
Research

AN APPRAISAL OF FERENBACH AND PINNEY'S 'NEW SOCIAL CONTRACT'

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Abstract

This paper offers an outline of a 'new' social contract envisaged by Ferenbach and Pinney (2012), and establishes its critical appraisal elucidating the inaccuracy of their assertions including the one, which is erroneously dubbed as a 'new' social contract, purportedly, not based on any ideology. Thus, the discreet embeddedness of the 'new' social contract in ideological and political perspectives is explicitly exposed. In fact, the suggested 'new' social contract is more or less a continuation or an extension of the pervasive neoliberal ideology. The proposed social contract may at the most be viewed as a new variant of neoliberal ideology. It is also observed that the proposed integration of CSV (creating shared value) with business in the context of proposed social contract is on the whole a disguised strategic CSR (corporate social responsibility) which is not a detachment from the neoliberal ideology.

Keywords: new social contract, globalization, CSV, public sector, private sector, neoliberal

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Introduction

Ferenbach and Pinney (2012) argue that the existing social contract between the public and the private sectors has become obsolete. It is the forces unleashed by globalization that are mainly responsible for the obsolescence of the above-mentioned social contract that, according to them, prevailed for the last sixty years. They hint that it was the incessant rootedness of the economic and financial practices in the old social contract that was responsible for the continued inefficiency of the public sector as well as a root cause of the Great Recession. The evolution of business and the private sector demands the creation of a new social contract between the private and public domains. Ferenbach and Pinney (2012) argue that the structure of the national governments was originally designed for a different time from the one we are living in. They hold that a new framework for the public-private collaboration is required for sustainable growth, uninterrupted by recessions and meltdowns. They maintain that two critical challenges must be met. First, an overseeing regulatory framework for the private sector must be established. Responsibility for the development of this regulatory framework cannot be wholly and solely left to the governments. The second challenge is to find ways and means to use the private-sector capabilities to help governments deliver goods and services more efficiently and effectively. Governments are strongly recommended to divest nationalized businesses as well as other services and responsibilities to the private sector.

To me the proposed social contract is, in essence, neither new nor disengaged from ideology. The proposed implicit balance between the private and the public sectors is skewed toward the private sector especially in terms of authority. This appraisal is mainly grounded on the social democratic perspective.

An Outline of the Proposed ‘New’ Social Contract

Ferenbach and Pinney (2012) hold that the private-public social contract, that prevailed for the last 60 years, started becoming obsolete since 1980s specifically with the increasing global integration of markets, and eventually “the Great Recession has exposed the erosion” of this social contract (Ferenbach & Pinney 2012: 11). The new business milieu requires the grounding of organizational strategy in the ability to learn quickly, adapt rapidly and respond instantly. “The consequence of this new strategic operating environment has been a widening gap between the capabilities of nation states and those of private and public companies” (Ferenbach & Pinney 2012: 9). In other words, the obsolescence of the ‘old’, that is, the existing social contract has been caused by the increasing complexification of the markets and businesses. This obsolescence of the existing social compact has, in turn, created a pressing demand for the formation of a new social contract. Ferenbach and Pinney propose the sketch of a new social contract in the form of a discussion of the key issues involved.

Ferenbach and Pinney claim that their sketch of ‘new’ social contract is not structured on any ideological or political grounds. They pronounce it a premise, that is, the functional success of government (as it has evolved in developed economies) and the productivity and interests of private enterprise (again, in developed economies) should be harmonized in a new and more effective form of collaboration (Ferenbach & Pinney 2012: 8). This ostensible appearance of an insubstantial flimsy premise does not specify or define the content of the so-called ‘new’ and more effective form of collaboration” (Ferenbach & Pinney 2012: 8). The authors, however, propose to “start a discussion of the key issues that should be considered in developing these new forms of collaboration and to reflect on the role that business in particular might play” (Ferenbach & Pinney 2012: 8).

Ferenbach and Pinney note that “[t]oday 44 of the largest 100 economies in the world are businesses with power and influence exceeding that of many nation states” (Ferenbach & Pinney 2012: 9). They argue that with the emergence of much “flatter” global firms with more power and influence than many nation states, the social contract, “designed in the context of national economies and nation states”, has been rendered ineffective (Ferenbach & Pinney 2012: 9). In other words, the emergence of global firms as powerful global economies demand the establishment of a new social contract for the efficient, profitable, and sustainable functioning of global business. The state, according to Ferenbach and Pinney, has not yet succeeded in reinventing itself in consonance with the complexification unleashed by globalization and, therefore, is not capable of effective decision making, specifically, at global level. Businesses, on the other hand, have been successfully adapting themselves with the changing form of integration of markets. Business and the firm have been recreating themselves by adopting a strategy of flexibility, rapid responsiveness, and constant readiness compatible with unending change and adaptability in terms of innovation, de-hierarchicalization, and ever-increasing productivity “while at the same time often avoiding responsibility for reductions in employment, loss of health benefits, or reductions in retirement benefits” (Ferenbach & Pinney 2012: 11). The proposed social contract also seeks more reductions in regulation of the business by government. Above all, the firm has emerged to be much more flexible and adaptable whereas government has been relatively rigid, more inadaptable and more inflexible. This disjuncture, so to speak, between the government and the firm demands modifications of the roles of both government and the firm, embedded in the framework of a ‘new’ social contract.

Critical Appraisal of the ‘New’ Social Contract

There was “an implicit social contract binding labor, management, and government” (Ferenbach & Pinney). Global integration of markets has changed the bargaining potential of labor,

management and government. A major tension between government and the firm was that government was presumed to promote interests of the labor whereas the firm's management viewed labor as a cost. Relationship between labor² and management was supposed to be of adversarial nature. However, in the era of globalization, with the greater availability of labor force across the globe, the labor has steadily been losing bargaining capability. For example, even at the major center of capitalism, i.e., the U.S, "the decline of unions, which once represented a third of American workers now represent about 12 percent" only (Stiglitz 2011). After the de-unionization of labor and continuous "withering away" of the welfare state, there were virtually two parties to the social contract, namely, the private sector and the public sector or business and government.

Government and business are now, to be precise, virtually tied with each other in a bi-directional causality, that is, both are reciprocally reliant on each other for their mutual success. They are, in effect, supplementary and complementary to each other. However, their mutual relationship, in the absence of active participation of labor, appears to be both cooperative and adversarial. The state and business are actually interdependent. For neoliberals, business is only partially dependent on the state, at least, for ensuring the enforcement of contracts, maintaining law and order, and providing protection from internal theft and looting as well as foreign invasion whereas the state, in essence, is dependent on business, particularly, for revenues, production of goods and services, and provision of full employment for the citizens. Simultaneously, business and the state are adversarial to each other in that the state's responsibility for promotion and protection of capital, in general, coupled with enhancement of common good, in particular, often conflicts with business's professed primary pursuit of maximization of personal interest.

²It is once only that Ferenbach and Pinney (2012) mention labor also as a party to the social contract. They have always mentioned two parties to the "new" social contract, namely, corporation (business) and the government .

While Ferenbach and Pinney deny the rootedness of their formulation of ‘new’ social contract in “an ideological or political perspective” (Ferenbach & Pinney 2012: 8), it appears to be deeply ideological. It is ideological as well as political, for example, in advocating the efficient market hypothesis and even explicitly supporting more self-regulation for the private sector and de-sovereignization of the state. Ferenbach and Pinney’s emphasis on formulating a ‘new’ social contract inherently aims at a still greater balance of power in favor of business: “society is now looking to business for leadership in helping create the renewed social balance” (Ferenbach & Pinney 2012: 11). The proposed social contract, or a new neoliberal agenda, demands shifting of the balance for regulation in favor of business: “Business will also need to take more responsibility for ‘self-regulating’ its impact on society and the environment, and manage for the long-term interests of shareholders and society” (Ferenbach and Pinney 2012: 13). Business seeks greater self-regulation because government needs to reinvent itself to do its job efficiently but hitherto half-hearted attempts, if any taken, at reinventing government “suggest that significant progress on this front will be difficult” (Ferenbach and Pinney 2012: 11). On the other hand, Ferenbach and Pinney do not seem to realize that the tremendous bailouts given by the governments to the financial industry exhibit that the “misguided attempt to reduce the role of the state has resulted in government taking on a larger role than anyone would have anticipated even in the New Deal” (Stiglitz 2010: 185).

The proposed sketch of the ‘new’ social contract may be deemed as a current neoliberal agenda: “The neoliberal formula is guided by social and economic deregulation, attacking any restriction of market mechanisms by the state and creating a situation of free accumulation of private capital” (Jinkings 2011: 11). The prevailing ascendancy of neoliberal ideology has eventually resulted in de-unionization of labor, prioritization of personal interest over common good, and the replacement of social welfare state with “a corporate welfare state, including the extension and strengthening of the corporate safety net, even as social protections for ordinary

individuals...being weakened” (Stiglitz 2010: 199). It is so partly because the owners of a global firm “have access to governments, and influence the policies being pursued by them, far more effectively than can its nominal citizens” (Crouch 2012: 32). In addition to their immense influence on the policy-making the owners of the global firm and “the highly paid professionals whose skills are demanded across the world...have considerable power but owe loyalty to no particular human community” (Crouch 2012: 32-33). Though many businesses, as asserted by Ferenbach and Pinney, in the contemporary world have become more powerful and influential than many nation states, it is also a fact that markets “have no inherent moral character” (Stiglitz 2012: xiii). Unlike the global firm, the nation-state is, in principle, presumed to be primarily committed to the common good of a particular human community. The state is supposed to restrain excessive inequality, and provide social goods such as education, security, health care, etc., to all citizens. But after the global integration of markets the nation-state is increasingly showing incompetence to achieve common good even at the national level without addressing ‘common’ good of all inhabitants of the globe because of the fact that now “we live in a world of ‘overlapping communities of fate’” (Held 2008: x). If the state itself does not fairly provide common good to its citizens it need not entail that business should do the job on behalf of the state for business is wholly and solely grounded on the principle of private interest. It more precisely entails that the state needs to be reformed. Arguing with reference to the Great Recession, Habermas observes that “the speculators too were acting consistently within the established legal framework, according to the socially recognized logic of profit maximization...Politics, and not capitalism, is responsible for promoting the common good” (Habermas 2009: 184). For example, Habermas (2008) proposes a postnational multilevel political model for global governance consisting of national, transnational and supranational levels. Habermas (2008), in his another treatise, argues that the European Union should be taken more or less as a model for developing regional regimes beyond national borders for promoting a balance between common good and personal interest.

In their discussion of key issues, Ferenbach and Pinney do not even touch upon the problem of ever-increasing inequality both at national and global levels. Ferenbach and Pinney appear to support and advance the current neoliberal “rules of global trade [that] are heavily structured to protect the interests of the well-off and are heavily stacked against the interests of the poorest countries” (Held 2008: 57). Inequality both at national and global levels “leads to weak demand; widening inequality weakens demand even more; and, in most countries, including the U.S., the crisis has only worsened inequality...to be sure, the neoliberal policies that have prevailed for the past three decades have much to do with our current predicament” (Stiglitz 2014). It should be noted here that before the collapse of the U.S.S.R., the firm was actually competing with a more formidable competitor than the national labor, namely, the socialist state which was avowedly based on the manifesto that said: “Workers of the World, Unite. You have nothing to lose but your chains” (Marx & Engels 2010: 67). Arguing that inequality was one of the root causes of the Great Recession 2008, Lysandrou (2011) notes that “the global capitalist economic system has a huge potential for generating inequality. In the recent decades it is this negative aspect of capitalism which has come to the fore, and the grim irony is that it was the utter failure and collapse of the communist experiment that has helped to give this development momentum” (Lysandrou 2011: 341). The problem of global inequality has become more severe, for example, with the “global dispersion of costs³ associated with the recent financial crisis” (Held 2010: 192). In other words, the neoliberal agenda of minimalization of the role of government and government’s acceptance of this agenda has resulted in rising global inequality.

³ “ While before September 2008 only 6 countries had stand-by arrangements and flexible credit lines with the IMF, totaling less than \$ 1.7 billion, by September 2009 this had risen to 21 countries, drawing a total of over \$ 165.7 billion (only one of these countries, Iceland, was a rich developed country). Such dispersions of negative economic shocks affect extremely vulnerable segments of the world population” (Held 2010: 193).

The formulation of the “new” social contract in terms of its assertion contrasting inefficient and incapable government with the flexible, adaptable and efficient firm more or less contextualizes this proposed compact as “bogged down by [an] ideological presumption, such as that markets are always efficient and government is always inefficient” (Stiglitz 2010: 197). While celebrating firm’s flexibility and adaptability Ferenbach and Pinney seem to be insensitive to the fact that firm’s flexibility, or in other words, its “capacity to deconstruct itself is the most extreme form taken by the firm in its dominance of contemporary society” (Crouch 2012: 38). For example, “the archetypal contemporary firm . . . makes use of a diversity of labor-service contract forms in order to bring together fluctuating combinations of workers and dispense with the need to have any actual employees” (Crouch 2012: 38).

In accordance with neoliberal ideology, Ferenbach and Pinney do not in any way see the private sector’s failure—moral or technical—in causing the Great Recession but rather they see it caused by the erosion of the existing social contract that does not recognize the incapability and inflexibility of governments. Pointing out the factors “at play in the recent global financial crisis,” Held (2010) *inter alia* mentions “essential confidence in the efficient market hypothesis [and] the powerful private authority of private sector actors” (Held 2010: 188). “The 2007 crisis should be understood as an elite debacle, driven by improvising bankers and allowed by permissive regulators” (Engelen *et al.* 2012: 372). The proposed sketch of a ‘new’ social contract seems to be neither new nor devoid of ideology, since it is more or less a re-articulation of the neoliberal ideology: “once government is seen as essentially incompetent and firms as uniquely competent, as neoliberal ideology implies, governments come under pressure to give over to firms and corporate leaders ever more control over public business” (Crouch 2012: 109). An irony related to neoliberals is that “they blame all failure on the compromises of those who realized their schemes (there was still too much state intervention etc.), and demand nothing less than an even more radical

implementation of their doctrines,” (Zizek 2009: 19) and assert disembeddedness of their premises either in doctrines or ideology.

The suggested social contract is essentially rooted in the neoliberal orthodoxy, also, in its celebration of divestitures, that is, its emphasis on the transfer of assets from the public to the private sector, and its assertion regarding the inefficiency of government in terms of its cost ineffectiveness because of poor services as well as concern for labor. Ferenbach and Pinney advocate divesting “nationalized businesses as well as other services and responsibilities to the private sector” (Ferenbach & Pinney 2012: 9). Disapproving the government’s ownership and operation of “areas such as power generation, telecommunications, transportation and public housing,” Ferenbach and Pinney observe__disregarding the housing bubble 2008__ that “while in government hands, such operations were constrained by political considerations, both service and labor-related, that made them both inefficient and high cost...In private hands, they became successful participants in the economy” (Ferenbach & Pinney 2012: 9). On the contrary, while it has been observed that “the capitalist mode of production has recently been taken to excess (namely the cases of privatized railways, water supply and air traffic control)” (Crouch 2012: 105). Ferenbach and Pinney (2012) attempt to give examples of inefficient public firms, and do not acknowledge that “there are examples of efficient and inefficient firms in both the public and the private sector” (Stiglitz 2010: 198). For instance, “the internet, on which so much recent prosperity has been based, was created through government funding...It was brought to market by Netscape” (Stiglitz 2010: 200). One of the two major challenges for the proposed social contract, according to Ferenbach and Pinney, is “to find ways to use private-sector capabilities to help governments deliver more effective goods and services” (Ferenbach & Pinney: 8). In the late 1990s, while the German government sought to use “private-sector capabilities” by engaging “employees of leading private firms to devise its corporate tax policies; not surprisingly, the result was a major shift in the German tax burden away from large corporations towards small firms and workers” (Crouch 2012: 46). In the U.S., “on average, contractors

charged the federal government more than twice the amount it pays federal workers for performing comparable services...it was not just ideology that drove the contracting/privatization agenda: it was rent seeking” (Stiglitz 2012: 176).

The Old Wine of Strategic CSR in New Bottles of CSV and the Social Purpose

Tension between the role of government and business is essentially caused by the fact of their rootedness in two divergent principles that conflict with each other. Government is mainly based on the principle of common good whereas business is definitively based on the principle of private good. Enhancement of one interest ipso facto curtails the other one. For example, government’s backing of the bargaining rights of the labor is in accordance with the common good whereas firm’s opposition of the same rights is grounded on pursuit of personal interest.

The discourse and practice of CSR are attempt, of course, to a very limited extent, to bridge the gap between the personal interest and the common good. Ferenbach and Pinney, with reference to some organizations⁴, they mostly work for, try to make a case for integrating “the social purpose and roles of corporations and markets” with business (Ferenbach & Pinney 2012: 11). They are also interested in adding a “human dimension” to business rooted in Porter and Kramer’s (2011) view of Creating Shared Value (CSV). The social role that they wish to integrate with business is by no means a post-crisis phenomenon. For example, The Environmental Defense Fund’s targeted “win-win” situation that “reduces both operating costs and emissions of greenhouse gases,” (Ferenbach & Pinney 2012: 12) is not something new. To take only one example, 3E introduced its PPP

⁴For example, the Centre for Enterprise, Markets and Ethics, the Apsen Institute, The Environmental Defense Fund, and The Alliance for Business Leadership.

(Pollution Prevention Pays) program about four decades ago. Such practices are usually performed as CSR, mainly strategic CSR. Regarding CSV, Crane *et al.* (2014) skillfully observe that it does not even acknowledge the tension between personal interest and common good: “the failure to acknowledge, let alone address, social and economic tensions is not unique to CSV. Much of the CSR and stakeholder management literature has done likewise, particularly the strategic CSR literature that Porter and Kramer has reproduced as CSV” (Crane *et al.* 2014: 137). This hollow emphasis on a human dimension, which in effect is not human enough, will not restrain the main actors of the firm from pursuing “their self-interest [even] in ways that draw criticism, like aggressive tax avoidance and lobbying for less regulation” (Crane *et al.* 2014: 137).

As noted above it is more or less this agenda of less regulation and more empowerment of the private sector that the ‘new’ social contract advocates by stressing incapability and inflexibility of the public sector. It should also be noted that the main actors of the firm create a unique “balance” of knowledge and responsibility. In the times of recessions and crises many of them shift balance to giving ignorance pretexts whereas in the times of recovery and prosperity they make capability and knowledge claims. For example, after the happening of the Great Recession the central actors “were always able to claim just enough knowledge to retain power within the system, but just enough ignorance to evade responsibility” (Davies & McGoey 2012: 73). The formulation of the ‘new’ social contract insisting on more shifting of power balance in favor of the private sector is rooted in such “balance” between capability (knowledge) and responsibility as noted above; and the integration of strategic human dimension with business, ostensibly aiming to provide moral legitimacy to the ascendancy of neoliberal socio-economic perspective.

Conclusion

It is my opinion that the proposed sketch of ‘new’ social contract is simply continuation of neoliberal ideology, for example, it is evident

from its advocacy of (a) the transfer of ownership of assets from the public to the private sector, (b) greater dependence of the public sector on the private sector, and (c) less government regulation of the private sector. Consequently, the implicit balance of authority between the public and the private sectors is skewed toward efficient market hypothesis. Moreover, Ferenbach and Pinney do not appear to acknowledge in any way the failures of private sector in causing the Great Recession but rather their position suggests that the recession was caused by the existing social contract which, in their opinion, legitimizes larger involvement of the public sector in business. This line of thought is nothing new but continuation of neoliberal ideology dominating world business scenario for some two decades. Thus, the proposed sketch of the 'new' social contract does not seem to be either an appropriate response to or a proper strategy for the global integration of markets or a scrupulous exposition of the root cause of the Great Recession.

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