a new ‘tax choice’ system of ‘compulsory philanthropy’, so to speak, where those paying taxes on sums above the maximum socially acceptable income would be able to choose which areas of government expenditure should be prioritised when a certain proportion of their taxes is spent. In doing so, society would recognise, and rightly so, the large contributions they are making financially to the social wealth system.

Change in behaviour: decreased incentive

The other type of behavioural change the Laffer curve theory attempts to incorporate is the notion of additional work not being ‘worth the trouble.’ As aforementioned, this applies to two main groups — the self-employed, as well as employees who have been offered higher income in exchange for harder work. Now admittedly, this is a difficult problem to solve. Earlier in this chapter we discussed some of the main antidotes to this lack of incentives (base rates of pools of talent; other incentives besides money, etc.). There are several other intuitive points we wish to make, for it seems this will rely primarily on the overall change in mindset which we hope to achieve under a New Social Contract.

For one, the overall rise in social wealth, which is enabled through higher taxes, is a strong incentive to continue working hard. Furthermore, even under these new rules it will remain possible to earn endless amounts of money. Thus those who wish to continue taking home

millions will still be able to do so — but they will need to continue working as hard, indeed harder, to achieve this. The taxes they pay on the way would ensure that their rewards are socially acceptable, as this system would truly fulfil the *difference principle*. In addition, by progressively raising taxes from the maximum socially acceptable income point upwards, but doing so very slowly, we would be avoiding any big ‘jumps’. This would avoid the situation where a small rise in salary lifts the individual into a completely new tax band, in which the net amount taken home is less than before.

The notion that innovations are only strived for in view of potential earnings disregards that, quite often, innovations which end up reaping large rewards actually came to success by chance. Take Facebook, not just one of the most influential forms of worldwide communication but also a major business making billions of dollars. When Mark Zuckerberg was writing *Facemash* in 2003, which was the outline that eventually became *Facebook*, it is unlikely that his main concern was money; it will of course have crossed his mind, but it doesn’t sound plausible that he considered it a serious likelihood that he would end up becoming a billionaire. This only came later, once the idea had become a success around Harvard and Peter Thiel decided to come on board as an investor.²² Or in other words: even if Zuckerberg had known that his work would one day make him a billionaire, it is unlikely that a tax system such as the one we are proposing would have caused him to abandon his work, seeking instead a more conventional form of employment.

Let us also not forget the dangers to the economy that can be posed by large rewards. What they contribute towards is a culture of dangerous risk-taking, resulting in, to name just one example, the 2008 global financial crash.

Consumer reinvestment

A further argument opposing higher taxes is the idea that growth is largely stimulated by wealthy individuals making large investments. But take a moment to think about the following argument by Stiglitz:²³

'Consider someone like Mitt Romney²⁴, whose income in 2010 was \$21.7 million. Even if Romney chose to live a much more indulgent lifestyle, he would spend only a fraction of that sum in a typical year to support himself and his wife in their several homes. But take the same amount of money and divide it among 500 people—say, in the form of jobs paying \$43,400 apiece—and you'll find that almost all of the money gets spent.'

At first, that sounds a lot like a Robin Hood scheme, which we don't seek to endorse (nor is that to say that Stiglitz would endorse it). But one element of this quote is in line with our approach: we want to tax the rich, and we want to use this money for the benefit of all citizens; not by handing it out as a gift, but by investing into the social system and larger incomes for careers of high social benefit. This would indirectly (or, for teachers, nurses and social workers etc. directly) release the strain on certain sectors of the population. In alignment with the above example, this would result in a far greater spending power of the lower, middle and even upper-middle classes, which would serve to actually boost the economy. As Stiglitz explains, 'moving money from the bottom to the top lowers consumption because higher-income individuals consume, as a fraction of their income, less than lower-income individuals do'. Thus, Stiglitz continues, it is 'no accident that the current

recession, like the Great Depression, was preceded by large increases in inequality'.²⁵

Entrepreneurship would also be encouraged under a New Social Contract. Imagine, for example, a middle-class family that must pay for health insurance and make savings to put two children through university, amongst other things. Now imagine if the state took more responsibility: through better funding of the social system, student fees could be abolished; health insurance could be financed (see the Beveridge model in chapter seven); nurseries/after-school activities could cater to children for the working day; the list goes on and on. This would unburden the family financially, resulting in greater freedom for creativity, investment and entrepreneurship.

There is another argument which goes even further than claiming that higher taxes are compatible with economic growth: it claims that higher taxes, thus greater equality, are vital for economic growth. It is this idea which leads to Stiglitz's 'Be-Selfish' solution to the problems of inequality:²⁶

'So, the advice I'd give to the [top] 1 percent today is: Harden your hearts. When invited to consider proposals to reduce inequality [...] put any latent notions of altruism aside and reduce the idea to one of unadulterated self-interest. Don't embrace it because it helps other people. Just do it for yourself.'

Why? Because inequality eventually causes a societal breakdown. A broad middle class is vital for a healthy economy, and as we can draw from the example of South Africa, extreme inequality results in a relative decrease in quality of life for the whole population.

¹ Immanuel Wallerstein – ‘Historical Capitalism’ [Verso Books, 1983, p. 129]

² Immanuel Wallerstein – ‘Historical Capitalism’ [Verso Books, 1983, pp. 130-131]

³ Immanuel Wallerstein – ‘Historical Capitalism’ [Verso Books, 1983, p. 132]

⁴ Immanuel Wallerstein – ‘Historical Capitalism’ [Verso Books, 1983, p. 133]

⁵ Immanuel Wallerstein – ‘Historical Capitalism’ [Verso Books, 1983, p. 133]

⁶ Immanuel Wallerstein – ‘Historical Capitalism’ [Verso Books, 1983, p. 40]

⁷ Hans-Ulrich Wehler – ‘Die Neue Umverteilung’ [C.H.Beck, 2013, p. 8] – N.B. we translated this from German. The original reads: *‘Auf der anderen Seite: der obszöne Anstieg von Managergehältern in schwindelerregende Höhen; die Selbstbereicherung mit spektakulären Bonuszahlungen und Vorzugsaktien als begehrte Zusatzbelohnung für eine bereits übermäßig honorierte Leistung...’*

⁸ Acemoglu, Robinson and Verdier: ‘Can’t We All Be More like the Scandinavians? Asymmetric Growth and Institutions in an Interdependent World’.pdf August 2012 [pp. 2-11] — http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2132939

⁹ IPD – a think tank on development and globalisation providing advice to policy-makers

¹⁰ Joseph Stiglitz’s book, ‘The Price of Inequality: How Today’s Divided Society Endangers Our Future’ is published by W. W. Norton & Company, 2012. An extract from this book, including the quote we have used here, may be found on Vanity Fair – <http://www.vanityfair.com/politics/2012/05/joseph-stiglitz-the-price-on-inequality>

¹¹ Taken from Joseph Stiglitz’s article for Vanity Fair: ‘Of the 1%, by the 1%, for the 1%’ — <http://www.vanityfair.com/society/features/2011/05/top-one-percent-201105>

¹² John Rawls – ‘A Theory of Justice’, Revised Edition [Belknap Harvard, 1999, p. 374]

¹³ For Martin Winterkorn’s income data and source reference see chapter two. Average wages are OECD statistics from OECD.StatExtrates, taking NCU (National Currency Unit) average wage value for Germany for 2011 – http://stats.oecd.org/Index.aspx?DatasetCode=AV_AN_WAGE

¹⁴ Education, healthcare and social projects in particular

¹⁵ Washingtonpost.com, Business, US Economy, Ezra Klein: Where does the Laffer Curve bend? August 2010

¹⁶ Mathias Trabandt, Harald Uhlig: How far are we from the slippery slope? The Laffer curve revisited, Working paper series, No 1174, April 2010

¹⁷ Lukas Vogel: Tax avoidance and fiscal limits: Laffer curves in an economy with informal sector, DG Economic and Financial Affairs, January 2012

¹⁸ Don Fullerton: "Laffer curve." The New Palgrave Dictionary of Economics. Second Edition. Editors: Steven N. Durlauf and Lawrence E. Blume. Palgrave Macmillan, 2008.

¹⁹ <http://www.bbc.co.uk/news/business-17465733>

²⁰ 'The Elasticity of Taxable Income With Respect to Marginal Tax Rates: A Critical Review', Emmanuel Saez, Joel Slemrod and Seth H. Giertz; August 7th 2010 .pdf [p. 51] — <http://elsa.berkeley.edu/~saez/saez-slemrod-giertzJEL10round2.pdf>

²¹ Joseph Stiglitz's book, 'The Price of Inequality: How Today's Divided Society Endangers Our Future' is published by W. W. Norton & Company, 2012 [see endnote reference above]

²² <http://www.bbc.co.uk/news/business-19329413>

²³ Joseph Stiglitz's book, 'The Price of Inequality: How Today's Divided Society Endangers Our Future' is published by W. W. Norton & Company, 2012 [see endnote reference above]

²⁴ US presidential candidate for the Republican Party in 2012

²⁵ Joseph Stiglitz's book, 'The Price of Inequality: How Today's Divided Society Endangers Our Future' is published by W. W. Norton & Company, 2012 [see endnote reference above]

²⁶ Joseph Stiglitz's book, 'The Price of Inequality: How Today's Divided Society Endangers Our Future' is published by W. W. Norton & Company, 2012 [see endnote reference above]

CHAPTER

5

Tax avoidance

For a long time, the phenomenon of tax avoidance has existed in a type of pendulum of thought whereby we know it exists; are angered by it; yet are somehow unable to do anything about it. There is something about tax avoidance — or, the ‘global offshore industry’ — which affects us more than the average political injustice. Perhaps it is the fact that it is one of few political problems where there is no feasible reassurance that the problem is somehow being addressed, thus nothing to ease our discontent. For too long have politicians from all ideological standpoints refused to take this issue as seriously as they should, while some have even profited themselves. Successive governments all over the world have promised and failed to solve the problem of tax avoidance. There are several reasons for this failure, perhaps most correctly depicted by James Henry, Senior Advisor at Tax Justice Network (TJN), in his claim that 'we are up against one of society's most well-entrenched interest

groups. After all, there's no interest group more rich and powerful than the rich and powerful.'¹

To be clear, it is both the currently legal 'tax avoidance', which makes use of loopholes, and the already illegal 'tax evasion' schemes which we believe must be addressed. For our purposes, we will refer to the problem in its entirety as tax avoidance.

For many years the issue of tax avoidance has floated in and out of public consciousness; fed briefly by the scandal of a corporation, politician or wealthy individual who avoided paying their fair share of taxes, then extinguished just as quickly by the next scandal, often on a different topic entirely. Subsequently, for most of us the extent of tax avoidance has been a mystery. The reason for this is simple: there was a severe lack of hard evidence, as the type of data needed for such estimates had been kept secret by banks and government policies alike.² In July 2012, however, this changed. Embedded within perhaps the most detailed investigation and consequent report into the issue of tax avoidance was a figure, a conservative estimate, of the amount of 'global offshore financial wealth' which was out of reach to governments worldwide (as of the end of 2010).³ James Henry, in his report 'The Price of Offshore Revisited,' estimated this figure to be anywhere between \$21-32 trillion (\approx €16-24 trillion).⁴

As we did when we first heard this figure, we suggest pausing for a few moments to allow this number's enormity to sink in. \$21-32 trillion. That is \$21-32 thousand billion. That is almost a tenth of total global wealth, when estimated at \$223 trillion,⁵ or the equivalent of the Japanese and US economies combined.⁶ And it's just the start of it. This conservatively estimated figure has been calculated solely from financial wealth, leaving us to question how much

more money is actually hidden from the taxman in form of non-financial wealth — often called assets: houses, land, cars and noble metals such as gold, to name just a few. And the injustice goes further than this. Many of the private banks involved in the global offshore industry are robbing governments of more money by requiring huge public bailouts when crises hit. From 2008-2012, for example, the top ten banks involved in the global offshore industry all received considerable financial assistance through governmental loans.⁷ And still, the injustice goes deeper: several of these banks have also been identified as key players in other scandals: from the Libor rate rigging in 2012 to the irresponsible mortgages which caused the 2008 financial crisis. Thus ‘in effect’, writes James Henry, ‘ordinary taxpayers have been subsidizing the world’s largest banks to keep them afloat, even as they help their wealthiest clients slash taxes.’⁸

It would be naïve to hope that every last cent of this money could be accessed and used directly for means of reducing inequality and investing into fairer opportunities. But James Henry put into perspective what is at stake: if we were to gain access to just 3% of the lower boundary estimate of \$21 trillion, and were to tax this at a mere 30%, we would have ‘generated tax revenues of \$189 billion (\approx €143 billion) — more than twice the \$86 billion (\approx €65 billion) that OECD [Organisation for Economic Cooperation and Development] countries as a whole are now spending on all overseas development assistance’.⁹ So just 0.9% of this money is more than double what 34 of the highest income and most developed countries feel they can spare annually ‘to promote policies that will improve the economic and social well-being of people around the world.’¹⁰

Yet such potential can never be realised if the fundamental problems which allow tax avoidance to persist are not addressed. There are two main problems which can be identified: firstly, the existence of tax havens, and all the key players involved in establishing them, without which this money would never be lost to governments. Secondly, the institutions (the governments and global organisations like the G20, International Monetary Fund (IMF), World Bank and Bank for International Settlements (BIS)) which have for too long turned their backs on tax avoidance. For example, the G20 claimed at a summit in London in April 2009 that ‘the era of bank secrecy is over’, and that they would ‘take action against non-cooperative jurisdictions, including tax havens.’¹¹ However, as demonstrated by varying media reports in 2012 on firms such as Amazon and Starbucks, such promises have not been kept.¹² There are a number of measures we call for which would begin to address this problem properly.

A. Individual income tax

On the one hand, there is a need to raise global awareness of this issue in order to start holding people accountable. On the other, there is clearly a large capacity for lawful action. We consider measures recently introduced in Switzerland a good starting point. Previous bank secrecy laws allowed foreign nationals to operate a bank account in Switzerland, paying neither Swiss taxes nor those of the country in which they were earning the money. In August 2011, however, the Swiss government agreed to begin taxing UK citizens’ Swiss bank accounts from 2013 onwards, stopping short of releasing personal information of the clients in question.¹³ There is also the potential of a similar deal being struck between Switzerland and Germany, France and Italy

respectively.¹⁴ These deals are still far from the final outcome we are looking for, but they represent a move in the right direction.¹⁵ It seems that an even more effective method of bringing tax avoiders to justice is to address the problem from the top: taking action against the institutions which enable tax avoidance, rather than trying to re-educate wealthy individuals who are utilising such institutions for their personal gain. Consequently, we demand a complete ban on institutions enabling tax avoidance in any way or form, and propose a law which forces such institutions to fully cooperate in identifying individuals who are avoiding taxes.

This is not to say measures against the individual cannot also be undertaken. On the contrary, we also propose a ‘national tax’ on all citizens, whereby an individual is always taxed at the higher rate of the two countries in question: either the country of origin or the country of residence. Any additional revenue will naturally be received by the government whose higher tax rate is responsible for these additional returns. This would further reward the implementation of higher tax rates.¹⁶ The new laws accepted by the Swiss government to tax UK nationals are built along the lines of such a national tax. Without doubt, the more jurisdictions which adopt this law, the greater its effect will be. No longer will wealthy individuals be able to avoid paying income tax by simply moving to a different jurisdiction; nor will countries attempting to create greater equality by raising taxes be punished for their efforts. The greed of those like Gerard Depardieu, the French actor who became a Russian citizen in response to President Hollande’s proposal of a 75% top rate of tax, would simply no longer be possible.¹⁷ Coupled with this, we will also like to see the introduction of strong sanctions against those not complying with this law. Fines, for example, of amounts

equalling or even doubling and further exceeding those which were offset from taxes could be implemented.

B. Corporation tax

Unfortunately, tax avoidance by wealthy individuals is not the only challenge we face. It is becoming increasingly clear that many corporations are utilising every opportunity to decrease the amount of taxes they pay. Within a few weeks towards the end of 2012 alone, reports surfaced of a number of major companies paying either no or minimal amounts of tax in varying jurisdictions: Amazon, Starbucks, Google¹⁸, IKEA, eBay¹⁹ and the Ritz Hotel²⁰, to name just a few. Again, this avoidance is made possible by the existence of low- or no-tax havens,²¹ where corporations are able to shift profits in a process commonly referred to as ‘transfer mispricing’. To cut a long story short, corporations artificially distort prices when trading between two of their own subsidiaries, located in different tax jurisdictions, shifting and thereby maximising all profits in the jurisdiction where the corporation tax is lowest; usually a tax haven (subsidiary 2, see below). This results in a lower tax bill and consequently higher after-tax profits.²² Although these reports have only just reached the public sphere, it is not a new scandal. The Ritz Hotel, for example, paid no corporation tax in the UK between 1995 and 2012²³; and a 2012 investigation by Reuters found that ‘Starbucks had made over £3bn in UK sales since 1998 but had paid less than 1% in corporation tax’, as reported by the BBC²⁴. The following map helps to explain the process of transfer mispricing, which has made such numbers possible.²⁵



In our example, a company sources its product from Africa. It buys and produces at a cost of €0.50 and sells at €12 in Europe, therefore making a total profit of €11.50 per unit of product. Without the process of transfer mispricing and at theoretical corporation tax rates of 25% in European countries, the amount ‘lost’ through taxes would therefore be around €2.88.

Through the process of transfer mispricing, however, companies are able to shift most of their profits to a tax haven. Our map above illustrates an example of this. Here, a sum of €10 — the vast majority of the total profit of €11.50 — is earned by subsidiary number 2, which is based within a jurisdiction that has a corporation tax rate of just 1%. This results in an overall tax fee of just 47.5 cents; equating to a tax bill that is more than six times lower per unit of product than what would have been paid without the existence of a tax haven.

There are countless other examples of companies avoiding their fair share of taxes. In March 2011, US Senator Bernie Sanders released a list of 10 major US companies avoiding taxes, and these were only his ‘top ten.’ In 2010, Bank of America, for example, made profits of \$4.4 billion (\approx €3.3 billion), received a bailout of nearly \$1 trillion (\approx €760 billion) from the Federal Reserve and the US Treasury Department, yet still received a \$1.9 billion (\approx €1.4 billion) tax refund from the Internal Revenue Service (IRS).²⁶ Or Goldman Sachs, which in 2008 earned a profit of \$2.3 billion (\approx €1.7 billion) and then received almost \$800 billion (\approx €607 billion) from the Federal Reserve and US Treasury Department, yet paid only 1.1% of its income in taxes.²⁷

Various solutions have been suggested, in particular *unitary taxation* whereby a set formula would distribute corporate

finances to the varying jurisdictions under which they operate. This formula would take into account varying real-term factors: total third-party sales; total employment; and the value of physical assets actually located in each jurisdiction.²⁸ The key is that through this formula the possibility of human manipulation of profits would be erased, thus limiting the impact of tax havens. TJN paint a picture of how this works in practice:²⁹

‘Imagine a company with 10,000 employees in Sweden, 10,000 employees in Tanzania, and two tanned accountants throwing paper aeroplanes in an office in Bermuda. Under current rules, the profits are all shifted to Bermuda, which doesn’t tax them. But under unitary tax, you take the company’s global profits [and] then allocate nearly 50 percent to Sweden, nearly 50 percent to Tanzania, and almost none of those profits to Bermuda.’

Furthermore, Richard Murphy at TJN has been developing the idea of *country-by-country reporting*, whereby each corporation would be forced to provide certain information on each subsidiary. Included in this are details such as the country, performance and tax charge.³⁰ This *country-by-country reporting* method would highlight exactly where and how profits are made and thus where and how much taxes are owed. Each individual subsidiary would then be properly scrutinised on its own merit. In both of these measures, the impact of transfer mispricing is overcome without, strictly speaking, making the actual process of transfer mispricing illegal. Instead they simply intervene prior to the process taking effect.³¹

Aside from these two approaches we demand a ban on any jurisdiction from having a 0%, or likewise low,

corporation tax rate. Implementing and strictly enforcing a minimum base rate of around 30% — equivalent to the combined corporate income tax rate in Germany in 2015 — would be a start.³² The virtually non-existing tax rates as in our fictional example are the basis of all tax avoidance schemes and must be eliminated. In doing so, we ensure that countries striving for greater tax equality do not become uncompetitive in the process, which is so often used as an excuse not to raise taxes. Additionally, we need far greater transparency and subsequent public awareness, which is what *country-by-country reporting* attempts to create. If anything, the various corporate tax scandals have shown that public discontent is growing, in particular at times of economic strain. For the first time we have a real opportunity to push corporations like Amazon, Starbucks and The Ritz Hotel to stop engaging in such tax avoidance; until now legal, yet morally indefensible.

What is required for these changes to work is a new emphasis, one which shifts away from the current political-corporate cooperation, and which is no longer held hostage by disputed economic theories. There was a prime example of this after it emerged that Starbucks had not paid any UK corporation tax for three years. John Redwood, a Conservative MP in the UK, subsequently claimed that the best way to prevent this in the future would be to lower the tax rate so that corporations no longer feel the need to engage in tax avoidance, a classic example of Laffer curve theory.³³ In our opinion, however, he could not have been more wrong. The emphasis cannot always be on lowering taxes to avoid tax avoidance. On the contrary: it must be on banning tax avoidance to stop tax avoidance.

To achieve this, we need to ensure such tax laws are no longer influenced by potential self-interest parties. Margaret

Hodge, Chairwoman of the Public Accounts Committee (PAC),³⁴ claims that as recently as January 2013, the UK government ‘only talks to those who have a self interest in reducing their tax contribution’; major corporations and accountancy firms in particular.³⁵ The respective BBC article reporting this story also cited an example: in July 2010, Vodafone settled a long tax row with HMRC by agreeing to pay £1.25 billion (\approx €1.47 billion) to the government. Despite this, just a short time after ‘Vodafone's head of tax, John Connors, was named as a member of the Treasury working group’ to help rewrite the rules which Vodafone had just been found guilty to have broken.³⁶ As introduced in the opening, this is a point which we will discuss in more detail in chapters eight and nine (electoral systems and lobbyism).

How should we react? Many of us show outrage at tax-avoiding individuals and large corporations; bemoan and think poorly of the perpetrators. Many of us may try to avoid such corporations, instead using services offered by others who do not avoid taxes — or at least have not yet been caught doing so. For this, we propose the implementation of a transparent, easy-to-access and independently curated list which flags corporations engaging in tax avoidance, so that consumers may make an informed decision prior to purchase. What makes these tax-avoiding corporations so successful is the reliability and speed of their services, often coupled with low costs (perhaps now we know how they can afford such drastically low prices). It is difficult, of course, to fully avoid becoming a client of these companies, be it for the simplicity of an order from Amazon or a quick Starbucks visit for that desperately needed internet access. Nevertheless, we appeal to you to make a conscious effort to avoid the corporations that you distrust wherever possible. Such changes in habits may be difficult and time-

consuming, yet unmatched in their importance. As consumers we have, like in elections, the ultimate control: it is they who rely on us and not vice versa. It is about time we made this power show.

Good will alone, however, will not be enough. Therefore what we need — the lasting solution to such indefensible yet simultaneously almost unchallengeable behaviour — is lawful action. For we must make one thing clear: paying the full rate of tax is compulsory, not optional. We must, as an absolute priority, solve this problem. It is vital for reconciliation and, as James Henry concluded: 'in terms of tackling poverty, it is hard to imagine a more pressing global issue.'³⁷

¹ James Henry: 'The Price of Offshore Revisited', July 2012 [p. 3] — available at the TJN website

² James Henry: 'The Price of Offshore Revisited', July 2012 [p. 3]

³ James Henry: 'The Price of Offshore Revisited', July 2012 [p. 42]

⁴ James Henry: 'The Price of Offshore Revisited', July 2012 [p. 5]

⁵ Credit Suisse: Global Wealth Report 2012 pdf, October 2012 [p. 3] — https://infocus.credit-suisse.com/data/_product_documents/_shop/368327/2012_global_wealth_report.pdf

⁶ <http://www.bbc.co.uk/news/business-18944097>

⁷ James Henry: 'The Price of Offshore Revisited', July 2012 [p. 43]

⁸ James Henry: 'The Price of Offshore Revisited', July 2012 [p. 43]

⁹ James Henry: 'The Price of Offshore Revisited', July 2012 [p. 42]

¹⁰ The Organisation for Economic Co-operation and Development (OECD): 'Our Mission' — <http://www.oecd.org/about/>

¹¹ G20 Official Website, Official Materials: Statement, April 2nd 2009 – <http://www.g20.org/documents/> (The G20 London Summit Leaders' Statement)

¹² <http://www.guardian.co.uk/business/2012/nov/12/amazon-google-starbucks-diverting-uk-profits?intcmp=239>; <http://www.guardian.co.uk/business/2012/oct/21/multinational-firms-tax-ebay-ikea>; <http://www.bbc.co.uk/news/uk-20729430>

¹³ <http://www.bbc.co.uk/news/business-14649194>

¹⁴ http://www.nytimes.com/2011/04/21/business/global/21tax.html?_r=0

¹⁵ Note: in the past few years (between the first and second edition of this book) the OECD has continued to place a high importance on this issue, and consequently there has already been an important development in this direction. Under the heading of ‘Automatic Exchange of Information (AEOI)’, the OECD has made the ‘enhanced co-operation between tax authorities through AEOI’ a priority, as it ‘is crucial in bringing national tax administration in line with the globalised economy.’ Included in these changes are efforts of propagating Country-by-Country reporting, as well as a Common Reporting Standard (CRS). We welcome these changes as crucial first steps towards tax justice, and take as positive reinforcement the feasibility of our demands in light of these initial efforts. The OECD offer a great deal of information on their website and in a detailed report: <https://www.oecd.org/tax/automatic-exchange/> and <https://www.oecd.org/ctp/exchange-of-tax-information/automatic-exchange-financial-account-information-common-reporting-standard.pdf>.

¹⁶ We are aware that this law may in itself present a source of injustice for two individuals of different nationality living within a third country. This problem will not be solved until unified rates of tax are introduced worldwide. Until such a point, we believe that this temporary injustice (for aside from the gain of citizenship in this third country, a further solution could also be discussed: that after a certain number of years of primary residence within a third country the national tax is dropped) is a necessary deterrent, indeed obstacle, for those who might wish to bypass increase tax rates merely by moving abroad.

¹⁷ <http://www.bbc.co.uk/news/world-europe-20896894>

¹⁸ <http://www.guardian.co.uk/business/2012/nov/12/amazon-google-starbucks-diverting-uk-profits?intcmp=239>

¹⁹ <http://www.guardian.co.uk/business/2012/oct/21/multinational-firms-tax-ebay-ikea>

²⁰ <http://www.bbc.co.uk/news/uk-20729430>

²¹ The top five being Switzerland, Luxembourg, Hong Kong, the Cayman Islands and Singapore, according to the Financial Secrecy Index (FSI) of Tax Justice Network

²² Tax Justice Network Official Website – http://www.taxjustice.net/cms/front_content.php?idcat=139

²³ <http://www.bbc.co.uk/news/uk-20729430>

²⁴ <http://www.bbc.co.uk/news/business-19967397>

²⁵ Original map from freeworldmaps.net, the captions are our own

²⁶ <http://www.sanders.senate.gov/newsroom/news/?id=67562604-8280-4d56-8af4a27f59d70de5>

²⁷ <http://www.sanders.senate.gov/newsroom/news/?id=67562604-8280-4d56-8af4-a27f59d70de5>

²⁸ Tax Justice Network Official Website – http://www.taxjustice.net/cms/front_content.php?idcat=139

²⁹ Tax Justice Network Official Website

³⁰ Tax Justice Network Official Website

³¹ Note: see footnote 15 (Chapter 5)

³² For comparison, current combined corporate income tax rates (2015) are: France 34.43%, Sweden 22%, United Kingdom 20%, United States 39% - OECD corporate income tax rate data 2015 (<http://stats.oecd.org/Index.aspx?QueryId=58204>)

³³ <http://www.guardian.co.uk/business/2012/dec/07/starbucks-tax-offer-angers-critics>

³⁴ <http://www.bbc.co.uk/news/business-21229862>

³⁵ <http://www.bbc.co.uk/news/business-21229862>

³⁶ <http://www.bbc.co.uk/news/business-21229862>

³⁷ James Henry: 'The Price of Offshore Revisited', July 2012 [p. 6]

CHAPTER

6

Benefits and return responsibility

We have until now focused on the new responsibilities of our richest citizens and corporations. It is time to evaluate the role of those at the other end of the spectrum: individuals dependant on financial help from the state (commonly known as benefits).

There are three main advantages of the principle: ‘no benefit without return responsibility’¹. For one, it increases the well-being of benefit claimants by tackling the interrelation between low employment status and poor emotional well-being. Second, the whole of society stands to gain from the extra contributions carried out; and, third, as it lies within the nature of the reconciliatory process that everyone make a contribution for a New Social Contract to work. We will refer back to these claims throughout.

Within our social structures there are varying forms of benefits which may be claimed². It is clear that the issue lies with those claimants who are either unemployed or only working part-time; those who can realistically be expected to do something in return. It would be both unreasonable and unfair to expect anyone who already has a full-time job to then work even more hours in return for their benefits; instead, these could be helped through raising their wage (see next chapter), for it is our firm belief that a full-time job should not require a ‘top up’ in benefits to reach a liveable wage. Thus, the full-time employed, along with those who cannot work, be it due to ill health or disability, amongst others, are excluded from these measures (and the following discussion).

This aspect of reconciliation — of providing a return for the benefits received — has been advocated by various groups over recent years; politically mostly by Conservative parties (see Annex A)³. It is often referred to as ‘Workfare’, and although there are important differences, the underlying principle is similar to what we propose for a New Social Contract.⁴ Below are some examples of recent propositions:

- Back in 1994, the then Republican Governor of Wisconsin, Tommy Thompson, proposed: ‘for those who can work, only work should pay’. However, in the following years, we saw the ‘only work should pay’ aspect erode drastically.⁵
- In the Netherlands, a ‘Work First’ programme was introduced in 2002. This ensured a progressive expansion to the types of work which had to be accepted as the period of unemployment increased. Furthermore, ‘every type of work to be accepted after a maximum of five years’.⁶
- Werner Eichhorst and Hilmar Schneider, of the Institute for the Study of Labour (IZA) in Germany, carried out a

report into Workfare in 2008. Here they claimed ‘a return responsibility in the form of public [work] should be expected only when the capacity for the other options [further training or education, establishing of independence, etc.] has been exceeded.’⁷ As we will highlight later, we believe that such training and work schemes are compatible and should run simultaneously.

- As recently as September 2013, the UK finance minister, George Osborne, outlined a new policy at the annual Conservative party conference:⁸ ‘Today I can tell you about a new approach we’re calling Help to Work. For the first time, all long-term unemployed people who are capable of work will be required to do something in return for their benefits’. Although we have certain reservations with regard to their exact policy, and for our purposes do not simply want to include those who have been unemployed for two years, we welcome the underlying principle; challenging what Osborne called the ‘something-for-nothing’ culture.

At this point we need to clarify a potential point of misunderstanding. How often do we hear people say they are not working because there are no jobs available? Such a claim would no longer exist under a New Social Contract. As we stated in the introduction, the reason for this is simple: buildings and bridges will always need fixing; medics, teachers and other civil servants will always welcome an extra hand. As a society we will never reach a state where there is no work available; there is always more to be done. The same argument is made by Klaus F. Zimmerman et al. for IZA in their suitably titled report: ‘Full-employment is no Utopia’. Here, the authors claim ‘there is enough work available for everyone, and this will remain the case in the future.’⁹ For example, taking again an

unemployed teacher, it does not make sense to have such a person with their respective skills sitting around doing nothing whilst receiving state benefit, for it can easily be argued that more teachers will lead to better education. It follows that it would be better to expect everybody's contribution, including this unemployed teacher's, in order to enhance productivity in areas where the state — and therefore the taxpayer — is the employer.

Currently, the real cause of unemployment is an absence of additional profitable jobs for the employer. It is here where a New Social Contract is of particular relevance. The measures which we have discussed in previous chapters all seek to create a surplus of funds, which our governments would now be able to spend elsewhere. There are various key ways in which we believe this money should be used (see next chapter), one of them surrounding this issue of responsibilities.

After an initial grace period, we propose that unemployed recipients of benefits make a work contribution. As it can be difficult to cope with the switch back into working life, it is vital to provide strong psychological support throughout this phase, ensuring that several key issues are addressed. Firstly, there must be professional help for those who have been struggling to get back on their feet. This may have resulted from a number of factors: a prolonged period of inactivity; prior health problems; family issues, or many others. Secondly, this support would also enable us to tackle the core problems which may have caused these struggles — from a lack of support and attention throughout childhood, to difficulties at home and in school — while also addressing the direct cause of unemployment. Again, there will be exceptions for people in need of a delayed start to

their contribution. Thus we propose a great deal of flexibility as to the length of the initial grace period for this group.

So how do we decide on the extent of the contribution? The idea is to ‘work off’ the total amount of benefit received through the corresponding amount of hours. A suitable hourly rate must thus be set. It follows that the amount of days worked per week in addition to any training (see below) will vary, depending on how much is received in benefits (the training discussed below will also count towards ‘working off’ the payment). Note also that this training can be replaced by work contribution once it is no longer beneficial for the claimant. Those employed part-time will try to ‘work off’ the amount received in the time they have, meaning that once they have reached the maximum hours of a normal working week, around 38.5 hours, they are not expected to work any more, nor would they be penalised for not ‘working off’ the total amount.

Concerning the amount which can be received through benefits, the upper limit should be capped; through a maximum of hours rather than a lower hourly rate, ensuring that it remains worthwhile, financially speaking, to continue seeking conventional employment. Nonetheless, it is necessary to align the benefit payment with the basic cost of living — to an essential minimum which could potentially be received by all citizens (see next chapter). For once work contribution is carried out in return for the state’s help, it will neither be acceptable to pay salaries below the poverty line, nor will it be acceptable to ‘pay’ less per hour than for a conventional employee fulfilling the same role. Note here, however, the difference to ongoing discussions on a guaranteed annual income for everyone, commonly known as unconditional basic income:¹⁰ the basic income available under a New Social Contract — within a system that caters

for everyone's needs — is dependant on a contribution. Thus it is a conditional basic income.

To be clear, any additional roles fulfilled under the work contribution scheme would be in addition to, and not instead of existing jobs, or vacancies for that matter. Thus they would not take away jobs from those currently employed, nor would they harm the chances of someone else becoming conventionally employed.

For the sake of completion, let us briefly return to the isolated issue of an unconditional basic income, for we are not in absolute agreement. Such a measure would see every citizen receive an unconditional 'salary' every month, while abolishing all other benefit schemes. One of the authors sympathises with the underlying change which supporters emphasise: enabling the fulfilment of return responsibilities for the state not as an absolute requirement, but rather as a choice; an option which will likely be taken up by most individuals, from an initial state of personal freedom. In this sense, this author highlights the intrinsic optimism of this model. In contrast, the other author believes it is within the very nature of the government's responsibility to propagate a certain understanding within every citizen, this being the symbiotic existence of rights and responsibilities; the one not being possible without the other.

What we have proposed under a New Social Contract is therefore a slightly simplified and shortened version of the ongoing debate. Nonetheless, as we have stated, we believe that in a system catering for everyone's needs, it should be possible to expect a contribution from every citizen, regardless whether the basic income is conditional or unconditional.

The type of work contribution will naturally depend on the qualifications of the individual. Qualified workers who find themselves unemployed will be expected to make a contribution to government funded work within their area of expertise. For example, an unemployed nurse could help in a hospital or surgery; a teacher in a school; and an electrician at a government contracted building site. For unqualified claimants of benefits, we propose the following scheme:

- An initial, compulsory training course, to aid individuals in overall preparation for work; be it as a fulfilment of the terms for reconciliation or for conventional employment later on.
- Afterwards, the week is split between work contribution and continued training.

As with qualified claimants, jobs for unqualified individuals will be directed to certain parts of the public sector in which the state is the employer. As an ideal template for suitable jobs we see the German ‘Zivildienst’ (Civil service), which was dismantled in 2010; compulsory, paid, community work, in place as an alternative to military service. Within the realms of such a programme, participants carry out work in the social sphere, including health-care roles within hospitals, care homes and emergency services, as well as support in natural parks, schools, charity shops, community centres, coast guards and prisons, and many more. These roles are vital for the every-day functioning of communities.

Additionally, in light of the medical advances over recent years, we have seen the potential for an ageing population drastically increase. If neither birth rates nor immigration compensate for this, then a demographic shift will be very likely in many countries in the near future. In this scenario, a New Social Contract would again be of great

importance, with roles to care for our elderly becoming part of this work contribution scheme.

There are further problems which would be successfully addressed through return responsibility. This includes the timeless issue of the so-called ‘poverty trap’; of it not being ‘worth’ working, if the amount received through work is only marginally larger than what can be received ‘for free’ in the form of benefits from the state. The imbalance of this ‘trap’ is portrayed using monetary values in a report, again for IZA, by Peichl and Schneider. Here, the authors found that an undeclared job complementing unemployment benefit from the state, working 11 hours a week, would leave you just €170 worse off than a full-time job with almost 120 hours more per month; resulting in a virtual hourly rate of €1.50.¹¹ These problems would be solved by our proposals. With regard to the ‘poverty trap’, working would no longer be a choice, for it would automatically be expected of everyone to provide a service if they want a form of income. And concerning undeclared work on the black market, Zimmerman et al. argue that ‘workfare [or something similar] also provides a contribution to the curbing back of undeclared work’, as those affected would no longer have the time to do so.¹²

Interestingly, return responsibilities could also help with what has become the fundamental goal of all governments: economic growth. As Peichl and Schneider explain:¹³

‘The results are also impressive from a fiscal perspective. Through savings in expenditure on basic security and income in the form of taxes and social security contributions, public budgets would receive over €25 billion per year. This would provide

considerable scope for investment in education and innovations. Workfare is therefore more than just a socio-political instrument. Workfare enables a significant contribution to the politics for growth.'

Nonetheless, strong criticisms of these ideas have been voiced in recent years, traditionally from the political left. Their arguments against the principle of 'no benefits without return responsibility' generally stem from an underlying view that it is wrong to demand anything from the poorest members of our society, as they already have so little in comparison to everyone else — at least in financial terms. Politicians and media are quick to jump onto the 'forced labour' bandwagon, labelling it unjust to expect an unemployed worker to work 'for nothing', aside from the benefits which they receive. It is also argued that those on benefits do not possess the 'innere Bereitschaft' (inner readiness) required for these roles, for instance in hospitals.¹⁴ And we have heard countless times the claim that simply 'offloading' the unemployed worker into any form of employment — perhaps more unpopular ones, the so-called 'litter-picking' roles — goes against the dignity of the individual and is a violation of their freedom.

But would it not be a greater negation of dignity if we were to not expect anything in return? If we were to simply allow an individual to remain completely idle and dependant on the state, and thus reliant on other people? It is our view that there is an element of arrogance in such refusal to believe in the potential of our fellow human beings. Of course, not everyone is suited to working in a hospital or teaching in schools, yet we are certain that, given substantial effort and sufficient support, a useful role can be found for each individual. This situation, where people who would have remained unemployed are now able to get back on their

feet and once more actively contribute to society, is advantageous for everyone.

It is also important to consider effects on health. In a contribution to the American Psychological Association in April 2012, Arthur Goldsmith and Timothy Diette, both from the Department of Economics at Washington & Lee University, explore the link between unemployment and mental health problems.¹⁵ Whilst taking appropriate measures to minimise common problems associated with such research¹⁶, they found that ‘long-term unemployment has large negative effects on mental health.’¹⁷ In a statistical overview from 2004, Northern Ireland’s Department of Health, Social Services and Public Safety actually placed a figure on this risk: ‘Unemployed people were more likely to have a potential psychological illness (30%) than those who were either economically inactive (25%) or employed (16%).’¹⁸ Sure, under a New Social Contract the money would still be received from the state, but the nature of this receipt changes when a contribution into the social wealth system is being made in return.

Furthermore, individuals would still be free to do as they please, for no one would be directly forced to contribute. The only difference is that they would not receive financial help if they chose to decline all forms of contribution within a system that caters for everyone’s needs — which, incidentally, should also be motivation enough to overcome any lack of ‘inner readiness’ or unwillingness to fulfil a role in society.

To conclude, let us return to the idea of reconciliation. If we are to seriously expect the richest members of our society to accept stricter conditions and thereby contribute more of their wealth, then we must also expect people to contribute in return for their benefits. A New Social Contract is not just

about taking more from those who have more, nor is it about clamping down on or punishing ‘abuse’. It’s about creating a greater sense of community where everyone contributes into the social wealth system¹⁹. Higher weekly allowances provide a comparatively better quality of life for benefit claimants. The obligation to ‘work’ for the state ensures that feelings of total dependence are eliminated, which would contribute heavily to emotional well-being. And lastly, let us not forget that the principle which we have discussed in this chapter can be advantageous for everyone. Not just due to stronger economic growth and better use of taxpayers’ money, but far more as a result of the shift in mindset, whereby we accept greater responsibility for one another.

¹ Taken from the German: ‘keine Leistung ohne Gegenleistung’.

² An interesting idea currently being drafted by the UK government is so-called ‘universal credit’, which would combine all benefits, such as jobseekers’ allowance, housing benefit, child benefit etc. (in the UK six different benefits) into one payment, making both the process of claiming and the overview of the amount received far simpler. Such a system would be extremely valuable under a New Social Contract, for it would enable the amount of hours which are required to work for the state to be calculated easily and accurately. It follows that this is a measure which would be adopted as soon as possible. Note: in the time between the first and second edition of this book, the universal credit draft has been completed and is set to be implemented in April 2016. Already the bill is facing stiff opposition and criticism not least for ignoring certain additional benefit payments which have not been included in the universal credit. To be sure: we acknowledge that there are problems with the precise draft currently being implemented in the UK. This does not, however, invalidate the underlying idea of a universal credit, and we remain certain that in a different light, under a different government and, perhaps most importantly, not as an isolated law but as just one part of a New Social Contract, the combination of all benefits into one transparent payment would prove advantageous.

³ In some places, limited forms of return responsibilities are already in place. In Annex A we have detailed, as an example, the current structure in the United Kingdom of what is required by the unemployed in return for the benefits.

⁴ For example: Hans-Werner Sinn, Christian Holzner, Wolfgang Meister, Wolfgang Ochel, Martin Werding – ‚Aktivierende Sozialhilfe: Ein Weg zu mehr Beschäftigung und Wachstum‘ pdf, ifo Schnelldienst, May 2002; discuss in great detail a reform suggestion with a similar underlying idea

⁵ Wisconsin Policy Research Institute: ‘Wisconsin Works – Only Work Should Pay’ [p. 3] — <http://www.wpri.org/Reports/Volume16/Vol16no7.pdf>

⁶ Werner Eichhorst und Hilmar Schneider: ‚Umsetzung des Workfare-Ansatzes im BMWi-Modell für eine existenzsichernde Beschäftigung‘ .pdf, IZA Research Report Nr. 18, May 2008 [p. 46] Note: we translated this from German, the original reads *‚Je länger die Arbeitslosigkeit andauert, desto mehr Arten von Arbeit muss man annehmen, so dass nach maximal fünf Jahren jede Arbeit anzunehmen ist‘* – http://www.iza.org/en/webcontent/publications/reports/report_pdfs/iza_report_18.pdf

⁷ Werner Eichhorst und Hilmar Schneider: ‚Umsetzung des Workfare-Ansatzes im BMWi-Modell für eine existenzsichernde Beschäftigung‘ .pdf, IZA Research Report No. 18, May 2008 [p. 72] Note: we translated this from German, the original reads *‚Die Gegenleistung für die soziale Unterstützung muss nicht zwangsläufig in Form von Arbeit erbracht werden. Sie kann auch in Form von Bewerbungsaktivitäten, Weiterbildung, der Gründung einer selbständigen Existenz und dergleichen erfolgen. Eine Gegenleistung in Form von öffentlich geförderter Beschäftigung sollte nur dann verlangt werden, wenn das Potenzial der übrigen Möglichkeiten ausgeschöpft ist.‘*

⁸ Conservative party conference 2013, George Osborne speech, September 30th 2013 – <http://www.bbc.co.uk/news/uk-politics-24327470>

⁹ Klaus F. Zimmermann, Hilmar Schneider, Werner Eichhorst, Holger Hinte & Andreas Peichl: ‚Vollbeschäftigung ist keine Utopie: Arbeitsmarktpolitisches Programm des IZA‘ .pdf, IZA Standpunkte Nr. 2, April 2009, [p. 5 pdf, p. 2 original] Note: we translated this from German, the original reads *‚Vollbeschäftigung ist keine Utopie. Es ist genügend Arbeit für alle Vorhanden, und das wird auch in Zukunft so bleiben.‘* – <http://ftp.iza.org/sp2.pdf>

¹⁰ A handful of European countries, and indeed several outside of Europe, are collecting ideas to implement an unconditional basic income. Finland, for example, is currently attempting a pilot project, and Swiss citizens will vote in June 2016 on an unconditional basic income amounting to 2,500 CHF (≈ €2,260 as of May 2016).

¹¹ Andreas Peichl and Hilmar Schneider – ‚Soziale Gerechtigkeit durch Leistung und Gegenleistung: Workfare im Niedriglohnbereich‘ .pdf, IZA Standpunkte Nr. 25, April 2010 [pp. 4-5 pdf; pp. 2-3 original] – <http://ftp.iza.org/sp25.pdf>

¹² Klaus F. Zimmermann, Hilmar Schneider, Werner Eichhorst, Holger Hinte & Andreas Peichl: ‚Vollbeschäftigung ist keine Utopie: Arbeitsmarktpolitisches Programm des IZA‘ .pdf, IZA Standpunkte Nr. 2, April 2009, [p. 9 pdf, p. 6 original] Note: we translated this from German, the original reads ‚*Workfare leistet zudem einen Beitrag zur Eindämmung von Schwarzarbeit, weil den Betroffenen die Zeit dafür genommen wird.*‘

¹³ Andreas Peichl and Hilmar Schneider – Soziale Gerechtigkeit durch Leistung und Gegenleistung: ‚Workfare im Niedriglohnbereich‘ .pdf, IZA Standpunkte Nr. 25, April 2010 [p. 7 pdf; p. 5 original] Note: we translated this from German, the original reads: ‘Auch in fiskalischer Hinsicht sind die Ergebnisse eindrucksvoll. Durch Einsparungen bei den Ausgaben für die Grundsicherung und Einnahmen in Form von Steuern und Sozialabgaben würden den öffentlichen Haushalten mehr als 25 Mrd. € jährlich zufließen. Dies würde erheblichen Spielraum für Investitionen in Bildung und Innovationen schaffen. Workfare ist deshalb mehr als nur ein sozialpolitisches Instrument. Workfare ermöglicht einen bedeutsamen Beitrag zur Wachstumspolitik.’

¹⁴ <http://www.welt.de/politik/article293482/Opposition-Arbeitslose-sollen-fuer-Zivis-einspringen.html>

¹⁵ American Psychological Association, SES Indicator, April 2012 vol. 5. Arthur Goldsmith and Timothy Diette: ‘Exploring the link between unemployment and mental health outcomes’ — <http://www.apa.org/pi/ses/resources/indicator/2012/04/unemployment.aspx>

¹⁶ In particular the issue of a possible reverse causation, i.e. mental health problems being the cause of unemployment.

¹⁷ Interestingly, they also find that ‘short-term unemployment does not significantly harm mental health’.

¹⁸ Department of Health, Social Services and Public Safety: ‘Equality and Inequalities in Health and Social Care in Northern Ireland: A Statistical Overview’; Summary, 2004 [p. 2] — http://www.equality.nisra.gov.uk/full_doc_27_5_04.pdf [Note: the group ‘economically inactive’ differs from the conventional ‘unemployed’ group in the fact that they are not actually looking for a job]

¹⁹ We discussed this issue with LBC 97.3 Radio presenter James O’Brien: https://www.dropbox.com/s/zcapipch3fgly8v/CUT%20VERSION%20Should_claimants_be_forced_to_work_for_their_benefits_-_4_Sep_13%20%28mp3cut.net%291.mp3?dl=0

CHAPTER

7

Where to invest under a New Social Contract?

Let us recall John Rawls' *difference principle*, under which inequality is acceptable only if it works to the benefit of the least well-off members in society. At this stage of development of a New Social Contract we are left with a surplus of funds; the product of the reconciliatory process within our society. This chapter, then, is the fun part, because we now have money to spend. But this is also the dangerous part, for if these funds are not treated with the right amount of care and respect — if they are lost in black holes, dead-ends and corruption — then all our efforts will have been wasted. Everything that we have discussed thus far works only if the funds are reinvested directly, fairly and transparently into the pillars of equal opportunity. In the opening, we identified the most important of these pillars as education, healthcare and social projects, as well as a higher minimum wage and larger financial rewards for underpaid

jobs of high social value, and it is therefore these which we will now discuss most thoroughly.

I. Social projects [see previous chapter]

As we discussed in the previous chapter, a functional New Social Contract is as much about a change in mindset as it is about a change in policies. Part of the surplus will thus be required for initial investment into the varying aspects of the training scheme, developed for unqualified benefit claimants, as well as for salaries in return for work contribution roles.

Aside from this, it is crucial to invest into the social structures and institutions (umbrella term: social projects) which serve to accompany children whilst growing up, as children are often involved. In 2012, for example, only 29% of UK households contained dependent children.¹ Yet of those affected by the benefit cap introduced in April 2013 (see annex A), 89% had dependent children. What does this tell us? For one it reaffirms the view that we must be extremely careful not to cause any harm, as in most of these cases children are involved. But also, it gives rise to an important question: why is this? Why are many of the most deprived families larger?

Now there are varying possible explanations for this and thus no clear answer yet. One explanation provided by an Office for National Statistics (ONS) report is that ‘it may be related to the ethnicities of people living in these areas’, due to differences in culture, religion and fertility rates, amongst other things.² Another reason could be that these families have less money simply because children cost money — with a recent report estimating the average cost of raising a child to the age of 21 in the United Kingdom at more than £200,000 (\approx €236,000), this appears to be a feasible explanation.³ But it also gives us some insight into what may, at times, be happening: poorer families are in some cases exploiting child benefits, and thus their children, as a source of income (see below). This is a controversial

claim, and we stress the need to tread carefully in this area of discussion. Yet this does not mean that the issue can be avoided altogether.

Another problem is the effect of recent austerity measures, which have resulted in massive cuts to services for the most vulnerable. In the United Kingdom, for example, local council youth services saw an average decrease in spending of 27% in recent years. In some areas, cuts were actually higher than 50%.⁴ In the immediate aftermath to the announcement of these cuts, the head of the National Children's Bureau warned that this could lead to civil unrest, of the form which France had experienced in 2005.⁵ This was in October 2010. Less than a year later, the streets of London and other cities across the UK were lit up by rioters; young people who in many cases will have been affected by the very spending cuts which the government had just introduced.

In our research we had an enlightening discussion with a member (we will call her Ms. V) of the UK charity 'Action for Children'. Having worked there for many years she is, we feel, in a good position to objectively analyse the key areas where we need to invest in order to help children from disadvantaged backgrounds. Her work is primarily based around the London Borough of Hackney, focusing on what is termed as 'young carers' — i.e. children who become the main carer in their family — and so although it is far from a documented account of every circumstance, we will use her observations as a generalisation of the situation at hand.

What stood out most in Ms. V's account were two things. For one the fact that, compared to the situation she was faced with when starting her career (a good 15 years ago), things have actually become noticeably worse. Secondly, that very often, in her words, 'the obvious things

are missed’ — obvious in the sense of providing the child with better living conditions rather than to simply book in some sessions with a psychologist, for example — due to the frequent pressure of having to present positive numbers to the authorities.

We also received some equally enlightening observations from the Headteacher (we will call him Mr. C) of a school in Neukölln, Berlin; a deprived area of the German capital which is well-known for its poverty and high density of immigrants. Again, having worked there for many years we feel that he, too, is qualified to discuss where the problems lie and where the solutions may be found. Mr. C’s insights, coming from a different field of expertise, highlighted some other concerns; in particular the parents’ misuse of child benefit money, which shines further light on the claim introduced previously. His observations included:

- Children coming to school visibly malnourished, especially near the end of the month.
- Children coming to school without suitable equipment, despite an additional child benefit payment of €100 made per child per year for precisely this purpose.
- Parents failing to pay the compulsory €1 daily contribution towards lunch, leaving children without food for entire school days.
- Children coming to school in clothing unsuitable for the weather.
- Misuse of money made available by the Jobcentre to cover complete costs of school trips — the money isn’t forwarded on to the school, thus the child cannot attend the school trip.

As a consequence of the observations by our two experts, we therefore propose continuous higher spending on the lives of children, yet without putting additional funds into the

pockets of parents. To do so, we propose investing heavily into the social structures that guide children from all backgrounds into adulthood. This includes everything from nurseries and after-school clubs to weekend activities and holiday trips. In particular, these investments should begin by ensuring that every child has suitable living conditions, is healthy, and is not just given an education but is able to make the most of this opportunity. We must also place greater emphasis on early intervention, identifying children who require help before lasting damage is done. This will require far greater cooperation between the varying institutions.

We propose that ideal mediators between the state (providing the funds) and the children (receiving the funds) would be schools and individual child-aid charities, rather than social-worker agencies — although their expertise is clearly valuable and could be incorporated. As Mr. C's account showed, schools are able to see the children almost every day for large parts of the year, and are therefore ideally placed in assessing the child's well-being and possible needs. This is also vital in ensuring that money which is given to parents for the basic necessities is actually used for the correct purpose, while cases where children are seen to be neglected could be identified and followed up immediately. Furthermore, as came across strongly in Ms. V's account, charities, which do not have the direct power to remove children from the custody of their parents, can often build a better working relationship with both the children and their parents. This is because exactly this power, and thus the parents' fears, are removed from the equation.

II. Education [by Theresa Ehler]

As previously discussed, we have to accept that we are not born into equivalent situations, nor with an even set of natural capacities and abilities. Some will always begin life with faster feet, or a brighter mind, or more loving or capable parents, bringing them ahead in the race of life. A crucial cornerstone in a child's development is their education. Thus beginning in preschool we can start working on this problem, implementing measures which will allow our children to maximise their potential. For by giving our children the very best education, we could work towards a fulfilment of Rawls' *difference principle*.

Whilst maturing to adulthood, each child progresses through several educational stages. Within each of these, there are certain changes that we propose.

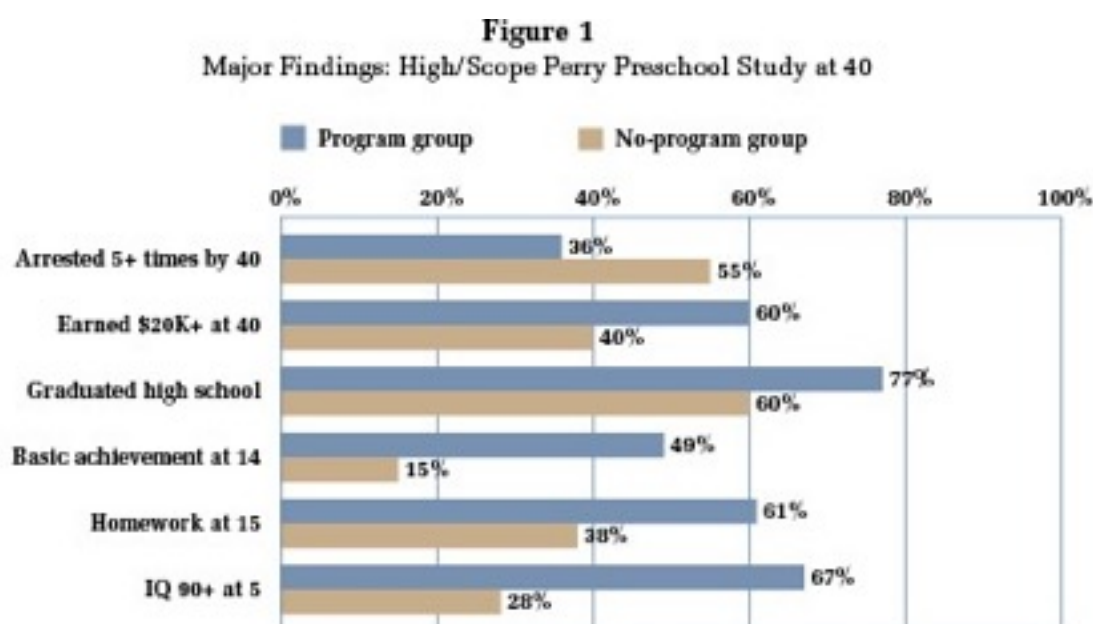
1. Early education

Countless studies have shown that the most influential time of our lives is in fact the very first years; here, it may already be decided what the future holds in store for us: a possible university degree; the level of income; how prone we are to commit crime; and many other details. By the time we start school at the age of five or six, the groundwork has therefore been laid, and in some cases, the damage caused by neglect or abuse will have already been done.

In 1962, scientists started one of the most influential educational studies of our time, proving the importance of early education. Set in the less fortunate neighbourhood of Ypsilanti, Michigan, 58 disadvantaged boys and girls were chosen to attend Perry-Preschool: a free of charge, early childhood education programme. The intervention was designed to last two years for children at the age of three and

four: ‘From October through May [of] each program year, program teachers conducted daily 2½-hour classes for children on weekday mornings and made weekly 1½-hour home visits to each mother and child on weekday afternoons.’⁶

Perry-Preschool was equipped with specially trained teachers and modern teaching strategies. For the purposes of the study, a control group was set up with similar children who did not attend the school. At certain intervals, the Perry-Preschoolers and the control group were tested in order to observe and score their development, their social skills and their IQ. Scientists continued to follow the children’s progress for many years, until the age of 40. As the following graph⁷ portrays, the results are telling:



Compared to the control group, Perry-Preschoolers had a reduced crime rate (the time spent in prison was reduced from an average of 45 months to 27 months⁸), achieved higher educational degrees and earned larger incomes: in forty years, a child that attended Perry-Preschool earned

approximately 100 000 USD (\approx €76,000) more than a child from the control group.⁹

Higher income and thus more tax revenue; less expenditure on social benefits; lower crime rates — all of these factors make this programme not only a social success, but also extremely profitable for the state. The findings thus show that a programme of two and a half hours a day in capable hands can massively improve the future opportunities and success of an unfortunate child. Hence, we believe that every dollar invested into this preschool was well spent; not only on an individual level but also for society as a whole.

Experts have since tried to put a number on the results. For example, the American economist James Heckman published a monetary evaluation in the *Journal of Public Economics* in 2010. He wrote: ‘With cautious calculation, the estimated rate of return¹⁰ lies at around seven to ten percent.’¹¹ It follows that enabling children to take part in such a preschool programme has many different benefits. Quality early education plays a pivotal role in balancing out the aforementioned inequalities present from birth. It also protects our social wealth system due to the decreased rates in crime. And even in financial terms, it is advantageous to enable access to the type of early education which Perry-Preschoolers had.

While it has been shown that the IQ of Perry-Preschooler’s did not improve in the long run, neurologists attribute the overall positive results (income, education etc.) mainly to the improvement of ‘non-cognitive-skills’ such as motivation, cooperation, discipline, and confidence.¹² Other studies with a similar set-up have since been able to validate such positive effects of early education. An interesting twist, however, is what is called the ‘Harvard Effect’¹³: after the

great success in Ypsilanti, subsequent studies changed their set up to include children from all backgrounds, rather than only disadvantaged children. These showed no effect in Harvard, Massachusetts, a town with a renowned university and a very high quality of life. It turns out that the positive effects of early education grasp almost exclusively with disadvantaged children.¹⁴ For more privileged children, preschool may be a welcome addition to their daily life, but not essential for development. This gives rise to an important question: when investing into preschools, should we spend the money equally among all children, regardless of their background? Or should we specifically target less fortunate neighbourhoods, where preschools have been proven to have the greatest effect?

An answer to this problem may have been found in Germany. Günter Krauß, manager of the Institute for Social and Cultural Work in Nuremberg, invented a formula that takes both views into account, adding weight to different factors: all preschools get a set amount for each child, ensuring the equality principle. Then preschools receive bonuses for certain factors: very young children; disabled children; and location. Preschools which are set in neighbourhoods with high poverty, crime or immigration rates are thus given extra money to hire additional teachers, or otherwise invest into their schools. This system is a form of so-called ‘positive discrimination’.¹⁵

2. Primary and Secondary Education

Early education is followed by primary and then secondary education, usually starting around the age of six and lasting for 9-13 years. For us, quality education would mean that every child is taught according to its needs and abilities, and is given sufficient room to develop its interests. This is,

admittedly, a tough task, since we cannot teach each child individually. As soon as we begin teaching in a group, some are quicker than others, and interests will vary. However, as we will see during the course of this section, certain solutions already exist.

In an effort to judge the quality of educational systems worldwide, the Organisation for Economic Co-operation and Development (OECD) launched the ‘Program for International Student Assessment’ (Pisa) in 1997, which tests the skills and knowledge of 15-year-old students in reading, mathematics and science. This study allows us to compare the educational success of countries and to draw conclusions about what may be effective, and which factors are currently holding children back. Certain conclusions drawn by the OECD after the 2009 Pisa study are very unsettling: they show that school is often not a place of opportunities, but precisely the opposite.

Most of the students who performed poorly in the 2009 Pisa study were from socio-economically disadvantaged backgrounds.¹⁶ Authors of the Pisa study summarise that ‘across OECD countries, a student from a more socio-economically advantaged background (among the top one seventh) outperforms a student from an average background by 38 score points, or about one year’s worth of education, in reading.’¹⁷ The following table shows selected results from the third German *Poverty and Wealth Report*¹⁸, highlighting the link between socio-economic background and Pisa results¹⁹. Germany is among a selection of countries with a strong correlation between student performance and their respective social backgrounds. The performance of students with immigration background is exceptionally low. To measure the correlation, the ESCS (economic, social, and cultural status) point-system was

applied. A low ESCS score implies a low social gradient, and is thus desirable.

State	Average student performance (OECD average: 500 score points)	Social Gradient (ESCS value)
Finland	563	31
Germany	516	46
Korea	522	32
Spain	488	31
United Kingdom	515	48
United States	489	49

As shown in the table, Germany, the UK and the US are among countries with high ESCS scores in comparison to Finland, Spain and South Korea. How can it be that these countries, which are amongst the wealthiest and most prosperous worldwide, have failed to offer quality education to all children?

One reason may be found in funding. As a percentage of GDP expenditure, the European average lies at 5.4%, with Denmark spending the most at 8.7%.²⁰ Does this consequently mean that Denmark's education system is better? Pisa results for correlation between spending and subsequent quality of education are rather clear in answering this question: in moderately wealthy economies, with per capita GDP at around \$20 000 (\approx €15,200), such as Estonia or Hungary, the greater the GDP, the higher the Pisa score. However, above a threshold of \$35 000 (\approx €26,600), national wealth stops being an indicator for Pisa performance. 'For example, countries that spend more than

\$100 000 (\approx €76,000) per student from the age of 6 to 15, such as Luxembourg, Norway, Switzerland and the United States, show similar levels of performance as countries that spend less than half that amount per student [...] Meanwhile, New Zealand, a top performer in PISA, spends a lower-than-average amount per student from the age of 6 to 15.²¹

It follows that beyond a certain point a further increase in spending is no longer essential. Instead, the manner in which money is invested makes all the difference. So where exactly should money be spent? One proposition is to create smaller classes, which would enable teachers to focus their attention on each individual's needs and support them accordingly. Another option is increasing a teacher's income. In various western countries — Germany, the UK and the US, for example, which all had high ESCS values — the profession of teaching doesn't enjoy especially high status. A teacher in Germany earns approximately €2880 per month. In comparison, a doctor earns between €3420 and €4200 per month, and even more for positions of greater responsibility.²² As of now, these teachers are greatly under-appreciated. Increasing salaries for teachers could improve society's regard and hence increase teachers' motivation. In South Korea, for example, 'lower secondary teachers can expect a mid-career salary of \$52,699 (\approx €40,000), much higher than the OECD average of \$41,701 (\approx €31,700)' according to the Center on International Education Benchmarking²³. As a result, the best students often want to become teachers, due to high salaries and social status. This could be an explanation for Korea's above-average PISA results. As the PISA report concludes: 'The findings [...] suggest that systems prioritizing higher teachers' salaries over smaller classes tend to perform better, which corresponds with research showing that raising teacher

quality is a more effective route to improved student outcomes than creating smaller classes.’²⁴ Thus we propose following this advice and making teachers a prime beneficiary of salary restructuring for professions of high social value (see part IV below).

For Germany, there could be another explanation for its high (and thus undesirable) ESCS value. Children in Germany are divided into three tracks when they enter high school. Nationwide, 34.4% enter the highest track, ‘*Gymnasium*’, which finishes after 12th (or 13th) grade with the ‘Abitur’, enabling students to go on to higher education.²⁵ Two other tracks exist: ‘*Realschule*’ and ‘*Hauptschule*’ (sometimes combined into one). Less highly achieving pupils are sent to these schools at the end of their primary schooling.

According to an analysis of the Pisa study, ‘in countries where 15-year-olds are divided into more tracks [separate schools] based on their abilities, overall performance is not enhanced, and the younger the age at which selection for such tracks first occurs, the greater the differences in student performance, by socio-economic background, by age 15, without improved overall performance.’²⁶ This conclusion concurs with our expectations. At the innocent age of ten, or be it slightly older, we simply cannot determine who is capable of an advanced track. This is due to the fact that our parents play a leading role in our academic achievements at such a young age. While some may have parents who encourage schoolwork and help with studying, others are not as fortunate. These less fortunate students are the ones who are lost in the system, as they do not receive adequate assistance. Additionally, the decision about which track the student will enter is influenced heavily by teachers, who have to make a recommendation regarding the most suitable track for the pupil. There is therefore a great deal of

subjectivity involved. Sympathy towards the child and the impression of the family play a decisive role. Moreover, each child develops at an individual pace, and so while some may have reached a mature, attentive, and responsible state at ten, enabling them to invest time into schoolwork, others may reach this phase later. In a system of tracks, these late bloomers may have already missed their chance.

Critics claim that not dividing children into tracks will wrongfully disadvantage intelligent children, for they will not be challenged enough, and ‘held up’ by trouble-makers. In order to avoid this from happening, we suggest a more flexible approach, where individual subjects, such as Maths, Sciences and Languages, are offered at altering levels — but within the same school. This makes an individual agenda possible, tailored to the precise needs of each child, whilst leaving the door open for movement between levels without the change to an entirely new school becoming necessary.

There is a further argument, which we find most important. A ‘tracked’ structure of schooling is the polar opposite of what we believe in, for by dividing children into tracks, Germany encourages social division. Starting at the age of ten, children are surrounded only by those who have been similarly fortunate (or unfortunate) and intelligent as them, harming the important process of learning tolerance and acceptance of differences; learning even to cherish this diversity. In Germany, only 4% of pupils in the highest track have a migrant background, while the percentage in the lower tracks is much higher: 19% of students in the lowest track, *Hauptschule*, have such a background.²⁷ Therefore even if there were some perfect objective system to ‘fairly’ divide our children into groups of capability, we would strongly oppose a system of tracks. It follows that under a New Social Contract we demand an abolishment of a multi-track school system, as it discourages social mobility and is

thus unacceptable under the *difference principle*. Instead, we propose a combined school for all children, with the opportunity for an individualistic agenda in many subjects.

We must also remember that school is a social oasis. It is a place where children spend many hours each day, for many influential years; a setting where friendships are formed and children learn about social responsibilities and values, such as tolerance, respect and leadership. In our opinion, subjects such as maths, english and science, although undoubtedly important, are just three facets of a vast spectrum of knowledge which schools should impart on their pupils. Far more, we believe that pupils should also be educated politically and encouraged to participate in a culture of debating. There is currently a lack of such education taking place. Skills such as critically questioning the reliability of sources; the possibility of reporting bias; of understanding the nature of lobbyism; taking into account the influence of consumer decisions and the importance of voting; and many more, are often neglected. We thus propose the introduction of compulsory politics and ethics classes, with the teacher presenting the basic facts and both sides of each argument, and subsequently taking on the role of moderator. Such lessons would focus on political, moral and philosophical issues, with pupils being encouraged to explore their own opinions, thereby influencing and learning from each other in a group setting.

3. Tertiary Education:

A: University

Once pupils have finished secondary school, they are faced with a difficult choice. The most common options will be to

either find a job, to enter into an apprenticeship or vocational school programme (see below), or to continue on to higher education. This decision, which is often made before the individual has even reached legal voting or drinking age, is of immeasurable importance. Career choices such as teacher, lawyer, doctor and many other branches are only open to those with a higher degree, meaning that the pursuit of a place at University can often prove worthwhile in the long-term. According to the OECD, ‘the long-term economic advantage to an individual of having a tertiary degree instead of an upper secondary degree is over USD 175 000 (\approx €133,000) for a man and USD 110 000 (\approx €83,600) for a woman.’²⁸

Unfortunately, the choice of whether or not to obtain a tertiary degree is often not an open decision: a family’s expectation and the cost of tertiary education will significantly influence the choice. Affordability and accessibility of tertiary education represent a major goal that all countries should strive for; a goal which, as of now, many countries are far from achieving. The ‘Global Higher Education Rankings 2010’ offer a worldwide comparison of such affordability and accessibility. Two examples of opposite extremes can be found in Germany and the United States. To pursue a university degree in the US is often extremely expensive. In 2010, average total one-year costs — ‘the combined costs of education and living expenses’ — of a typical college education were estimated to be 23 615 USD (\approx €18,000). An average college degree thus cost approximately 87% of the country’s median income of 26 990 USD (\approx €20,500).²⁹ Very few families can afford this without a scholarship or financial aid. Therefore, many potential university students — those who decide against taking up a loan of thousands of dollars per year — will be

missing out on access to the many professions which require a degree.

We do not have an issue with people not wishing to go on to higher education. Our problem lies in the lack of choice available to many school-leavers; the fact that many are not actually able to make a conscious decision about which path will suit them best. We cannot allow a person's financial situation to make these important choices for them. Instead, these opportunities must be based on talent and merit.

In contrast to the American system, students in Germany pay between €0-500 in tuition fees per semester. Here, average total costs amount to around 6 250 USD (\approx €4750) per year. With an average income of €32,922³⁰ higher education therefore costs, on average, around 14.4% of this in Germany³¹. In comparison, despite a higher average income of €43,169 in the US, the fees amount to 65.1% of this.³²

Keeping all this in mind and weighing the financial costs of a higher education system against the need for accessibility and affordability, we debated the fairest form of stemming the cost of tertiary education. We have found two main options that could be suitable, but were unable to decide which we find fairer. We will therefore present them both and leave the decision open, to be made under a New Social Contract.

The first option entails that that all education is paid for entirely by the state. In this case, no student pays tuition fees, ensuring that social background is less of a hurdle within the decision process. The key argument in support of this is that it is the only way of ensuring that financial considerations are kept to a minimum. Critics of this idea argue that if something is free its value is automatically

reduced; that students would not feel privileged to acquire access to tertiary education but instead take it for granted, thus not working as hard as would otherwise be the case. They also complain that although our society as a whole will benefit, it is in fact the students themselves who benefit the most. Therefore, as a tertiary degree ultimately costs the state (and therefore the taxpayer) a great deal, it is in their mind only fair, they argue, to demand that the student make some kind of contribution towards what is, ultimately, an investment into their own future.

Thus we come to our second option. This accepts the aforementioned premise and consequently requires students to pay a fee for the privilege of accessing tertiary education. As a suitable amount we propose around €1000 per year, as was formerly required in Germany. However, we propose that this fee is paid for by the students themselves, for only then will the criticism of option one be addressed. Furthermore, to ensure that this is always possible, we propose a system as has been implemented in the UK, whereby the state initially covers the cost, and the student pays it back once in full employment later in life. This would work by paying back a certain proportion of a future salary, of the part lying above a certain threshold. In the UK, for example, former students pay back their debt in the form of 9% of what is earned over £21,000 (\approx €24,800) per year.

B: Apprenticeships

As introduced at the beginning of the tertiary education section, school leavers should also have the option of apprenticeships: programmes which combine practical work and study within the work setting. Such programmes are invaluable in creating a highly skilled workforce within each area of expertise. Apprenticeships are often regarded as the

ideal route for people who find themselves unable or unwilling to continue on to tertiary education, for they offer a great deal of guidance and further knowledge within the chosen career path, which is often not possible within the conventional work setting.

The problem currently is that, with few exceptions, there are simply not enough apprenticeships available for this to be a realistic option in many western countries. A positive counter example is provided by Switzerland, where apprenticeships are made readily available by a third of all employers³³. This even led to a higher supply than demand of places in some areas of expertise, notably in the summer of 2012, when there were some 22,000 vacant places³⁴. Statistics in Switzerland, where a full two-thirds of students go on to vocational training rather than university, show the failure of systems in other countries, where university is often considered the only ‘responsible’ route³⁵.

So what would happen under a New Social Contract? Despite its many strengths, we do not support the type of ‘dual apprenticeship’ schemes in place in Switzerland – at least not exclusively. Instead, we propose a wide-scale push for greater availability of both forms of apprenticeships; normal and dual. (The difference between the two is that in a ‘dual’ scheme, individuals continue school — vocational school — for several days per week, whilst ‘normal’ schemes allow the individual to learn solely at the workplace, but within a structured 'learning' environment.) We believe that individuals should be able to choose the type of system best suited to them. For such availability to be achieved we will need to make use of the surplus of funds that can be created through higher taxation and cracking down on tax avoidance for means of investment into two main strands: for one, as a source of incentive for firms who

agree to take on board more apprentices, and secondly to cover the cost of apprentices within governmental professions. The aim will be to ensure that each individual who wishes to take part in an apprentice scheme has the possibility to do so.

III. Healthcare

Throughout the world, and even amongst developed western nations, countries differ greatly in the way they finance and organise their healthcare systems. These can be sorted into several different models: the out-of-pocket model, the Beveridge model, the Bismarck model and the so-called market-oriented model. The out-of-pocket model does not need much explanation. It is the system still used in the majority of countries worldwide. Those who can afford to pay for their doctor's fees out of their own pocket; the rest have no access to healthcare. As T. R. Reid, an American journalist and influential writer in the field of healthcare systems, explains, 'in rural regions of Africa, India, China and South America, hundreds of millions of people go their whole lives without ever seeing a doctor'.³⁶ Rather than focusing on the obvious shortcomings of the out-of-pocket model, we will simply condemn this (lack of a) system and hope that it will be replaced in the respective nations with progress.

Instead, we will concentrate on the three most widely used models that have any reasonable claim to merit, be it of an economic or philosophical nature: market-oriented, Bismarck and Beveridge; each of which is financed differently. The market-oriented system is supported by private insurance; the Bismarck model is paid for by social insurance; and the Beveridge model is financed by public insurance.³⁷ For the sake of demonstration we will focus on the US, Germany and the UK for each of the models respectively, although none of these countries use a pure form of these systems, but rather a mixture with a primary focus.

There are several examples of the **market-oriented system**, with the most prominent in place in the United States.

American citizens are traditionally not obliged to buy health insurance, although this has slightly changed under Barack Obama's Patient Protection and Affordable Care Act (Obamacare), which became law in 2014. The US has a healthcare model of two extremes: on the one side, the right insurance policy guarantees the finest facilities and quality treatment by some of the world's best doctors. On the other side, however, many Americans without health insurance still have to pay for treatment out of their own pocket, unless they fall under the Emergency Medical Treatment and Labor Act of 1986. This law requires certain 'participating' hospitals to provide emergency treatment to all patients, no matter how or whether they are insured. What constitutes the term 'emergency' is down to much interpretation: the law states that hospitals are 'required to provide stabilizing treatment for patients with EMCs' (Emergency Medical Conditions).³⁸ Although certain emergency rooms will treat you for anything (not just emergencies) if you are willing to wait long enough, the market-oriented system undoubtedly results in substandard healthcare for the poorest members of society.

Despite this, there are many proponents of the American system. As aforementioned, the US offers some of the best possible medical care in the world — if you are able to afford it. If you pay a large monthly premium, insurance companies will cover even the most modern and expensive forms of treatment. In addition, America's top universities produce doctors of the finest international calibre. The free market is also claimed to have the benefit of saving money. The argument goes like this: if we can choose what to do with the money, if it is our own money that we spend on health insurance, then we are less likely to waste it (we will come back to this later).³⁹ Nonetheless, the primary argument for the market-oriented system seems to be

ideological. Many Americans simply do not want the government interfering in their lives, as they believe that being forced to buy health insurance would be an infringement of their freedom. There are, however, models under which you are insured by the government simply because you are a citizen. In this case, you are not 'forced' into anything, as healthcare counts as a basic right from birth onwards. Admittedly, taxes are usually higher in order to pay for this (see the Beveridge model below).

The **Bismarck model** is named after the former German chancellor Otto von Bismarck, who laid its foundations in 1883. It is the model of choice in Germany, France and other European countries, as well as in Japan. The Bismarck system can be compared to the market-oriented model of the US — in that it largely consists of insurance companies — but with far greater government regulation and thus fairer prices. The model varies from country to country. As Reid explains, 'Bismarck-type health insurance plans have to cover everybody, and they don't make a profit. Doctors and hospitals tend to be private in Bismarck countries; Japan has more private hospitals than the U.S. Although this is a multi-payer model — Germany has about 240 different funds — tight regulation gives government much of the cost-control clout that the single-payer Beveridge Model provides'.⁴⁰

We will illustrate this system using the example of Germany, where health insurance is compulsory. There are two types of insurance available: around 90% of the German population is covered by statutory health insurance, while the remaining 10% are privately insured.⁴¹ Were the German system to be purely Bismarck, 100% of the population would be covered by statutory health insurance, which is based on the so-called *solidarity principle*. This 'guarantees identical benefits regardless of income, i.e. the amount of

contributions paid, and morbidity risks'. The system is 'funded through contributions which are paid by employers (7.3% of employees' paid salary) and employees (8.2% of employees' earned salary)', as well as by the state.⁴² In short, the employer, the employee and the government pay into a fund which is then used to pay for the medical fees of the population, with the insurance companies acting as mediators between the financing and provision of healthcare.

Also described as the public model, the **Beveridge model** is currently used by a number of countries, including the UK, Spain, Italy, Cuba, Hong Kong and throughout Scandinavia.⁴³ It is named after the British economist and politician William Beveridge, who published the 'Beveridge report' during the Second World War. This report is seen as the foundation of the British National Health Service (NHS), which was 'created out of the ideal that good healthcare should be available to all, regardless of wealth'. The NHS was 'based on three core principles: that it meet the needs of everyone, that it be free at the point of delivery and that it be based on clinical need, not ability to pay.'⁴⁴

Under the Beveridge model, the government has complete control of the healthcare system. It owns most of the hospitals, clinics and the like; only a few are private and sell their services to the Health Service. This usually happens under the government's conditions, meaning that private companies are unable to raise prices. Doctors, nurses and other healthcare professionals are mostly paid by the health service. This system of rewards has two main advantages: for one, the government controls what doctors can charge — meaning that patients are not taken advantage of — and, secondly, doctors usually earn a fixed salary. Although this can fluctuate slightly according to

performance and other criteria, it usually lets them go about their work worrying primarily about their patients' best interests, not their bank accounts. In such a system, where the government dictates proceedings, it is of course important that all healthcare professionals are members of influential bodies that represent their collective interests on a national level, ensuring that their work is rewarded appropriately. Another frequently stated advantage of the Beveridge model is its success in preventive care, which is explained by the financial benefit of these measures, resulting in implementation of such procedures by the government.

The beauty of the Beveridge model is its primary goal: namely, improved healthcare rather than profit. The system is funded by public insurance through taxes. Wherever private providers are involved, their ultimate goal will naturally be to make a profit. In the UK, General Practitioners (GPs) act as a type of gatekeeper to the health service; this means that a patient always sees a GP before being referred to a specialist. This has economic advantages, as patients are sent directly to the appropriate doctor by an expert, not choosing blindly. The GPs, however, have the responsibility not to misuse this power, and must be trained to the highest standards before fulfilling this role.

The table below gives an overview of the costs and benefits of each of the systems we have discussed⁴⁵:

	Germany	United Kingdom	United States
System used	Bismarck	Beveridge	Market-oriented
Total health expenditure per capita (in USD)	4819 (≈ €3660)	3235 (≈ €2460)	8713 (≈ €6620)
Health expenditure in relation to GDP (%)	11.0	8.5	16.4
Coverage of the population (%)	100	100	88.5 (August 2015: >90% for the first time)

A large proportion of the US population remains uninsured, despite the improvements which have doubtless been made through Obamacare. Under this law, 'all US residents' have, since 1st January 2014, been 'required to maintain minimum essential coverage' or else face a penalty, with poorer individuals receiving some financial assistance from the government.⁴⁶ While the precise numbers are still unclear, there is little doubt that the law has led to a vast increase in the number of Americans with access to healthcare. For example, the U.S. Department of Health & Human Services recently stated that 'about 16.4 million uninsured people have gained health coverage' since its introduction.⁴⁷ The *New England Journal* reported the number to 'range from 7.0 million to 16.4 million' in May 2015.⁴⁸ *forbes.com* also reported the number of uninsured Americans to be below 10% for the first time ever in August 2015.⁴⁹ The job is clearly far from done, however, with one estimate placing the number of Americans who continue to live without health insurance at 35 million.⁵⁰ This situation is truly disgraceful when considering the wealth of the United States. Already, then, we can write off the free-market-system, as Rawls' *difference principle* is far from fulfilled.

Beyond the issue of coverage, there are further negative factors with regard to a pure market-oriented system; most importantly the problem of extreme costs. At \$8713 (\approx €6620) per capita, the US spent far more than double the amount of money, per head of the population, than the United Kingdom. This was equivalent to 16.4% of GDP in the US (in comparison to just 8.5% in the UK). How is it possible that the American system has become so expensive?

While researching, we stumbled on an extremely interesting article by a contributor on *forbes.com*, who actually argued that a free-market system is financially advantageous. Talking about the market-oriented model used in Singapore, the author asked: 'Why does this system work so well?' and continued: 'because it incorporates the central idea behind free-market health care: that health-care spending is most efficient when that spending is executed by individual patients, rather than third parties. It's easy to waste other people's money. But if that money is your own, you are going to try your best to spend it wisely.'⁵¹ To show our main problems with the market-oriented system, and thus eventually decide on which model is best, we first have to take a step back and discuss some of the economic and philosophical aspects of healthcare. We will do this by highlighting some key issues which we have with the *forbes.com* argument presented above.

Firstly, in a market-oriented system consumers may be more than capable of finding the best possible prices for themselves. But what we must also take into account is that insurance companies are usually free to impose their own rates. In the Bismarck system, as well as in the market-oriented systems of Singapore and Switzerland, the government places tight restrictions on these premiums,

ensuring fairer prices for customers. Thus in doing so, it is no longer a 'free' market. So while Switzerland and Singapore have been praised as good examples of market-oriented healthcare systems, they only work in creating fair, universal coverage because the government intervenes. When the market is left uncontrolled, customers and therefore patients are at the mercy of the health insurance companies. We therefore believe that healthcare and a free market are not morally compatible.

Secondly, we are fundamentally opposed to the general involvement of private providers (which would exist in a truly free market) in health insurance. We described earlier that health insurance in Germany is divided into two parts: statutory and private. The pure Bismarck part of the system works very well in Germany, providing 90% of the population with quality healthcare. Our issue here lies with the form of private insurance which covers the other 10%. The primary aim of a private health insurance company will always be to make a profit rather than to provide quality healthcare. This will ultimately raise costs, as money flowing into the system not only covers expenses for providing care, but is also extracted in forms of profits by the companies. In addition, a mixture of private and governmental services ultimately results in a two-class system, which should have no place in the arena of healthcare provision. In Germany you can free yourself from the obligation to statutory health insurance from a salary of €52,000 per year onwards, and subsequently purchase private health insurance. This, in contrast, is based upon a different principle entirely: the 'principle of equivalence'.⁵² Here, insurance premiums are imposed according to individual risk factors such as age, gender and pre-existing conditions, as well as the type and extent of the insured benefits.⁵³ It follows that you can free yourself from the

principle of solidarity — precisely that indispensable principle which we seek to reignite under a New Social Contract — simply by earning more money. In doing so, these citizens pay to cover only their own health risk, while the other 90% pay for themselves and the rest of the population.

By separating the medical coverage of its population into two types of insurance, the German system creates a selection of disadvantages for 90% of the population. Empirical evidence in this case is difficult to provide, not least due to the taboo which the subject enjoys in the German Bundestag (House of Representatives). It is, however, possible to portray some of the advantages of private insurance. A collection of studies has shown advantages with respect to prescriptions; according to these studies, privately insured patients receive the more newly available drugs and have greater benefit from pharmacological advances, as they are more often prescribed patented drugs.⁵⁴ Unlike the remaining 90%, privately insured patients also have fewer restrictions in their choice of hospital and doctor and their packages often include treatment by a consultant (Chefarzt).⁵⁵ Admittedly, there remain arguments about whether or not this is in fact advantageous.

Karl Lauterbach, a German doctor and politician for the Social Democratic Party (SPD), as well as director of Health Economics and Clinical Epidemiology at the University of Cologne, describes two main disadvantages for those covered by statutory health insurance:⁵⁶ the attitude of doctors towards this less lucrative group, and their more difficult access to specialists. In his book 'Der Zweiklassenstaat' (The two-class-state), Lauterbach publishes several pages of entries by general practitioners in a closed online forum, openly revealing their preference for

privately insured patients and making extremely disrespectful remarks about the other 90%.⁵⁷ A practicing physician in Germany currently receives an average of 2.28 times the remuneration for a fundamentally equal medical procedure on a privately insured patient than on a patient covered by statutory insurance.⁵⁸ In such a system, where the identical input is rewarded differently depending on the wealth of the patient, it is impossible to imagine that unfair distribution of effort and resources is not taking place. We simply cannot understand how a modern country that prides itself with its equal opportunities can uphold such a system. Doctors who choose not to treat private patients usually find themselves earning extremely low salaries when compared to their colleagues. Interestingly, although difficult to prove, it has even been argued that privately insured patients can also experience some disadvantages due to overeager doctors performing unnecessary procedures, for example.

Lastly, we have to consider what trade in healthcare does to the goods that are being sold. The Bismarck-system certainly fulfils the *difference principle*; the entire German population is covered and other indicators of clinical quality such as vaccination rates and waiting times are excellent. It is, however, more expensive than the NHS in the UK and favours some citizens over others. To criticise the German system is not to criticise the Bismarck system, for 10% of its insurance is made up of private insurance, which we have addressed in detail. Yet even without this percentage — i.e. even in a purely Bismarck system without private providers — we disagree with any kind of insurance companies as sponsors in healthcare systems. Why is this? We were inspired here by Michael Sandel's book 'What Money Can't Buy – The Moral Limits of Markets'. As Sandel explains:⁵⁹

'Economists often assume that markets are inert, that they do not affect the goods they exchange. But this is untrue. Markets leave their mark. Sometimes, market values crowd out non-market values worth caring about. Of course people disagree about what values are worth caring about, and why. So to decide what money should – and should not – be able to buy, we have to decide what values should govern the various domains of social and civic life.'

And so the question about whether we prefer the Bismarck or the Beveridge model is an argument about the values upon which a healthcare system should be based. As we have stated repeatedly, a key value is that healthcare should be provided with the primary aim of helping the patient, not of making a profit. In the Bismarck model, doctors and hospitals do business with the insurance companies. They treat their patients and then send a specific bill to their respective insurers. Certain consequences are easy to imagine: patients are over- or under-treated depending on financial considerations about whether or not a procedure is 'worth' doing. Thus, countless decisions, from which type of treatment to apply to how long the patient should be kept in hospital, cannot be made without considering the respective loss of profit. As a result of this we believe that a market in health insurance corrupts the service being provided. It follows that we reject both the market-oriented and Bismarck models.

What remains is the Beveridge model. Now in a purely Beveridge system there would be no privatisation of healthcare services. Sadly, the current UK government is making exactly the opposite changes — perhaps a result of various shortcomings of pure Beveridge systems that have

often been criticised; most importantly, a lack of choice in selecting physicians and long waiting times for specialists. The reason for these is that health services based on the Beveridge model are funded by taxes and thus compete for funds with countless other political spheres, from education to defence. This results in an underfunded body and ultimately a shortage of staff and facilities. Nevertheless, we believe that a well-funded Beveridge model is the most suitable for a New Social Contract. Your social position and the size of your bank account should cease to matter at the gates to healthcare. We see the services provided by the medical profession as a human right; as a basic necessity for equal opportunities. The Beveridge model is the only system in which you do not have to provide an insurance card or hand over cash at the reception desk, and it is the only system where doctors can make unbiased decisions about a patient's treatment without bearing their own financial interests in mind. The system is also comparatively cheap. Were the UK to spend as large a proportion of its GDP as Germany, and to spend the money wisely, the NHS could already be better. And with the extra funds which would be made available through the ideas which we discussed in earlier chapters, a service like the NHS could be bolstered and improved still further. The main areas of investment would be personnel and facilities, thus reducing waiting times and improving the quality of therapy and preventive care. This would remove the key weaknesses of the Beveridge model, thereby resulting in what we believe to be the ideal healthcare system.

As a final consideration, the Beveridge model is perhaps the only system which will allow for efficient cost-control, which in turn will become increasingly important in the face of the impending demographic shift of our population, towards an ageing society.

IV. Underpaid sectors of society

In chapter four we introduced the claim that there is a fundamental flaw within capitalist meritocracy, as it rewards most highly those professions which seek only to accumulate more and more capital for their own sake. To overcome this it is thus vital to use a substantial part of the surplus of funds to reward other jobs more handsomely; especially those of social value. There are clearly a vast number of jobs which would deserve such a pay rise. For our purposes, however, we will limit ourselves to the introduction of a certain few examples in the sectors which we have been discussing. This does not mean that other jobs would not also receive greater rewards once a New Social Contract is in place.

So how much do various workers currently earn? The provisional results for the 2012 Annual Survey of Hours and Earnings (ASHE), published by the ONS, provide some telling figures.⁶⁰ For all employees in the UK, both men and women, the average gross wage was £26,462 (\approx €31,200) — 1.4% higher than in 2011. However, this was still below the rise in inflation, thus cost of living, which in 2011-12 was +2.4%. Top of the list were Chief Executives and Senior Officials, with an average wage of around £80,000-85,000 (\approx €94,000-100,000) and an increase on the previous year of more than 10%.

For the purpose of comparison, we have listed the median UK wages for other professions in the social sphere, along with the percentage change in comparison to the previous year:⁶¹

- Teaching and educational professionals: £36,588 (\approx €43,100); +0.5%
- Midwives: £35,517 (\approx €41,800); +1.1%

- Primary and nursery education teaching professionals: £34,200 (\approx €40,300); -1.2%
- Health professionals: £33,554 (\approx €40,700); +0.8%
- Nurses: £31,065 (\approx €36,600); +0.8%
- Social Workers: £30,931 (\approx €36,400); +0.3%

As the average wages listed above portray, the salaries of such professions are far lower than those of managers and directors, and their increase far more modest. Do these salaries reflect the hard work of the respective professionals? Consider here, for example, that a nurse in the NHS will normally complete strenuous, tiring shifts for (at least) 37.5 hours per week over many decades.⁶² And it is not just the work-load and the extremely tiring nature of nursing that warrants greater rewards. What we need to ask ourselves is whether the salaries above reflect the importance of the respective type of work for our societies, and to what extent the profession carries risks and responsibilities — for it is these which should ultimately determine what constitutes a fair reward.

As the social value of a profession is difficult to measure objectively, such issues must be decided democratically under a New Social Contract.

V. Minimum wage

In his State of the Union Address on February 12th, 2013, Barack Obama pledged to ‘tie the minimum wage to the cost of living, so that it finally becomes a wage you can live on.’⁶³ It is difficult to understand how our societies have allowed the minimum wage to remain below what is needed just to get by; below what is needed to pay for the absolute necessities. One could say we have legitimised poverty, indeed caused it: in the US, for example, ‘a family with two kids that earns the minimum wage still lives below the poverty line’.⁶⁴ Or take the UK, where one in five workers is paid less than the living wage.⁶⁵ This is the final key area where we would invest under a New Social Contract.

Now we will not attempt to name a specific value here, as its determination is dependent on many factors. In the same speech, for example, Obama called for a minimum wage of \$9 (≈ 6.83)⁶⁶, while 2016 Democratic Presidential contender Bernie Sanders demanded \$15⁶⁷. In the UK, the minimum wage was raised to £6.31 ($\approx \text{€}7.43$) in October 2013.⁶⁸ In Germany, a minimum wage of €8.50 came into force at the start of 2015, and there have been calls to raise this further to €10.⁶⁹ And there are even higher rates to be found elsewhere across Europe: Belgium has a minimum wage between €12-13.⁷⁰ Just from these examples we can see the wide range of current minimum wages set, even between wealthy nations.

The reasons for this are not just ideological. Many factors, most importantly the varying cost of living, play a major role. All that we therefore demand is what Obama, too, has been calling for: an alignment of the minimum wage with the cost of living for everyone, with respect to the country they are working in. Further research into the precise value of this will need to be carried out to determine

suitable rates, ensuring that we do not allow wages below the poverty line.

¹ Freedom of Information Act – Request for Information Response, received May 14th 2013 – please contact us if you wish to receive a copy of this email response i think i would take this out

² ONS Family Size 2012 pdf, March 25th 2013 [p. 4]

³ <http://www.theguardian.com/news/datablog/2013/jan/24/cost-to-raise-a-child-compared-to-decade-ago>

⁴ <http://www.theguardian.com/society/2013/apr/30/cuts-youth-services-fantasy>

⁵ <http://www.bbc.co.uk/news/education-11607329>

⁶ ‘Benefits, Costs, and Explanation of the High/Scope Perry Preschool Program’, by Lawrence J. Schweinhart. High/Scope Educational Research Foundation. 2003/04 p 2f – http://www.highscope.org/file/Research/PerryProject/Perry-SRCD_2003.pdf

⁷ ‘The High/Scope Perry Preschool Study Through Age 40’, by Lawrence J. Schweinhart, Jeanne Montie, Zongping Xiang, W. Steven Barnett, Clive R. Belfield, & Milagros Nores, 2005, Ypsilanti, MI: High/Scope Press. © 2005. Used with permission. – http://www.highscope.org/file/Research/PerryProject/specialsummary_rev2011_02_2.pdf

⁸ ‘Die Verschwendung der Kindheit’. Berth, Felix. Beltz. 2011. p 108ff.

⁹ Clive R Belfield, Milagros Nores, Steve Barnett and Lawrence Schweinhart: The High/Scope Perry Preschool Program: Cost–Benefit Analysis Using Data from the Age-40 FollowupJ. Human Resources January 1, 2006

¹⁰ This is the profit on an investment over a period of time, in this case a year, expressed as a percentage of the original investment.

¹¹ Heckman, James J.; Moon, Seong Hyeok; Pinto, Rodrigo; Savelyev, Peter A.; Yavitz, Adam (2010): The rate of return to the HighScope Perry Preschool Program. In: Journal of Public Economics 94 (1-2), S. 114–128. DOI: 10.1016/j.jpubeco.2009.11.001.

¹² ‘Die Verschwendung der Kindheit’. Berth, Felix. Beltz. 2011. p 117

¹³ ‘Die Verschwendung der Kindheit’. Berth, Felix. Beltz. 2011. p 135

¹⁴ Brooks-Gunn, Jeanne; Gross, Ruth T.; Kraemer, Helena C.; Spiker, Donna; Shapiro, Sam (1992): Enhancing the Cognitive Outcomes of Low Birth Weight, Premature Infants: For Whom Is the Intervention Most Effective? In: *Pediatrics* 89 (6), S. 1209–1215. Online verfügbar unter <http://pediatrics.aappublications.org/content/pediatrics/89/6/1209.full.pdf>.

¹⁵ Krauß, Günter: Mehr Bildungsgerechtigkeit wagen. Überlegungen und Berechnungen zu einer Reform der Münchner Kita-Finanzierung. Gutachten des Iska-Instituts für die Stadt München. Nürnberg 2005.

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- ¹⁶ Pisa 2009 Results: Executive Summary, OECD 2010 p. 10 – <http://www.sefi.be/wp-content/uploads/oecd%20pisa%202009%20exec%20summary.pdf>
- ¹⁷ Pisa 2009 Results: Executive Summary, OECD 2010. p. 9
- ¹⁸ ‘Lebenslagen in Deutschland; 3. Armuts- und Reichtumsbericht. Bundesministerium für Arbeit und Soziales’, 2008/07. p. 66f. – http://www.bmas.de/SharedDocs/Downloads/DE/PDF-Publikationen-DinA4/forschungsprojekt-a333-dritter-armuts-und-reichtumsbericht.pdf?__blob=publicationFile
- ¹⁹ The report refers to an earlier version of Pisa outcomes from 2006
- ²⁰ Educational expenditure statistics. European Commission Eurostat. 2012/09. – http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Educational_expenditure_statistics
- ²¹ Pisa In Focus. OECD 2012/02 p 1ff. – <http://www.oecd.org/pisa/49685503.pdf>
- ²² Gehaltstest. Süddeutsche Zeitung. – <http://www.sueddeutsche.de/app/jobkarriere/gehaltstest/?action=detail&detail=gehalt&id=12&searchAction=abisz>
- ²³ Center on International Education Benchmarking: South Korea; Teacher and Principal Quality — <http://www.ncee.org/programs-affiliates/center-on-international-education-benchmarking/top-performing-countries/south-korea-overview/south-korea-teacher-and-principal-quality/>. Accessed 17.10.2015
- ²⁴ Pisa 2009 Results: Executive Summary, OECD 2010. p 16 – <http://www.sefi.be/wp-content/uploads/oecd%20pisa%202009%20exec%20summary.pdf>
- ²⁵ ‘Schulen auf einen Blick’, by Thomas Baumann, Christoph Schneider, Dr. Meike Vollmar, Miriam Wolters. Statistisches Bundesamt. Wiesbaden 2013. p 12 – www.destatis.de/DE/Publikationen/Thematisch/BildungForschungKultur/Schulen/BroschuereSchulenBlick0110018129004.pdf?__blob=publicationFile
- ²⁶ Pisa 2009 Results: Executive Summary, OECD 2010. p 15
- ²⁷ ‘Schulen auf einen Blick’, by Thomas Baumann, Christoph Schneider, Dr. Meike Vollmar, Miriam Wolters. Statistisches Bundesamt. Wiesbaden 2013. p 18
- ²⁸ Education Indicators in Focus. 2012/06 © OECD 2012. p1 — <http://www.oecd.org/edu/skills-beyond-school/Education%20Indicators%20in%20Focus%206%20June%202012.pdf>
- ²⁹ Global Higher Education Rankings 2010 by Alex Usher, Jon Medow. Higher Education Strategy Associates. 2010/10. p16f. — http://www.ireg-observatory.org/pdf/HESA_Global_Higher_EducationRankings2010.pdf
- ³⁰ OECD (2015), Average wages (indicator). doi: 10.1787/cc3e1387-en (Accessed on 07 October 2015). For comparison with other countries see chapter three.

³¹ Global Higher Education Rankings 2010 by Alex Usher, Jon Medow. Higher Education Strategy Associates. 2010/10. p16f.

³² Depending on the 'Bundesland'/State

³³ OECD: 'Learning for Jobs – OECD Reviews of Vocational Education and Training, Switzerland', Kathrin Hoeckel, Simon Field and W. Norton Grubb, April 2009. p. 18 – http://www.oecd-ilibrary.org/education/oecd-reviews-of-vocational-education-and-training_20777736

³⁴ <http://www.swissinfo.ch/eng/business/>

[Exporting_the_Swiss_apprenticeship_model.html?](http://www.swissinfo.ch/eng/business/Exporting_the_Swiss_apprenticeship_model.html?)

³⁵ <http://www.swissinfo.ch/eng/business/>

[Exporting_the_Swiss_apprenticeship_model.html?](http://www.swissinfo.ch/eng/business/Exporting_the_Swiss_apprenticeship_model.html?)

³⁶ T.R. Reid: The Healing of America: A Global Quest for Better, Cheaper, and Fairer Health Care

³⁷ <http://www.businessteacher.org.uk/free-business-essays/health-care-in-the-developed-world.php>

³⁸ <http://www.cms.gov/Regulations-and-Guidance/Legislation/EMTALA/index.html?redirect=/emtala/>

³⁹ Avik Roy: The Myth of the Free-Market American Health Care System

⁴⁰ T.R. Reid – 'The Healing of America: A Global Quest for Better, Cheaper, and Fairer Health Care' [Penguin Books, 2010]

⁴¹ There is also a very small percentage of individuals who have no health insurance, but these are so few in number that we will not include them in the following discourse. What is interesting, however, is that it remains possible to live without health insurance within a Bismarck system, as is the case in the American market-oriented system, but not so under the Beveridge model

⁴² http://www.gkv-spitzenverband.de/english/statutory_health_insurance/statutory_health_insurance.jsp

⁴³ N. Lameire, P. Joffe, M. Wiedemann: Healthcare systems- An international review

⁴⁴ <http://www.nhs.uk/NHSEngland/thenhs/about/Pages/nhscoreprinciples.aspx>

⁴⁵ OECD Health at a glance 2015: total health expenditure and in relation to GDP, and coverage of the population

⁴⁶ Federal Healthcare Reform: Patient Protection and Affordable Care Act Individual Mandate & Subsidy, by Blue Cross Blue Shield of Rhode Island, p. 1

⁴⁷ <http://www.hhs.gov/healthcare/facts-and-features/fact-sheets/aca-is-working/index.html>; June 24, 2015

⁴⁸ The Affordable Care Act at 5 Years; David Blumenthal, M.D., M.P.P., Melinda Abrams, M.S., and Rachel Nuzum, M.P.H. N Engl J Med 2015; 372:2451-2458 June 18, 2015 DOI: 10.1056/NEJMp1503614

⁴⁹ <http://www.forbes.com/sites/dandiamond/2015/08/12/for-first-time-americas-uninsured-rate-is-below-10/#7cc58988741c>

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- ⁵⁰ <http://www.theguardian.com/us-news/2015/jun/25/obamacare-affordable-care-act-ruling-healthcare-uninsured>
- ⁵¹ Avik Roy: The Myth of the Free-Market American Health Care System
- ⁵² ‘Principle of equivalence’ is originally ‘Äquivalenzprinzip’ – we were not able to find a perfect translation from the German word
- ⁵³ <http://www.private-krankenversicherung-krankenkasse.de/pkv-lexikon-detail.php?beitrag=657>
- ⁵⁴ Gesundheitsmonitor 2006: Gesundheitsversorgung und Gestaltungsoptionen aus der Perspektive von Bevölkerung und Ärzten. Jan Böcken, Bernard Braun, Robert Amhof, Melanie Schnee (Hrsg.) On page 33, the following sources are referenced: Krobot et al. 2004 & 2005; Ziegenhagen et al. 2004
- ⁵⁵ <http://www.pkv-private-krankenversicherung.net/chefarztbehandlung-in-der-privaten-krankneversicherung-pkv-986>
- ⁵⁶ SPD-Politiker und Direktor des Instituts für Gesundheitsökonomie und klinische Epidemiologie an der Universität zu Köln
- ⁵⁷ Karl Lauterbach: Der Zweiklassenstaat. Wie die Priviligierten Deutschland ruinieren. [Rowohlt Verlag, 2007]
- ⁵⁸ A. Walendzik, S. Greß, M. Manouguian, J. Wasem: Vergütungsunterschiede im ärztlichen Bereich zwischen PKV und GKV auf Basis des standardisierten Leistungsniveaus der GKV und Modelle der Vergütungsangleichung, Diskussionsbeitrag Nr. 165, Fachbereich Wirtschaftswissenschaften der Universität Duisburg-Essen 2008
- ⁵⁹ Michael Sandel – ‘What Money Can't Buy – The Moral Limits of Markets’ [Allen Lane, 2012, p. 9]
- ⁶⁰ ONS – Annual Survey for Hours and Earnings 2012, provisional results, November 2012. A more accessible version can be found at: <http://www.guardian.co.uk/news/datablog/2012/nov/22/pay-salaries-survey-ashe-ons#data>. Note: *The Guardian* version at the bottom of the article has a few mistakes in the labelling of the respective columns. The order of labelling for the six columns should read as follows: Order; Description; All; % change; Men; Women
- ⁶¹ ONS – Annual Survey for Hours and Earnings 2012, provisional results, November 2012, see footnote above
- ⁶² http://nursing.nhscareers.nhs.uk/why/pay_work_conditions/working_conditions
- ⁶³ Barack Obama State of the Union Address, February 12th 2013, available at varying places e.g. - http://articles.washingtonpost.com/2013-02-12/politics/37059380_1_applause-task-free-enterprise
- ⁶⁴ Barack Obama State of the Union Address, February 12th 2013
- ⁶⁵ <http://www.bbc.co.uk/news/uk-politics-23953573>
- ⁶⁶ Barack Obama State of the Union Address, February 12th 2013

⁶⁷ <https://berniesanders.com/issues/a-living-wage/>

⁶⁸ <https://www.gov.uk/national-minimum-wage-rates>

⁶⁹ <http://www.die-linke.de/nc/dielinke/nachrichten/detail/artikel/mindestlohn-von-spd-und-gruenen-ist-angekueendigte-wahlbetrug/>

⁷⁰ <http://www.bbc.co.uk/news/world-europe-22080862>

CHAPTER

8

Electoral content and structure

Remaining is the issue of feasibility and implementation of a New Social Contract. Over the previous chapters it has become clear that we need a fundamental reform of the system in which the game of politics is played. We need to realise that, embedded within the interests of wealthy individuals and corporations, those who we are attempting to challenge under a New Social Contract, lie certain interests of politicians. Consider, for example, the findings of a report by the Centre for Responsive Politics, which showed that in 2010 47% of members of either the US House of Representatives or Senate were millionaires.¹ To achieve progress we must first break the sphere of influence between those in power and those with money. We will now move onto discussing this in the final two chapters.

I. Is there an ideal voting system?

Democracy; noun

‘A system of government by the whole population or all the eligible members of a state, typically through elected representatives’

*[Origin: via Latin from Greek word *demokratia*; *demos* meaning ‘the common people’ and *kratia* meaning ‘power/rule.’]²*

As the author Peter Hallward claims, ‘over the course of the last century the word ‘democracy’ was rendered almost meaningless’.³ Our current society finds itself a long way adrift of the true meaning and intended implications of the word, despite still staking claim to living in such a system. This is clearly portrayed when reading into the Latin roots of the word: as *demos* and *kratia* convey, a true democracy requires the rulers to be the common people, whose interests are represented by a small group of elected representatives. Yet to put it bluntly, what we have in our ‘democracies’ is this small group of representatives representing only the interests of those within this small group.

Lenin was aware of this problem, too. He believed that this form of ‘democracy for a small insignificant minority, democracy for the rich’ could only be overturned by imposing ‘a series of restrictions on the freedom of the oppressors, the exploiters, the capitalists’⁴ — which we have failed to do. Before Lenin’s time, Marx highlighted the same problem: as Lenin wrote in 1917, ‘Marx grasped this essence of capitalist democracy splendidly when, in analysing the experience of the [Paris] Commune, he said that the oppressed are allowed once every few years to decide which particular representatives of the oppressing class shall represent and repress them in parliament’.⁵

It is our belief that democracy has so far failed in living up to its name. The main problems arise from the lack of power enjoyed by the common people; both in the choices we are able to make and the political decisions we can influence. As Marx claimed, our power is often limited to a vote in an election every four or five years — a vote which may easily prove to be irrelevant. At best, this vote will endorse a whole package of policies, half of which we may disagree with or else not even be aware of. Yet often we have little choice; either due to a lack of feasible alternatives or because the political party to whom this package belongs purposefully stays silent on policies which may lose support (for this, see next chapter).

In our view the solutions to our current problems already exist; in actual fact they are in use in certain democracies. Said problems may be split into two distinct groups: a) those which occur during parliamentary elections every 4-5 years, and b) those which occur between these elections. Before addressing these problems, however, let us reiterate what the purpose of a voting system should be: to provide a method which allows us to vote for representatives of the people, who will respect the interests of the majority without discriminating against individuals; in short, to respect and protect democracy and the principles of both *demos* and *kratia* which this is founded upon.

A. At elections: voting for government

Problems occurring at general elections may all be classified as issues of voter disillusionment; resulting repeatedly in low voter turnout and tactical voting.⁶ Low voter turnout, which may ultimately lead to unrepresentative outcomes, seems to result from a feeling by voters that their vote will either be irrelevant to the outcome, or undeserving by any of

the parties. Tactical voting may also be linked to this perception of a worthless vote, unless support is aligned with one of the major parties — a party which may not reflect the preference of the voter.

As aforementioned, we believe that an ideal solution as to a type of system which could enable a true democracy already exists; namely, the ‘Two-Round system’ (2RS) used in France. Although it is more frequently used in presidential elections, there is no reason why it should fail to work equally well for parliamentary elections. The 2RS, as the name suggests, consists of a maximum of two rounds — although the second round is only required in the case of close results where no party has a majority:

- The first round is a proportional representation (PR)-type round of elections and should be treated on its own merits by voters, as there is no guarantee that a second round will be held.
- In this first round, each voter has, as normal, one vote which they may assign to any one of the running political parties.
- After this first round all the votes are counted. If a party has an absolute majority, that is more than 50% of the vote, then it claims power, forms government, and the elections are over.
- If, however, no party has an absolute majority, then the election continues into a second round — but this time with fewer parties running. This is because some of those who received fewer votes in the first round are eliminated. There are no set rules as to how many parties make it into the second round, and thus room for manoeuvre to find an ideal solution. (France currently adopts a method whereby the two candidates with the most votes in round 1 enter the second ‘run-off’ round)

- Once the parties going into round 2 have been identified, a new election is held. All registered voters are again eligible to vote, with all votes from round 1 erased.
- If a party has an absolute majority at the end of round 2, then they will form a government alone. If, however, no party has an absolute majority, then a coalition must be formed, which will need to ensure that their collective support holds an absolute majority. As is currently the case, for example, in the UK, the party with the most amount of votes in round 2 will be able to try to form a coalition first.

PR is traditionally considered to be the fairest way of identifying the true support for parties. However, it has been criticised for frequently resulting in coalitions, and governments' consequential difficulty to implement new legislature. It is our belief that a 2RS is the ideal solution to such claims. To begin with (in the first round) it enables PR, thereby reliably identifying where the majority of support lies. But it then breaks off from classic PR in the exact situation where the criticism begins to sound: when a coalition would normally be formed. Instead, a 2RS attempts to identify where the preferences of those who did not vote for the most popular parties lie, and incorporate them rather than rejecting them. It allows individual views to be ousted whilst still rendering stable, functioning governments.

Returning to the problems we introduced earlier, it is clear then that this system offers decisive solutions. Firstly, we spoke about the problem of a low voter turnout stemming mainly from a feeling that the individual vote is worthless. As is the case in PR, the idea of a vote being worthless becomes a non-issue: individuals may initially vote for the party they want to, not the party they think they

have to — the reassurance of the second round, where voters are then asked to choose between two (or maybe more) of the most popular parties, eliminates this fear. And if there is no second round, then a party must have an absolute majority already, which means that voters who would not have voted for this party in round 2 would have been defeated anyway (as their vote for a smaller party was still a vote *against* the eventual winner). Furthermore, those who would have voted for the winning party can have no reason to claim that their broader interests were not respected. If voter turnout now continues to stay low, which it may well do, then there are other factors causing this (see next chapter).

Secondly, concerning tactical voting, the same reasoning may be applied: there is absolutely no need to vote tactically in the first round, as any vote, even for a smaller party which may not reach a potential round 2, is a vote *against* a party which an individual may wish to see prevented from coming into power. Thus the true preference of a voter may, in round 1, be safely voiced.

As aforementioned, there is some room for manoeuvre regarding the way the candidate parties for round 2 are established. Either a set number of parties, for instance the two, three or four most popular, enter round 2. Or a ‘threshold’ may be established and set at a certain percentage mark. Here, any party which achieves a portion of the vote that is equal to or greater than this threshold value will enter round 2.⁷ If such a threshold is used, the rules need to be carefully defined, however, as results may vary if the threshold is ‘% of votes cast’ or ‘% of registered voters.’⁸ We do not know which of these two methods is more effective. But such information would quickly become apparent with widespread use of a 2RS.

B. In between elections: direct vs. indirect democracy

At the beginning of this chapter we discussed our current power as citizens, restricted to (mostly) one vote in an election every four or five years. Even with a 2RS in place, this problem would still exist. It is a problem which forces us to again question the credibility of our democracy, and it is here where the issue of a direct vs. indirect democracy comes into play.

Most democracies currently exemplify an indirect democracy, of the limited form previously described. As always, there are some exceptions: EU membership and electoral system reforms in the UK are recent examples of minor extensions. In contrast to this, direct democracies, for example of the form in place in Switzerland, allow voters to vote on specific issues several times a year.

Swiss citizens are perhaps the most politically empowered in Europe. The system of direct democracy in use allows them to decide on issues from federal level, such as the ‘Steuergerechtigkeits-Initiative’ (tax justice initiative) in November 2010, to local ‘canton’ (constituency) issues, such as the schooling system or public smoking bans.⁹ Aside from legislature attempted to be introduced by government, these votes can also result from ordinary citizens’ engagement; processes known as ‘brake’ or ‘accelerator’ votes. In a ‘brake’ referendum, voters can challenge legislature which may have already been passed by parliament, thus preventing government policy from becoming law. Conversely, in ‘accelerator’ initiatives citizens may propose new legislature of their own which will, if endorsed, become law. Both ‘accelerator’ and ‘brake’ votes result from propositions being initially supported by the public, validated by merit of collected signatures supporting the original proposal — although these differ in

their quantity and time frames. For example, in Switzerland ‘brake’ referendums require 50,000 signatures collected in 100 days after the announcement of the new law¹⁰, whereas ‘accelerator’ initiatives require 100,000 signatures collected within 18 months.¹¹

The advantages of a direct democracy become apparent very quickly; not least the removal of the problem Marx highlighted so long ago. We are no longer forced to endorse a whole package of policies represented by the party we vote for. Instead, we could pick-and-choose which policies of that party we agree with, and are offered the chance to vote against a proposal if we disagree.

However, direct democracies have potential disadvantages. Critics highlight the regular low voter turnout in Switzerland — only ten of the 46 referendums held between 2011-2015 had a voter turnout above 50%¹² — and question whether it is right for individuals to vote on single issues, or even draft their own propositions, for potential legislature; in particular those that are ‘very complex, and where passions may be involved.’¹³ In this sense, surrendering certain rights under an indirect democracy is seen to lie within the very nature of a parliamentary democracy; originating from the belief that politicians are in a better position to evaluate the long-term consequences of decisions.

We do not know whether the conversion into a direct democracy is currently feasible, or beneficial. Despite our initial enthusiasm, the recent propagation of this change by right-wing populists, and the simultaneous opposition from many others, has created some doubt in our minds. Nonetheless, we remain optimistic that certain trademarks of such a system could be implemented. These could function as the first steps towards this ideal, made possible in the future by a society living under a New Social Contract. For

example, the choices presented to voters in each referendum could be linked to the respective political parties: when a topic is up for debate, each party is required to decide on an official policy. Voters may then, using the same format as in general elections, assign their vote to one of the parties — and thereby to one of the arguments on the topic being decided. This would ensure political legitimacy of the kind perhaps missing in various referendums in Switzerland. In this sense, voters who do not feel capable of making an informed decision, along with everyone else, will always have the possibility to simply vote once again for the party whom they voted for previously.

II. Electoral candidates

More and more, public focus with regard to a political party lies not on the policies that it represents, but the leader who has been chosen — to the extent where whole elections may be heavily influenced by a mere personality contest between the respective representatives. It is this shift in emphasis which needs to be questioned; the transference of appeal towards those qualities of leaders which may be electorally favourable, yet are, in truth, irrelevant as a requirement to take office.

These electorally favourable qualities are those which have an immediate surface appeal: a nice smile; good-looks; married with kids; physically active; charismatic, and so on. Sure, they are all qualities which we are drawn to and which we may seek in the people with whom we associate. But should they also be important qualities for a representative of the people? Here looms an underlying doubt, one which questions the integrity of the foundations of our democratic elections: is the current system fit for choosing a group of people who will be the best choice as representatives of the people? For we often forget that MPs (Members of Parliament), Senators, Prime Ministers and Presidents, and the like are just that, and no more than that; they are employees, representatives of the public, voted into power for a certain period of time to fight for the changes that society desires.

It is this question which highlights the fundamental difference between what the emphasis should be on, in contrast to what it is currently on. Superficial qualities like those aforementioned make a person likeable on television, maybe even in real-life, but they say nothing about the beliefs of these people. We are none the wiser as to what they stand for, which changes they seek to implement or

which ideologies they wish to pursue once in power. To a large extent current politicians are, in short, actors: they present themselves as perfect family people and say what they know they have to say to win votes, rather than talking about the actual reasons for their having become involved in politics — the actual reasons as to why we should be looking to vote for them. All of the other qualities, although important for their role as human beings, should have little relevance in their justification to represent these interests of ours.

So which are the qualities that make a ‘good’ politician? While this is extremely hard to define, there are some qualities which we would welcome in future representatives: integrity, empathy and passion, to name a few. These are qualities which may not be visible in the first few minutes of a TV debate, but which give the capacity to make rational decisions on the basis of justice, as well as an understanding of the people whom they represent. People with such qualities would not work to feed a lusting personal ego or to pay off debts; they would be fuelled, instead, by an intrinsic desire which perhaps sparked their interest for politics in the first place; by the desire to make a positive contribution to the society around them.

For elections to deliver this type of result we need a reform in the campaigns leading up to them. Current campaigns are largely dependent on money, thus parties supported by the rich have an advantage over others. In the 2008 US election, for example, the Obama team spent more than \$760 million (\approx €578 million) to support a successful campaign.¹⁴ Although this money was partly fundraised, an undoubtedly large amount was received from individual investors who, without needing to say so, wanted to see a return of some form. Money ultimately has too much

influence on elections, and results in misrepresentation and toxic, ever-increasing gaps between rich and poor, for the interests of the rich are given priority. We will leave this aspect aside for a moment, however, and concentrate first on how the money is actually spent.

Most of it seems to flow into various aspects of the media: TV adverts and billboards, for example, used during elections to carry cheap slogans and pictures of white-toothed candidates, or else serve solely to criticise opponents. The absence of political substance is striking. More often than not we can derive far more about looks, voice and portrayed personality of the candidate than any of their plans for the country, which would surely be far more relevant. Instead, we could just as easily be watching campaigns for toasters or toilet paper. This type of campaigning cuts deep into the credibility of our elections, as it separates the candidate from their message. Voters are manipulated into making their choice based on sympathy for an actor rather than identification with ideas and policies that could make a difference in their lives. Such claims have even been experimentally proven by varying political scientists and psychologists. As Daniel Kahneman explains, ‘politically uninformed voters who watch a great deal of television’ are affected about three times more by ‘facial competence’ — intuitive assessments of strangers solely from their face.¹⁵ And the problem goes further than just uninformed voters; we are all prone to influence by what Kahneman calls the ‘Halo effect’ — ‘a common bias that plays a large role in shaping our views of people and situations.’¹⁶ The bias is a result of an unconscious, intuitive association between a thing we like about a person and our perception of the rest of their characteristics. For example, a nice smile; good looks; married with kids; physically active — precisely those aforementioned characteristics with an

immediate surface appeal — can trick us into automatically liking a person, and thus their politics. This ‘Halo effect’ is what such advertisement campaigns are attempting to exploit, and are doing so with great effect. It is clear that we will never fully separate politics from charismatic individuals, because we will always need a hero or figure-head that we believe and place our trust in. But there are various measures that can be taken to minimise the influence of superficial trivialities on our decisions.

Thus as a first step in the reform of elections, we propose a ban on ‘cheap’ advertising without content by political parties. Every form of advertisement must, before it goes public, clearly portray the policy which it is promoting. Opponents may argue that this would reduce voter mobilisation, but campaigns by independent organisations reminding people to vote and advertising the importance of using your voice, in addition to the emphasis on political education which we discussed in chapter 7, should suffice in making up for this loss. After all, the real reason for low turnout is disillusionment with politics, which stems from a seemingly endless series of disappointments over the last decades (see part III), or, as we discussed in part I of this chapter, lack of belief in the current voting system. To restore the integrity of our elections would also be to begin restoring faith in politics, which would in turn have a positive effect on the mobilisation of voters.

Furthermore, a serious attempt of restoring the integrity to such democratic elections requires a cap on the money which may be raised and spent during campaigning. The type of spending typical during elections — especially in the US — has spiralled out of control. Let us return to 2008 as an example. As just stated, Obama’s team spent more than \$760 million (\approx €576 million) in support of his eventually successful campaign. Across his almost 69.5 million votes

this works out an average of \$10.94 (\approx €8.29) per vote.¹⁷ Now we have two main objections here.

Firstly, as a society we seem to agree that the right to vote, and thus the individual vote of a person, is one of the few things which are not for sale. It seems morally wrong to use this personal right as a means for individual, materialistic gain, thus selling votes would undermine the values associated with such rights, and is, for that matter, downright illegal. As Michael Sandel puts it, ‘we believe that civic duties should not be regarded as private property but should be viewed instead as public responsibilities.’¹⁸ And yet, somehow, it seems that the US General elections do just that; they allow a price to be put on a vote. At least in the sense of ‘the more you spend, the more you get.’

The second objection is one which attempts to defend one of the main principles of a democracy; that of being given a fair chance. In an election where the two main parties, the Democrats and the Republicans, together gained 98.58% of the vote, this principle has clearly not been kept.¹⁹ The nature of the US elections has destroyed the opportunity of any other political party to have even the smallest glimmer of hope. The reason is simple: money. Smaller parties simply do not have the financial backing, or the fundraising capacity, to mount a reasonable challenge. The candidate in third place did not even represent a party; Ralph Nader, who won a mere 0.56% of the vote, was an Independent candidate.²⁰ He spent just 0.0056% of the amount Obama did.²¹

Under a New Social Contract, we thus demand the introduction of a number of measures which we believe would begin to make a difference:

- An unbiased leaflet or booklet, published independently and delivered free of charge to each

household before an election, in which each party or candidate can briefly introduce themselves and, in more depth, their ideologies and their political programme.

- The booklet should be constructed in such a way that it demands explanations of both the pros and cons of each party or candidate's ideas, at least on the main issues (economy, health, national security, etc.).
- To ensure that it is actually read, the booklet should also be constructed in an easily accessible form (clear and simple language, printed in various languages, etc.), and made available in other formats (e.g., brief visual sketches for viewing on the TV/Internet, tables for the purpose of comparison, etc. An interesting idea could be to make the content accessible to children, for despite the fact that they cannot vote, it will allow them to form an opinion and raise the chances of later involvement, in particular the realisation of the right to vote).
- An independent summary of whether the proposals of each party or candidate are realistic (for instance written by an independent political organisation).
- A ban on 'cheap' advertising without content by political parties. Every form of advertisement must, before it goes public, clearly portray the policy which it is promoting.
- A cap on the total amount of money that is allowed to be spent by a candidate's team during an election campaign.
- A cap on the time prior to the election at which campaigning is allowed to begin, to ensure that the American example, where campaigning begins almost two years before the next election, is hindered.

Such measures would ensure that three key issues are finally addressed. The first is to put an end to the information asymmetry which politicians enjoy and use as a tool of manipulation. Too often are negative, unpopular policies simply not mentioned during election campaigns; confined to a few short sentences embedded within long, difficult, and frankly boring manifestos — therefore often escaping public awareness until it is too late. A prime example of this are the NHS changes currently being implemented by the UK government. On March 1st, 2012, Conservative MP John Redwood, appearing on the BBC's Question Time programme, was asked directly why we had not been warned about the ongoing changes. His answer, along the lines of that we did know, for it was in the manifesto, highlighted the essential problem which exists and which we want to deal with. The Conservative Party's election campaign did not in any way focus on these reforms. Instead, the British public was assured, quite masterfully, with a poster of David Cameron²² saying 'we will cut the deficit and not the NHS'. By then dedicating the first draft of their manifesto to 'our number one priority [...] the NHS', the Conservative party allowed this issue, as the Labour MP Andy Burnham recalls, to become 'invisible.' An article [the one we have been quoting in this passage] in *The Guardian* sums the scenario up fittingly: 'no one heard Andrew Lansley's message on the NHS because they weren't supposed to'.²³ So yes, Mr. Redwood, you are quite right: it was in the manifesto. Yet this is kind of like the small print in a contract. Thus, while you did not break a legal law, you most certainly misused and abused the trust of the people who voted for you and therefore broke a moral law, which makes you and your fellow party members inadequate as political leaders under a New Social Contract.

Secondly, the current failures of our democracies to provide enough feasible options to us as voters would be overcome. A situation where we are only given a choice between two or three parties — Democratic or Republican? Conservative, Labour or Liberal Democrats? — does not satisfy the criteria for a democracy. By capping the money which a campaign team is allowed to spend we will ensure greater opportunities for a wider range of parties, each with their own unique set of ideas. This would have a further positive impact, as it would ensure that existing parties, now suddenly challenged out of their comfort zone, have to work harder for votes — be it through greater interaction with voters or more time spent promoting their own policies rather than just criticising those of others.

Such measures would also address a third problem — that which too often prevents voters from taking an informed decision when allocating their vote. With all the information then easily accessible and digestible, we, as voters, would finally be able to make a decision which is not based on the personality or appeal of the candidate, but the policies for which they stand; the policies which best represent each individual voter's wishes, interests, and needs.

III. The irrelevance of election promises

In present day politics, any changes to be implemented are chosen by the existing government, which in the Western world is usually democratically elected. This is generally accepted as the fairest way; after all, most people are content with the promises made in the manifesto of a particular party in the build-up to an election. Consequently they vote for this party in hope of success, and should the success be achieved and the party elected into power, they will have certain expectations as to which changes will be made: namely, the ones on the basis of which they assigned their vote in the first place. There is a major problem, however, which lies in what happens once this new government has been formed.

On May 20th, 2010, David Cameron and Nick Clegg²⁴ launched their infamous coalition agreement in the UK. This contained promises and pledges on all aspects of government; policies on everything from banking and business to taxation and transport. Also included in this agreement were many of the verbal promises made throughout their election campaign, such as ‘we will cancel the [construction of the] third runway at Heathrow.’²⁵ At the time, both David Cameron and Nick Clegg realised that this proposed airport expansion was unpopular amongst the electorate. They sensed a shift in public mood towards greater environmental awareness and consequent opposition towards the expansion. As a result they decided that, despite what they may personally prefer, pursuing the building of the runway may turn out costly. Instead, they opposed it and reeled in the votes they might have otherwise lost. Yet only two years later, they no longer felt the need to appease the electorate in every possible way. They were in a position

where we, as ‘mere’ voters, had again returned to our powerless, dormant state, thus free to reconstruct their policies as they wish. It comes as little surprise that this remains an ongoing topic. And although they may well decide to keep their initial promise, that is not the point; for the currently still ongoing discussion should not have started in the first place.

Also in this election was the promise by Nick Clegg, made as a pledge quite formally on a signed document, concerning the issue of tuition fees. He was aware that due to an increasingly unpopular Labour party much of the younger electorate were looking elsewhere to allocate their vote. By claiming tuition fees should be ‘scrapped once and for all’ he grasped this opportunity to claim many of these votes.²⁶ Yet when Nick Clegg’s Liberal Democrat party went into coalition this promise was quickly and radically forgotten: tuition fees would now be almost tripled from just over £3000 (\approx €3,500) to a maximum of £9000 (\approx €10,500) per year.²⁷

Unfortunately, broken election promises are not a rare phenomenon, nor are they specific to the 2010 UK general election. In recent years we have seen countless examples of party leaders promising one thing in the election campaign and implementing another when in power. In the 2000 American presidential election, for example, George W. Bush was able to manipulate voters’ choice through numerous deceitful statements which both tarred Al Gore’s campaign and glorified his own. He promised to ‘reverse the trend’ of an increasing number of uninsured Americans by ‘making health insurance affordable for hard-working, low-income families.’²⁸ By 2003, however, the number uninsured had risen by 3.8 million people, from 41.2²⁹ million to 45 million.³⁰ In fact, the increase in the number of

Americans uninsured in 2002 was the largest since 1987.³¹ Bush also promised to ‘fully fund the Pell grant program for first-year students by increasing the maximum grant amount by more than 50%, to \$5,100’ (\approx €3,900).³² A Pell Grant is money provided by the US government to students in financial difficulty to pay for college fees, thus vital for them in their further education. However, Bush again failed to deliver on his promise. In 2007 he froze the maximum Pell Grant at \$4,050 (\approx €3,100), over \$1000 less (\approx €760) than he originally promised. This was the fourth consecutive year in which the maximum Pell Grant had been frozen.³³

We could sit here for days analysing various election promises which were made and then broken; it seems there are an almost infinite number of examples. They typify a certain cycle of events and highlight an uglier aspect of politics, which leaves us as voters feeling cheated and angered, yet simultaneously powerless. From the few cases which we have discussed, we have seen that this is a problem running further and deeper than just one general election in one democratic country; it is a trend profoundly embedded into politics.

The problem this creates cannot be overstated — both short and long-term. In the long run, it is a major contributing factor to the problems associated with a low voter-turnout; undermining, once again, the integrity of democracies. In the immediate present, it is likely that politicians and political parties were voted in on the basis of appealing ideas and commitments. If these turn out to be mere empty promises, then it is surely a gross form of voter manipulation and abuse of trust. For it is easy to gain support by saying what people want to hear; even more so when there is no system in place to hold those making these promises accountable, once they are put into the position

where they are expected to honour them. This problem is also expanded by the masses of information we are exposed to on a day-to-day basis. Too often are our reservations and doubts over political issues dusted over by the next big, media-hyped scandal. By the time we come to a new election many of the broken promises that enraged us so heavily at the time of occurrence have simply been erased out of our memories, and once again we are able to be manipulated by the appeal of hearing exactly what we want to hear.

Now without wanting to sound contradictory, there is clearly a certain grey area which is required and thus must remain. Those in power require a certain amount of room for manoeuvre, in cases of unexpected events: from crises such as natural disasters, wars and humanitarian problems; to global economic problems such as a banking collapse and consequent recession.³⁴ Politics must be ready for the unexpected, and must be able to adapt and cope with such problems — there is no way around this. In addition, the formation of coalition governments automatically calls for compromises. Yet there is a profound difference between subtle changes, delays, and restructuring of certain policies in reaction to such a crisis or joint formation of government to a politically motivated U-turn as a way of previously gaining the votes that would otherwise have been inaccessible. There is a clear necessity to find a certain midway point between these two extremes; changing the current irrelevance of election promises whilst maintaining the ability to respond to ever-changing worldwide circumstances.

This ideal solution remains difficult to find. To solve it through law seems unfavourable, as this would undoubtedly restrict the necessary political freedom. What is needed

under a New Social Contract is more of a popularity deterrent; something like the formation of a committee which keeps track of broken promises, providing such information to the widespread public and media. A major problem is how quickly we are able to forget such issues; once a promise has been broken it is unlikely to be a real point of interest only a few months later, let alone years. The role of such a committee would be to prevent this. Information on all broken promises may be called upon at our leisure, and published publicly again in the build up to elections. Politicians would now face the scrutiny of the electorate just days, not years, before we are again asked to place our faith in them. In this new scenario, politicians may well decide to make more honest promises, and strive to fulfil those made, in any future manifestos, ensuring the manipulation and outright lies of previous election campaigns is prohibited.

Surely, few would argue against the need to change this flawed system. For too long, politicians have been able to manipulate support through a game of ‘free-for-all appeasement’ — empty promises which they have no obligation to honour once in power. We place our good faith and trust into certain people on the foundations of exciting ideas, yet are constantly rewarded with disappointment and U-turns, almost to the extent of pure improvisation. It is about time that we ensure we actually know on what basis we are voting for, allowing us to place our backing behind those who really do represent our wishes, interests, and needs.

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- ¹ <http://abcnews.go.com/blogs/politics/2011/11/47-of-congress-members-millionaires-a-status-shared-by-only-1-of-americans/>
- ² Oxford Dictionary – <http://oxforddictionaries.com/definition/english/democracy>
- ³ ‘What We Are Fighting For- A Radical Collective Manifesto’ [Pluto Press 2012, p. 61]
- ⁴ The State and Revolution; Collected Works by Lenin [vol. 25, p. 51]
- ⁵ The State and Revolution; Collected Works by Lenin [vol. 25, p. 51]
- ⁶ Tactical voting is a term describing the phenomenon of voting not for the preferred party, but one which is believed to have a realistic chance of winning the election. ‘The lesser of several evils’, so to speak, i.e. wanting to ensure that another party doesn’t come to power
- ⁷ OPPD ©; ‘Electoral Systems: The Link between Governance, Elected Members, and Voters’, .pdf [p. 15] – http://www.europarl.europa.eu/pdf/oppd/Page_8/Electoral-systems-LR-for-WEB.pdf
- ⁸ OPPD ©; ‘Electoral Systems: The Link between Governance, Elected Members, and Voters’, .pdf [p. 15]
- ⁹ <http://www.sudd.ch/event.php?lang=en&id=ch062010>
- ¹⁰ ‘Guidebook to Direct Democracy: Bruno Kaufmann, Rolf Büchi, Nadja Braun’, .pdf [p. 26] – <http://stjornlagarad.is/servlet/file/Guidebook+to+direct+democracy.pdf?>
- ¹¹ http://www.swissinfo.ch/eng/specials/switzerland_for_the_record/world_records. Note: of course the number of signatures which need to be gathered for ‘accelerator’ and ‘brake’ votes will need to be determined under a New Social Contract, depending on the size of the country, etc. We have given the Swiss figures solely as an example
- ¹² Database and Search Engine for Direct Democracy — <http://www.sudd.ch/list.php?lang=en&area=schweiz&topic=&first=&last=&sense=desc>
- ¹³ http://www.swissinfo.ch/eng/specials/switzerland_for_the_record/world_records
- ¹⁴ United States Federal Election Commission: Campaign Finance Reports and Data, Summary Reports 07/08 Cycle – http://query.nictusa.com/cgi-bin/cancomsrs/?_08+00+PR
- ¹⁵ Daniel Kahneman – ‘Thinking, fast and slow’ [Allen Lane, 2011, p. 91]
- ¹⁶ Daniel Kahneman – ‘Thinking, fast and slow’ [Allen Lane, 2011, p. 82]
- ¹⁷ United States Federal Election Commission: ‘FEDERAL ELECTIONS 2008, Election Results for the US President, the US Senate and the US House of Representatives’ .pdf, July 2009 [p. 5] – <http://www.fec.gov/pubrec/fe2008/federalections2008.pdf>

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- ¹⁸ Michael Sandel – ‘What Money Can’t Buy [Allen Lane, 2012, p. 10]
- ¹⁹ United States Federal Election Commission: ‘FEDERAL ELECTIONS 2008, Election Results for the US President, the US Senate and the US House of Representatives’ .pdf, July 2009 [p. 5]
- ²⁰ United States Federal Election Commission: ‘FEDERAL ELECTIONS 2008, Election Results for the US President, the US Senate and the US House of Representatives’ .pdf, July 2009 [p. 5]
- ²¹ United States Federal Election Commission: Campaign Finance Reports and Data, Summary Reports 07/08 Cycle
- ²² The current UK Prime Minister and leader of the Conservative Party
- ²³ <http://www.theguardian.com/politics/2012/mar/20/health-bill-failure-conservative-politics>
- ²⁴ The respective leaders of the Conservative and Liberal Democrat parties in the UK
- ²⁵ HM Government. The coalition: our plan for government [p. 16]
- ²⁶ NUS Funding the Future pledge, 2010; Nick Clegg, Liberal Democrat press release, 28 April 2010
- ²⁷ At the time of editing for the second edition in December 2015 there are even discussions about raising the fees further
- ²⁸ Bush-Cheney 2000 Official Website – <http://web.archive.org/web/20001109012700/www.georgewbush.com/issues/index.html>
- ²⁹ DeNavas-Walt C, Proctor BD, Mills RJ. Income, Poverty, and Health Insurance Coverage in the United States: 2003, Current Population Reports. Washington, DC: US Census Bureau; 2004 [pp. 60-226] – <http://www.census.gov/prod/2004pubs/p60-226.pdf>
- ³⁰ Mills RJ, Bhandari S. Health Insurance Coverage in the United States: 2002, Current Population Reports. Washington, DC: US Census Bureau; 2003 [pp. 60-223] – <http://www.census.gov/prod/2003pubs/p60-223.pdf>
- ³¹ The Kaiser Commission on Medicaid and the Uninsured; Health Insurance Coverage in America – <http://kff.org/>
- ³² Bush-Cheney 2000 Official Website
- ³³ US Department of Education; Summary Statistics for Cross-Year Reference, .xls – <http://www.ed.gov/>
- ³⁴ Leaving aside the justified argument that often these are not, strictly speaking, unforeseeable circumstance, for example the 2008 financial crash.

CHAPTER

9

Lobbyism

For the completion of our New Social Contract we must turn to the issue of lobbyism. In the revelations which have been made over recent years it is becoming increasingly clear that lobbyism has successfully infiltrated almost every sphere of decision-making, leaving us in a dangerous position: the people who policy-makers should be ignoring are being listened to; whilst those who they should be listening to are being ignored.

But let us begin more simply. Why do we have lobbying at all? According to one definition, 'to lobby' is 'to try to influence the actions of (public officials, especially legislators)'.¹ It is a vital tool in politics, used not just for the corruption of its course but also as a means for ensuring that the interests of minorities, associations and many others with a common agenda are respected. As Karl Lauterbach² noted: 'Democracy without lobbying is inconceivable.'³ Thus we cannot solve the problem by merely banning lobbying.

Instead, we must ensure that it is restricted and controlled. This will be very difficult, as the majority of work done by lobbyists in the name of certain groups or organisations is done under the guise of an honest cause.

The enormity of the problem was highlighted by Lauterbach in an interview with *Der Spiegel* in 2012, where he claimed to have received around 2500 invitations by lobbyists⁴ throughout the course of the previous year.⁵ Speaking about German politics, Lauterbach provided further insight into the problem:⁶

'In the health sector alone we decide directly and indirectly over the distribution of about 200 billion Euros per year. Therefore hordes of lobbyists are set in motion in order to influence the MPs. I estimate that in the health sector there are around 50 lobbyists for each MP – and of these, each one earns more than an MP.'

With such a huge number of lobbyists it is little wonder that decisions are often made not in the best interests of voters, but rather under pressure from varying groups. The Swedish Member of the European Parliament (MEP) Carl Schlyter described further the importance of the issue in 2011, when claiming that their failing policies may be ascribed to lobbyism.⁷

During our research we found countless other examples of this phenomenon, not least concerning the issue of climate change. The German newspaper *Die Zeit* published a comprehensive article about this issue in November 2012 (which we will now quote extensively).⁸ The article describes the efforts of Dr. Michael Mann, distinguished Professor of Meteorology at Penn State University and director of the Penn State Earth System Science Centre

(ESSC), who along with two colleagues worked tirelessly on the issue, using temperature data from thousands of years.⁹ Their results are reported as follows:

‘Up to the year 1850 the temperature curve of the Earth runs mostly horizontally, but then, exactly at the point in time where humans started to burn coal, oil and gas, it climbs steeply upwards.’¹⁰ This diagram has become known as the ‘hockey stick’. As is also reported in the same article, Mann’s research was confirmed by the National Academy of Science, and 928 articles published about climate change between 1993 and 2003 also confirmed that the temperature of the earth is increasing through human influence.¹¹ At the time of Mann’s publication there was no doubt about the effect of human behaviour on our planet’s temperature. It was a scientific truth, which should have been enough to set alarm bells ringing and cause drastic environmental reforms throughout the world. But what has happened, instead, is a deception so deep, and so well executed, that doubt on the issue remains up to the present day.

The revelations made by Mann and his colleagues were a huge blow to the oil industry, which would have faced dramatic losses during the course of an imminent green revolution. Their reaction was to deny the existence of man-made global warming, investing time and money into spreading doubt with respect to the legitimacy of the scientific facts. A major part in the battle against this inconvenient truth was played by Oklahoma Republican Senator James Inhofe, described by *The Guardian* as ‘the most notorious climate change denier in Congress’.¹² According to the *Zeit* article, Senator Inhofe introduced Scientific Integrity Hearings in the Senate, and confronted the aforementioned climate scientist Mann with researchers Willie Soon and David Legates.¹³ To quote the article: ‘both were paid several times by the industry, Soon alone has

received more than a million dollars from ExxonMobil and other corporations'.¹⁴ A quick glance on opensecrets.org (Centre for Responsive Politics) tells a similar story: top of the list of contributing industries to Senator James M. Inhofe from 2009 to 2014 was *Oil & Gas*, at \$260,350 (≈ €198,000).¹⁵

Also heavily involved in the process of playing down the significance of Mann's findings was Inhofe's former Communications Director, Marco Morano, who now runs a website for climate change denial called ClimateDepot.com. According to research and information centre Media Matters for America, 'Climate Depot is sponsored by the Committee for a Constructive Tomorrow (CFACT), a conservative think tank that has received funding from ExxonMobil and Chevron'.¹⁶

Marc Morano's current position is not one of political power, yet influential through his work for Senator Inhofe. This example illustrates the complicated link between corporate interests, money and power. Senator Inhofe was elected into government to act in the interests of the voters, not to sow doubt about scientific truths for the sake of conserving profits for the oil industry. As we covered in chapter eight, one problem here is the nature of election campaigns: large contributions can be made by single industries, and it would be naïve to believe that this does not change the nature of policies in advantage of the rich; that the sponsors will not expect favours in return. But we would not solve the problem simply by changing the way in which election campaigns are funded, for still we would have politicians who are accessible through money; whose greed and hunger for ever greater rewards corrupt their good judgement and make them inadequate as representatives of the people. James Inhofe may well personally believe that climate change is a 'hoax'. But with the role of Senator,

placing him amongst the most powerful people in the US, comes the responsibility to rule in a manner that is in the best interests of both current and future generations. One only needs a few hours with the experts — the scientists, who have worked their whole lives on the issue and have done the research and presented the facts — to be convinced about climate change. We are therefore left to wonder whether it was only James Inhofe's election campaign which filled its pockets with money from *Oil & Gas*.

We could write countless pages on the issue, filling them with buzzwords such as NRA (National Rifle Association), describing the aforementioned Vodafone scandal (chapter five), or quoting newspaper headlines such as ‘Tobacco giant Philip Morris 'spent millions in bid to delay EU legislation’’,¹⁷ or ‘Lobbyists take up third of Tory conference seats’.¹⁸ But the message should be clear. In the previous chapter we began highlighting the nature of what a job in politics should encompass; namely, to represent our collective interests.

The solution to the problem seems to be transparency. As mentioned before, we cannot ban lobbyism, for it is a vital democratic tool. In the often-quoted interview, Lauterbach offers some solutions: ‘It would make sense for every lobbyist to have to register and be obliged to carry their activity on a business card. That way, even MPs who haven't been around so long would notice when they're dealing with a representative of an interest group.’¹⁹ And he continued: ‘I consider it very important that we remind each other again and again how easily we're influenced. We should organise more events around the dangers of lobbying.’²⁰

We therefore propose strict legal punishment for any lobbying done without sufficient identification of the

respective interest group, as well as compulsory courses about lobbying for MPs.²¹ And although we cannot ban the process of lobbying itself, we can reduce the influence of money. Legitimate lobbies such as ethnic minorities or medical associations, for example, work with a tight budget and a limited number of lobbyists. We therefore propose a financial cap and a legal limit to the number of employees, per company or organisation, delegated towards influencing MPs or, more generally, government policies.

Asked by Corporate Europe Observatory about lobbying and the European Parliament, Carl Schlyter also proposed amendments to the distribution of lobby badges. 'One third should be given to economic interests, another to NGOs [non-governmental organisations] and the third to social interests such as trade unions, universities and organisations like that.'²² This type of change would level the playing field by ensuring that financially limited groups have greater influence.

Thus we need a transparent form of lobbying and drastic bureaucratic changes to restore the balance towards the more legitimate interest groups. Should we go through with such measures, lobbying could once again become a device that makes our societies more, not less, democratic.

¹ <http://dictionary.reference.com/browse/lobby?s=t>

² Of the Social Democratic Party in Germany

³ DER SPIEGEL 52/2012 ; LOBBYISMUS, Extreme Dummheit, *Von Hammerstein, Konstantin von und Neukirch, Ralf, Interview mit Karl Lauterbach*. Note: we translated this from German. The original reads: '*Demokratie ohne Lobbyismus ist nicht vorstellbar.*'

⁴ Either to direct talks or to events hosted in the name of, and for the cause of lobbying

⁵ Der Spiegel 52/2012 ; Lobbyismus, Extreme Dummheit, Von Hammerstein, Konstantin von und Neukirch, Ralf, Interview mit Karl Lauterbach. Note: we translated this from German. The original reads: *'Im vergangenen Jahr habe ich etwa 2500 Einladungen zu Veranstaltungen oder zu direkten Gesprächen mit Lobbyisten erhalten'*

⁶ Der Spiegel 52/2012 ; Lobbyismus, Extreme Dummheit, Von Hammerstein, Konstantin von und Neukirch, Ralf, Interview mit Karl Lauterbach. Note: we translated this from German. The original reads: *'Wir entscheiden allein im Gesundheitsbereich direkt und indirekt über die Verteilung von etwa 200 Milliarden Euro pro Jahr. Deswegen werden Scharen von Lobbyisten in Bewegung gesetzt, um die Abgeordneten zu beeinflussen. Ich schätze, dass im Gesundheitsbereich auf jeden Abgeordneten etwa 50 Lobbyisten kommen - und von denen verdient jeder mehr als ein Abgeordneter.'*

⁷ Corporate Europe Observatory; MEP: lobbyism main reason for bad policy, March 24th 2011

⁸ *Die Zeit*: Klimawandel, 'Die Klimakrieger', Zeit Online 28.11.2012 - 18:15

⁹ *Die Zeit*: Klimawandel, 'Die Klimakrieger', Zeit Online 28.11.2012 - 18:15
Internet version p. 2

¹⁰ *Die Zeit*: Klimawandel, 'Die Klimakrieger', Zeit Online 28.11.2012 - 18:15
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¹¹ *Die Zeit*: Klimawandel, 'Die Klimakrieger', Zeit Online 28.11.2012 - 18:15
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¹² <http://www.theguardian.com/environment/2013/jul/09/google-climate-denier-jim-inhofe>

¹³ *Die Zeit*: Klimawandel, 'Die Klimakrieger', Zeit Online 28.11.2012 - 18:15
Internet version p. 2

¹⁴ *Die Zeit*: Klimawandel, 'Die Klimakrieger', Zeit Online 28.11.2012 - 18:15
Internet version p. 2. The original reads: *'Beide ließen sich mehrfach von der Industrie bezahlen, allein Soon hat bis heute mehr als eine Million Dollar von ExxonMobil und anderen Konzernen erhalten.'*

¹⁵ <http://www.opensecrets.org/politicians/summary.php?cid=N00005582> Top 5 Industries, 2009-2014, Campaign Cmte

¹⁶ <http://mediamatters.org/blog/2012/11/28/meet-the-climate-denial-machine/191545#morano>

¹⁷ Jamie Doward; theguardian.com, Saturday 7 September 2013 23.26 BST – <http://www.theguardian.com/business/2013/sep/07/tobacco-philip-morris-millions-delay-eu-legislation>

¹⁸ Rowena Mason; The Guardian, Saturday 17 August 2013 – <http://www.theguardian.com/politics/2013/aug/17/tory-party-lobbyists-third-conference-seats>

¹⁹ Der Spiegel 52/2012 ; Lobbyismus, Extreme Dummheit, Von Hammerstein, Konstantin von und Neukirch, Ralf, Interview mit Karl Lauterbach. Note: we translated this from German. The original reads: *'Sinnvoll wäre es, wenn sich jeder Lobbyist registrieren lassen und seine Tätigkeit auf der Visitenkarte ausweisen müsste. Dann merken es auch Abgeordnete, die noch nicht so lange dabei sind, wenn sie es mit einem Interessenvertreter zu tun haben.'*

²⁰ Der Spiegel 52/2012 ; Lobbyismus, Extreme Dummheit, Von Hammerstein, Konstantin von und Neukirch, Ralf, Interview mit Karl Lauterbach. Note: we translated this from German. The original reads: *'Ich halte es für sehr wichtig, dass wir uns gegenseitig immer wieder vergewissern, wie beeinflussbar wir sind. Wir müssten mehr Veranstaltungen zu den Gefahren des Lobbyismus organisieren.'*

²¹ LobbyControl, an NGO based in Germany, has researched and published some enlightening ideas with respect to lobbying over the past 10 years: 'LobbyControl combines the latest research, scientific background analyses and work on campaigning'— as is quoted on their homepage www.lobbycontrol.de. In an interview with Deutschlandfunk in June 2016, Imke Dierßen (the Chairwoman) reiterated LobbyControl's call for a lobby register in order to clarify the notions of financial support; relevant interest groups; etc., with which the political process is trying to be influenced by. We welcome and support these calls, and would adopt such a lobby register under a New Social Contract. (The interview is available in audio and text form at: http://www.deutschlandfunk.de/nach-bundestagsentscheidung-einfluss-von-lobbyisten-ist.694.de.html?dram:article_id=356876)

²² Corporate Europe Observatory: MEP says lobbying is the main reason for bad policies in the EU; March 2011

CHAPTER

10

Closing thoughts for a New Social Contract

The ideas which we have presented and discussed over the last nine chapters have one thing in common: they are largely compatible with the form of capitalism we already have. They seek no ground-breaking reform of the way in which the world functions. In fact, they could (even though we doubt current representatives would have the courage to do so) be introduced by governments within the next term; the necessary foundations already exist. And this is crucial. Too often do we read articles about fascinatingly thought-out new economic systems which would eliminate injustices; yet they ultimately fail to convince — and understandably so.¹ For it would be like teaching a young child how to calculate 20×30 without first teaching how to calculate 2×3 . It is not an issue of it not being possible; it is merely a problem of the child likely giving up before reaching this desired end. The same applies to such discussions of steps towards

equality. How can we be expected to implement a wholly just system, when we have not even been able to make appropriate changes in that direction in our current one? We cannot afford to cause disillusionment as this would simply hinder meaningful progress, reaffirming the conventionally accepted view that a state of inequality is ‘simply how the world works.’

So what our New Social Contract offers is a realistic beginning to greater equality, made possible through the process of reconciliation. First and foremost, we demand that everyone is helped towards higher emotional well-being, improving collective subjective quality of life — social wealth — through the following demands: we demand a discussion for a maximum socially acceptable annual income. We demand that the wealthiest are always taxed appropriately, up to the agreed sum of this maximum socially acceptable income. Anything in excess of this we demand is taxed at even higher rates, in line with the objective of our New Social Contract. We demand the eradication of all tax havens as a global effort. We demand suitable punishment for those enabling or engaging in tax evasion and avoidance, aligned with other forms of behaviour causing such extreme suffering. We demand a national tax on income for all. We demand the implementation of *unitary taxation* for all companies. We demand the implementation of a transparent and independently curated list which flags corporations engaging in tax avoidance, so that consumers may make an informed decision prior to purchase. For those not employed full-time and receiving benefits, we demand an acceptance of return responsibilities. We also demand reasonable responsibilities accepted if receiving other benefits. If these responsibilities are not fulfilled, we demand a discontinuation to the receipt

of financial support from the state. We demand investments into the social projects accompanying disadvantaged children through to adulthood. We demand investments into preschools by merit of ‘positive discrimination’. We demand a single-track system of education. We demand the introduction of compulsory politics and ethics classes for all pupils in secondary education, ensuring a high standard of political education and encouraging a culture of debating. We demand far greater affordability of higher education. In addition, we demand more opportunities as alternatives to higher education. We demand a well-funded Beveridge model healthcare system for all. We demand higher pay for currently under-paid jobs. We demand a higher minimum wage, aligned with the respective cost of living. We demand a two-round electoral system. We demand a discussion on the potential advantages of a direct democracy. We demand a greater emphasis on policies than on individual politicians during elections. We demand that election promises be honoured. We demand the implementation of an independent committee, providing information on broken election promises. And last but not least, we demand a radical reform of laws concerning lobbyism, with the aim of increasing transparency.

We are currently at a point where, as Michael Sandel put it in an interview with *Die Zeit* in June 2013, ‘the growing inequality despite growing wealth preoccupies everyone in the world today.’² This shift in public and consequently political mood has a great advantage. Underlying our whole proposal of a New Social Contract is a need to make available a surplus of funds. A rise in taxes may already suffice for this, but if not, we need not worry. For as James Henry noted, there is indeed something very positive to take from the countless tax avoidance scandals that are coming to

our attention: ‘we have actually just located a huge pile — at least \$21 trillion — of untapped financial wealth that might now be called upon to contribute to the solution of our most pressing global problems.’³

What would happen if capitalism continued on its current course? There are many thoughts and ideas, some extremely far-fetched, others more realistic, about what is in store for the future. Many of these involve a complete overhaul, away from capitalism and towards a new model. Wallerstein, for example, writes in 'Historical capitalism':⁴

‘What we shall be seeing is increased civil warfare. This is the face of the time of troubles. The scramble for protection has already begun. The states cannot provide it. For one thing they do not have the money; for another they do not have the legitimation. We shall see instead the expansion of private protection armies and police structures — by the multiple cultural groups, by the corporate production structures, by local communities, by religious bodies, and of course by crime syndicates. This should not be termed anarchism; it is rather deterministic chaos.

Where shall we come out? For out of chaos comes new order. We cannot know for certain, except for one thing. Capitalist civilization will be over, its particular historical system will be no more.’

But is capitalism really such a lost cause that we must adopt this feeling of impending doom? The description above is a vision of its natural end, a scenario with which we could indeed be confronted if we allow capitalism to resume untamed in its current direction. The irony of our New Social Contract is that our propositions could actually serve

to protect the system we have come to loathe so much, for we would prevent such an end. Perhaps this is sufficient: through the implementation of the measures which we have discussed, we would be working towards justice within the current system by fulfilling the *difference principle*. Thus we could avoid the disastrous scenario depicted by Wallerstein which, quite frankly, terrifies us.

Yet were our New Social Contract to be implemented, our work towards justice would still not be complete. Let us therefore conclude with an issue that will likely dominate economic policies in years to come. As it was not a key argument for our New Social Contract we have, apart from its brief introduction in the opening chapter, left this until now, but it is an important consideration nonetheless; one which puts the issue of what a ‘responsible’ economic policy represents in an entirely new light. This consideration is the following: we are running out of resources, and our current lifestyle is destroying the planet.

Now the problem with these types of arguments is that, as there is no substantial evidence that it is a problem which will come into effect in our own lifetime, it is often all too easy to ignore. There is a useful method however, used frequently across varying professions, that makes family members, rather than unknown individuals, the basis of our decision-making. Consider the following extract by Rawls:⁵

‘To narrow the range somewhat further, we suppose the parties to ask what is reasonable for members of adjacent generations to expect of one another at each level of advance. They try to piece together a just savings schedule by balancing how much they would be willing to save for their more immediate descendants against what they would feel entitled to from their more immediate predecessors. Thus imagining themselves to

be fathers, say, they are to ascertain how much they should set aside for their sons and grandsons by noting what they would believe themselves entitled to claim of their fathers and grandfathers.'

As we feel a different responsibility once our own family are in play, this method forces us to place a higher value on circumstances which we ourselves may not experience. Therefore when using this method on the issue of limited resources, we are encouraged to think more carefully about what our emphasis, thus policies, should be on.

Lastly, briefly consider the United Nations's definition of sustainable development, made in 1992 at the summit in Rio de Janeiro:⁶

'[Sustainable development is] defined as the development that meets the needs of the present without compromising the ability of future generations to meet their own needs [...] Consisting of three pillars sustainable development seeks to achieve, in a balanced manner, economic development, social development and environmental protection.'

We thereby come to the end of our New Social Contract. Throughout, we have pointed to solutions which we consider fairer; which would enable greater equality than currently exists. But all of these proposals are, as aforementioned, within the current system; within a system that seeks, and works, solely towards economic growth. Infinite growth is not possible for the simple reason that we have a finite set of resources, coupled with an ever-expanding global population.⁷ Thus the challenge ahead is the following: how do we create, or adapt to, a

system that enables greater equality whilst simultaneously allowing our world to continue functioning at the current level, with respect to all three pillars of sustainable development? And there is one other pressing issue, currently at the forefront of political attention as a result of the mass influx of migrants (which we considered too grand a topic to delve into within the realm of the last nine chapters): how do we ensure justice not just within the western world, but all over our planet?

Likewise, we have only scraped at the surface of political problems which need to be addressed. The issue of inheritance tax; the renewed rise of terrorism; the aforementioned mass migration; climate change; and many others have not been discussed in the previous chapters.

We are confronted, then, with more questions than answers. We hope to have raised issues and arguments that will enable an open and honest discussion about justice; and we hope that we will not stop there, but that, collectively, we will find these elusive answers: how to ensure justice not just within the West, but for the entire planet, and in a way sustainable for future generations. And although this may at times seem like a hopeless pursuit, we have never been more optimistic of progressing towards these goals. As we wrote in the opening, for example, whole revolutions have had their roots in social networking. Or consider this: we were only able to write these ten chapters, with their considerable research, due to the creation of the internet. This could be the vital tool in our fight for justice, for it gives us the opportunity to very quickly and efficiently collect ideas from tens of thousands of people from all corners of the

world, to put them together and to present them to those in power, ensuring that we are no longer ignored.

¹ Take 'What We Are Fighting For – A Collective Radical Manifesto' (cited in chapter 8) as an example. It is a fascinating book and system, but one which, in our humble opinion, is simply still several steps ahead of where we must first get as a society

² Die Zeit – Zeit Philosophie, Nr.25/68. Jahrgang, Juni 2013. 'Zweitens. Ein Gespräch mit Michael Sandel' [pp. 27-28]

³ James Henry: 'The Price of Offshore Revisited', July 2012 [p. 42] – available at the TJN website

⁴ Immanuel Wallerstein – 'Historical Capitalism' [Verso Books, 1983, pp. 161-162]

⁵ John Rawls – 'A Theory of Justice', Revised Edition [Belknap Harvard, 1999, pp. 255-256]

⁶ General Assembly of the United Nations, President of the 65th Session, Sustainable development: background

⁷ This problem is highlighted by the Green Party in the UK. For example, the following passage was included in their 2010 Election Manifesto: '*We want to improve the welfare of people and the health of the planet rather than the size of the economy. Because size matters: if the economy gets too big it will grow beyond its ecological limits. Now we are up against a very challenging limit: the capacity of the atmosphere and the Earth to absorb our greenhouse gas emissions without over-heating. Only the Green Party is willing to face up properly to these limits, and to say that limitless economic growth without thinking about the consequences is a dangerous and careless fantasy.*' [pdf p. 10, original p. 8] – http://www.greenparty.org.uk/assets/files/resources/Manifesto_web_file.pdf

APPENDIX

Notes

- Anywhere we have referenced the source at the start of a passage it means that any quotes and figures included in the following passage were taken from this source.
- All sources used, both primary and secondary, have been referenced appropriately as footnotes throughout. To make it easier to access the sources we have included website URLs. Should these no longer work (for whatever reason) we have saved the original, so if you wish to consult one but cannot find it please contact us and we will send it on.
- All monetary values have been, for comparison purposes, converted into Euros alongside the original currency used. The exchange rates, taken from XE.com, are accurate as of September 2nd 2013 and were as follows: [to 2 d.p.]

1 USD = 0.76 EUR

1 GBP = 1.18 EUR

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[NOTE: we used an online extract taken from this book]

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Annex A

‘Get Britain Working’ Schemes (for unemployed JSA claimants)

[NOTE: as stated in the Department for Work and Pensions (DWP) publications used as sources for the following statistics, there may be small discrepancies between the figures presented and the actual numbers. However, they are nonetheless useful in outlining a perhaps slightly rough, yet very compelling, picture.]

Jobseeker’s Allowance (JSA) is a weekly allowance which was being claimed by 1.54 million people in the UK at the end of 2012.¹ Once the JSA payment begins progress towards finding a job is monitored in a regular interview. There are various schemes, both voluntary and compulsory, which are there to improve the individual’s chances of finding work; improvement in skill-sets, work-related disciplines, and confidence, for example. The various schemes, which run under the government’s title ‘Get Britain Working,’ are all associated with a length of time for which JSA has been claimed; at certain set periods of time a particular scheme becomes available to apply for. In some cases, it is compulsory for the claimant to participate.

1. Mandatory Work Activity Scheme²

- 4-week, 30 hour per week, placement for JSA claimants ‘who would benefit from a short period of activity’ (those who are already on the Work Programme are not entitled to it, however).
- Compulsory for any JSA claimant who is referred to the programme.
- Sanctions: Without a ‘good reason’, failure to complete the placement first time: JSA loss for 3 months; second time for 6 months; third time a 3 year fixed sanction.³
- In the 16 months from May 2011 to (including) August 2012, there were 33,170 starts into the programme. This is 37% of those referred.

2. Work Programme⁴

- A longer-term employment programme by ‘a range of private, public and voluntary sector organisations,’ which receive financial incentives depending on results of helping those long-term unemployed back into work. A ‘Job Outcome’ payment is the main reward, received when individual participant has been employed for either 3 or 6 months, depending on ‘how far they are from the job market’.
- Compulsory once referred. This referral point is dependent on length out of work. For JSA claimants it also depends on age: 18-24 year olds are referred after 9 months out of work 25+ year olds are referred after 12 months.

- Sanctions: a sanction of between 1 and 26 weeks for failing to participate in the Work Programme ‘without good reason’.⁵
- In the 11 months from September 2011 to (including) July 2012, there were 877,880 referrals into the programme. However, the total Job Outcome payments, i.e. the number of individuals still employed in the organisation either 3 or 6 months later, was only 31,240. This is less than 4% of those initially referred.⁶

3. Skills Conditionality (SC)⁷

- Encompassing many different aspects, it is an ‘activity to address an identified skills-need which will aid their [unemployed individual’s] movement into work.’ There are three main forms of SC: Initial Provider Interview, National Careers Service, and Training. It is a 12 week, 30 hour per week programme.
- Compulsory for anyone who has been ‘identified with a skills barrier to employment by Jobcentre Plus’ and a funded place confirmed.⁸ Referrals are made prior to the Work Programme, i.e. before 9 or 12 months unemployed.
- Sanctions: ‘potential sanctions of 2, 4 or 26 weeks if they fail to attend, leave early or are dismissed for misconduct.’⁹
- In the 13 months from August 2011 to (including) August 2012, there were, in England, a total of 176,830 combined ‘Initial Provider Interview’ and ‘National Careers Service’ starts. This is 41% of those referred. In addition, in England and Scotland together there were a total of 63,210 starts into ‘Training’ – 36% of those referred.

4. Sector-based Work Academies

- For a maximum of 6 weeks, a scheme consisting of three parts: pre-employment training, a work experience, (separate to the work experience scheme, see 6 below) and a job interview. Job Centre Plus helps to ensure all three components are offered to claimants as often as possible.¹⁰
- Voluntary to join, compulsory to complete once place has been accepted. It is available to those claimants who are available to work and ‘close to the labour market.’¹¹
- Sanctions: a sanction of between 1 and 26 weeks for failing to participate in the Work Programme ‘without good reason’.¹²
- In the 23 months from January 2011 to (including) November 2012, there were 36,770 starts into the initial pre-employment training.¹³

5. New Enterprise Allowance (NEA)

- Financial help for ‘JSA claimants aged 18 and over who want to start their own business.’ Prior to receipt of the money the business plan must be approved by a ‘volunteer business mentor who will provide guidance and support as they develop their business plan and through the early months of trading.’ (Those who are already on the Work Programme are not entitled to it, however).¹⁴
- Voluntary to apply for.

- Sanctions: there are no sanctions as receipt of this financial aid is only possible once the benefit claim has been ended.
- In the 23 months from January 2011 to (including) November 2012, there were, in total, 46,750 starts onto the scheme (although only 15,210 of these had advanced to the stage of receiving money; at the time of statistics taken the others were still at the discussion and planning stage with a business mentor.)¹⁵

6. Work Experience

- ‘Helps young people [16-24 year olds] gain the experience they need to secure a job before they become eligible for the Work Programme. Lasts between 2 to 8 weeks, sometimes with an opportunity to extend the placement by up to 4 weeks or be taken onto an apprenticeship.’¹⁶
- Voluntary to apply for between 3 and 9 months of unemployment for 18-24 year olds and from day one for 16-17 year olds.
- Sanctions: only for misconduct. (Until February 2012 there were sanctions of 2 weeks’ JSA payment for those dropping out within the first week. It was dropped amidst public controversy. We will come back to this in our discussion later on.)
- In the 23 months from January 2011 to (including) November 2012, there were 99,950 starts to a placement.¹⁷

In addition to these there are, at times, different conditions and additional programmes or benefits for those with a limited capability in the work-force, be it due to a disability, a health concern or some other disadvantage. Employment and Support Allowance (ESA), for example, is the most widely used benefit for claimants with a limited capability in the work-force; at the end of August 2012 1.29 million people were claiming ESA. A further 1.23 million people were claiming Incapacity Benefits (IB) and 545,000 lone parents claiming Income Support (IS) – although early estimates do show a slight decrease in claimant counts for these three groups at the start of 2013.¹⁸ Regardless, similar problems will likely be present there too. In the light of these additional statistics there are two things which are important to consider. Firstly, this means that the figures stated above are thus best-case scenarios of inclusion for JSA claimants, as some schemes such as SC are for certain people (the ‘work-related activity group’) receiving ESA as well. And secondly it means that the problems are far bigger than the numbers here suggest, as there will be additional people who are not fulfilling the terms of reconciliation within the latter three benefit categories too.

¹ Office for National Statistics: Labour Market Statistics, March 2013 – http://www.ons.gov.uk/ons/dcp171778_301631.pdf [p. 19]

² DWP: Mandatory Programmes Official Statistics pdf, 14th November 2012 [pp. 1-2] – http://statistics.dwp.gov.uk/asd/asd1/pwp/mwa_aug12.pdf

³ <http://www.dwp.gov.uk/newsroom/press-releases/2012/jun-2012/dwp061-12.shtml>

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- ⁴ DWP: The Work Programme pdf, December 2012 [pp. 2,4,6] – <http://www.dwp.gov.uk/docs/the-work-programme.pdf>
- ⁵ DWP: Work Programme referrals, attachments and JSA sanctions pdf, July 2012 [p. 5] – http://statistics.dwp.gov.uk/asd/asd1/adhoc_analysis/2012/work_programme_referrals_jsa_sanctions_jan12.pdf
- ⁶ DWP: Work Programme Statistical Release, First Release 27th November 2012 – http://research.dwp.gov.uk/asd/asd1/work_programme/wp_release_nov12.pdf
- [However, for more detailed statistics visit the Statistics-Work Programme section of the DWP official website (link below), where using the ‘DWP Tabulaiton Tool’ individual tables may be created giving breakdowns of the various figures for referrals, attachments and outcomes etc. – <http://statistics.dwp.gov.uk/asd/index.php?page=wp>]
- ⁷ DWP: Mandatory Programmes Official Statistics pdf, 14th November 2012
- ⁸ Job Centre Plus: DWP Skills Conditionality Toolkit .doc, July 2011 [Annex A: Communications 1 – Skills Conditionality Fact Sheet pdf, p. 2]
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- ¹⁰ DWP: Sector-based work academies, employer guide pdf, May 2012 - <http://www.dwp.gov.uk/docs/sbwa-employer-guide.pdf>
- ¹¹ DWP: Sector-based work academies: A Progress Note – http://readingroom.lsc.gov.uk/sfa/sector-basedworkacademiesProgressNote_v2.0_14Nov2011.pdf
- ¹² Freedom of Information Act – Request for Information Response, received April 8th 2013 – please contact us if you wish to receive a copy of this email response
- ¹³ DWP: Get Britain Working Measures Official Statistics, 13th February 2013 – http://statistics.dwp.gov.uk/asd/asd1/pwp/pwp_gbw_feb13.pdf
- ¹⁴ <http://www.dwp.gov.uk/adviser/updates/new-enterprise-allowance/>
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- ¹⁸ DWP: Quarterly Statistical Summary, First Release, 20th March 2013 [p. 1] – http://statistics.dwp.gov.uk/asd/asd1/stats_summary/stats_summary_mar13.pdf