The Development Agenda as a Global Social Contract; or, We Are All in This Development Boat Together

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I am honored to speak to this distinguished audience in this impressive setting. I am reminded being here that I think of the Netherlands as a key birthplace of the modern middle class – captured so well by Vermeer and other painters of the late 16th century. The fate and role of the middle class is a theme that will recur in my remarks here today.

Reframing the traditional development agenda

We are in the midst of an extraordinary moment. On the one hand, in my country, there are enormously high expectations of a more pragmatic, active government calling on Americans' shared interest in a better world beyond as well as within our borders. On the other hand, we are all absorbing the grim new reality of a financial crisis born in America now escalating into a global economic disaster, threatening the well-being of people everywhere and, sadly, undoing the recent gains against the terrible poverty so many people suffer in emerging-market and low-income economies.

I believe those of us in the development community need to seize this moment – and to make of the current crisis an opportunity for a major change in the way we think about the development agenda. Today I want to suggest that we reframe the conventionally defined development agenda as, in large part, the construction by an activist international community of a global social contract. A 21st-century global social contract should be designed to maximize the benefits of global economic interdependence (or to use the popular term "globalization") while minimizing the risks and costs not only for the world's poor but for the world's indispensable middle class – both the large middle class in the rich world's mature democratic economies and the incipient middle class in emerging markets and a few low-income countries.

Defining development as construction of a global social contract suggests two challenges for development advocates. First, it suggests a definition of development as a global imperative in which all nations and people have a common interest – rather than as a matter primarily of aid as charity passed from rich to poor nations. Indeed, if the current crisis increases awareness on the part of the world's rich and powerful (people and nation-states) of their dependence on prosperity and security in emerging market and other developing economies, that would be the silver lining in today's cloud of gloom over the sinking global economy since it could motivate citizens and voters in the rich world to pay more serious attention to their own interest in

progress in the developing world. Second, it suggests putting high priority on strengthening the institutions that manage and protect our common interest by fostering growth and sustainable development worldwide. In our global economy these institutions – including the multilateral development banks, the World Bank, the United Nations agencies, the International Monetary Fund, the World Trade Organization, the Basel Committee, and many more -- constitute the global "polity" we need to manage the investment, protection and other functions a robust global social contract implies.

The ongoing crisis: a more activist state; a hyper-connected global economy

I want to preface my discussion of these points with two observations about the current crisis that bear on my overall message.

First, the ongoing crisis will not lead to a fundamental rejection of markets but to a redrawing of the line between the state and the market in the mature Western economies. On the one hand, what Churchill said about democracy is also true of market-driven economies: terrible until you consider the alternatives. On the other hand, there is little doubt that American-style capitalism is under siege. The state is resurgent, especially in the United States and the United Kingdom, where the era of Reagan and Thatcher had run its course anyway and is now decidedly over. In all the advanced economies, markets, particularly financial markets (the cowboy sector of American capitalism, which has in turn spread to Europe as well as it turns out), will be "fettered," that is, more regulated. In the next few years, the views of my fellow speaker today, Ha-Joon Chang, will be far more influential than they have been as the balance of state and market in what are mixed economies shifts and a more activist state emerges in Europe, Japan, and America.

One likely change in the balance will come in the form of an expanded domestic social contract by which citizens contract with each other through the state to guarantee access to health, education, and other public goods and protect against individual risks and the systemic risks that markets generate. This will be true especially in the United States, leading to a kind of convergence with Europe in the nature of the welfare state. Everywhere that democratic politics works reasonably well, the domestic social contract will be strengthened, especially to protect the middle class. In the United States, where the median wage has not risen in almost two decades and where "globalization" has become the scapegoat of a stagnant median wage and failed health and other social insurance policies, it will otherwise be politically impossible to retain even begrudging support for open trade markets and minimal levels of legally sanctioned immigration.

The only question is whether a strengthened domestic social contract will take the form of increased public spending on health, education, and public infrastructure and a shift in the tax burden toward the rich in order to reduce taxes on the middle class, or direct government subsidies to protect "middle class" jobs in domestic industries, with attendant risks to the current global trade regime. I hope it will be the former, but one way or another, implicitly or

explicitly, governments in affluent democracies will be emphasizing increased support for their middle class majorities.

The second observation is that the hyper-connectivity of the global market, including the reality of the rich world's interdependence with the poor world, has been driven home. We have seen in the last couple of months a desperate effort at greater international coordination of macroeconomic and financial-sector policies because a failure of international coordination, as in the 1930s, risks turning a recession into a long and deep global depression. There are calls to eschew beggar-thy-neighbor policies, both on the financial side (as when guaranteeing deposits in Ireland led to flight out of banks elsewhere) and in the real economy, to avoid (under the umbrella of "social" efforts to protect jobs) new trade and industrial protection programs (though by early December such programs were already being actively discussed in Russia, France, and the United States).

Perhaps most noteworthy, is that with the first-ever meeting last month of the heads of state of the G-20 (the G-7 plus 13 emerging markets including Brazil, Russia, India, China, Indonesia, South Africa, and others), we may have seen the beginning of the end of the increasingly irrelevant G-7 club of nations. The G-20 meeting came near the end of this year in which almost all of the paltry growth in the United States was due to exports – of which almost 40 percent went to developing countries. In contrast to the past, this time it is the United States and to some extent Western Europe that bear responsibility -- among other things due to their regulatory failures – for today's economic losses throughout the world. And for the first time the rich countries are dependent on growth and effective countercyclical policy in China, Brazil, the Middle East, and elsewhere to help keep their own economies afloat next year; they cannot manage any recovery, for themselves or for others, alone.

For today's rich countries, there is potential tension between a more activist state, at the national level, more likely to intervene in support of home industries and jobs, and the demands on coordination of interdependence. Let us hope that in 2008-09, in contrast to the 1930s, "activism" takes a different form and the world's richest and most powerful sovereign states will be able to subsume short-term domestic political interests to the general global welfare – if only because protecting global welfare is actually more consistent with their own overall long-term interests.

What do these two observations – a more activist sovereign state and continuing interdependence among sovereigns -- have to do with the idea of a global social contract? The following: to save the hyper-connected global economy from its excesses and to make it fair and politically sustainable, there is a need for some sort of "activist" polity at the global level analogous to the state at the domestic level. An activist global polity is needed to construct and manage a contract at the global level analogous to the social contract at the domestic level that exists in one form or another in most mature democratic societies. On the one hand a global social contract sounds worryingly utopian. On the other hand, it is simply about adapting to the reality of a global market-driven economy – implying a convergence of global political necessity with the longstanding development agenda.

In the remainder of this essay, I discuss further the logic of a "global" social contract for rich nations, given their increasing interdependence with developing countries; describe the logic of a "social" contract, given the shortcomings and risks of market-based globalization; and then set out briefly four actions rich countries should put on their development agenda to build a durable and enforceable global contract.

A global social contract

Why global? Global interdependence

The rich world's own security and material prosperity depend increasingly on shared growth and on stable and competent governments responding to their people's demands and needs "out there" in poor countries. One straightforward reason why this is true is that the relative size of the rich world economies and populations is declining. Under reasonable assumptions about future growth rates, the combined economies of the BRICs (Brazil, Russia, India, and China) will soon be larger than those of the G-7; they are simply likely to grow faster in the next several decades than rich countries, as their much lower per-capita incomes continue to converge slowly to those of the rich world. The middle class in those and other emerging markets is likely to be twice the size of the entire population of the United States within the next 20 years. Three of the world's five largest companies by market capitalization are Chinese, and by some accounts four of the top ten richest people in the world are Indian nationals. As this century unfolds, it is in these fast-growing economies that rich-world producers will find new markets and rich, new investment opportunities, and from them that will emerge the ideas, people, and innovations that will improve consumers lives everywhere.

At the same time, most developing countries, even geopolitically ascendant China and India, contend with widespread poverty and misery and the attendant social and political problems. In India, approximately 2 million children die before age five, and 21 million children of primary-school age are not in school. Their new middle classes are weak and often disengaged politically except when their own parochial interests can be served. (Indeed, my own analysis of income distribution data for over 50 countries indicates that most developing countries have no more than 20 percent of their populations in what I would define as the middle class – living on at least $10 a day per person and below the income of the 95th percentile of the total population; what we think of as middle-class consumers in Egypt, India, Indonesia, and Peru are actually among the 5 percent of richest households in their countries and thus not in the "middle" at all.) A small middle class cannot provide the ballast that undergirds responsible and effective government as in the rich-world economies, where the large middle class supports the rule of law, respect for property rights and human rights, and access for all to education and economic opportunities. Growth without development in Pakistan and in Bolivia, Nigeria and other natural resource–based economies, and setbacks following a decade or more of growth in Côte d'Ivoire, Zimbabwe, and even Venezuela have been far more about local political failures than economic ones. Even those low-income economies with responsible leadership –

Ghana, Mali, Morocco – face daunting problems of management and capacity constraints that deeply undermine their well-intentioned efforts to reduce poverty

Yet the global community, including all of you and me, relies on competent governments everywhere to play by certain rules in our global society. Incompetent and corrupt governments are weak links in the chain that provides global security and enables global prosperity. Deforestation and the resulting climate risks in the Congo and Indonesia; avian flu incubated in Vietnam; consumer safety breakdowns in food and toy manufacturing in China; terrorist groups in the Philippines and Pakistan – all these risks cannot be contained within the borders of the poor countries where they start.

From both the perspective of new opportunities out there, and of new cross-border risks, development matters. It is in the interests of rich countries to bind themselves in some contractual form to engagement with poor countries.

Why social? Three market shortcomings

Market reform and outward-oriented economic policies are not to be disdained. They are a good part of the explanation for the rapid growth and huge reductions in poverty of the last two decades and more in China, India, Bangladesh, and Vietnam, just as they were earlier in the East Asian Tigers. In China, it was liberalization of agriculture that started the process; in China and in India since the late 1980s a more business-friendly environment and openness to foreign investment have contributed. In Latin America and Africa, good macroeconomic policies in the last two decades, helped along recently by the global commodity boom, have brought growth rates as high as 6 percent – and in the democracies of Africa 7-8 percent, finally bringing reductions not only in the rate of poverty but the absolute numbers of people living in poverty in many countries.

But I am no globophile. Markets as a mechanism for organizing societies have fundamental shortcomings, and the effects of these are easily intensified in the case of global markets. Let me mention three.

First, markets leave people and countries without the right assets behind. First, markets reward productive assets. They tend to lock in pre-existing income and wealth inequality or generate, along with growth, increasing inequality.

For individual people, the right asset in today's global economy is higher education (and the skills and flexibility that higher education signals and reinforces). Since the late 1980s, the salary premium to higher education has been rising virtually everywhere. Although the supply of graduates of higher education has been increasing almost everywhere in the world, the demand for their skills has increased even faster, fueled by rapid technological change (consider the influence alone of the World Wide Web) and the nearly instant diffusion of new technologies in globally connected markets. The demand for highly skilled and talented people at the global level has set off intense competition among rich countries to institute immigration

policies not just to permit but to encourage the entry of skilled workers – contributing to the much higher emigration rates of skilled compared to unskilled people from developing countries. (New research suggests that the benefits of that emigration for sending countries probably exceed the costs; I mention it here as an indicator of the reality of a global market rewarding education, not necessarily as a problem in itself.)

For countries, the key asset appears to be stable and sound government institutions committed to the rule of law, human rights, and property rights. An example of the wrong "asset" for countries is a comparative advantage in production and export of primary commodities, whether agriculture or, especially for immature democracies with minimal accountability to citizens, oil or other nonrenewable mineral resources. Countries that entered the 1980s highly dependent on commodity exports—whether Angola, Bolivia, Ghana, Malawi, Nicaragua, or Nigeria—and failed to diversify into manufacturing lost out on more than two decades of growth, in contrast to China, Malaysia, and (more recently) Vietnam. One plausible explanation is that entry into manufacturing (and now perhaps into IT services) encourages the accumulation of skills by increasing the returns to human capital, and the diffusion of innovations that fuel endogenous growth.)

We entered the 1990s with pre-existing inequalities within countries in education and a dramatic gap between the competence and stability of rich-country governments and that of the poorest countries. The differences in assets have helped ensure that income inequality has risen in the majority of developing countries enjoying at least some growth; and that between the initially richest and poorest countries the gap in average incomes has grown dramatically – essentially because the poorest countries have grown little if at all while the richest have continued to move ahead.

A second shortcoming of markets, particularly financial markets, is volatility. In 2008, we saw how the tightening of fuel and food markets led to price spikes that were particularly painful for importing countries that had relied on global trade of these products. In the absence of any global arrangement or rules to make those markets more resilient and less volatile, it is not surprising to hear renewed calls for energy independence in the United States and food security in the Philippines and Indonesia, despite the efficiency losses and other costs that shifting from openness to real autarchy in these markets would imply. But of the triple whammy in food, fuel, and finance that poor countries suffered this past year, it is the financial one that will be the most costly and the best remembered, particularly in the emerging-market economies that had opened their financial and capital markets.

Financial crises hurt all countries, but developing countries have tended to suffer much greater relative losses in the past, losses of 10 percent of GDP and more compared to 2 to 3 percent in rich countries following banking crises. And within countries, the poor who lose jobs and income often sell assets or take their children out of school, implying permanently lower lifetime income. In Mexico many children who left school during the 1994-95 tequila crisis never returned.

The results are long-lasting for the relatively poor in other ways as well. One example: the high public debt that follows government rescues of banks and other financial institutions crowds out private investment and job creation and reduces the fiscal space for spending on infrastructure, education, and health programs that benefit the poor the most and help build a middle class. There is good evidence that the labor share of total income relative to capital declines during crises and never fully recovers. Thus volatility is complicit in contributing to income inequality.

A third shortcoming of markets is that they cannot and do not address "public" goods, i.e. products and services on which market actors cannot make a profit (or fully capture the benefits were they to invest or spend). Basic education is publicly financed almost everywhere in the world because basic education is a quasi-public good – parents (and their children) can capture some of the benefits of going to school but not all the benefits that societies reap when more people are schooled. By the same logic, most governments spend public resources to prevent contagious diseases. The classic case of a public good is control of pollution: the factory owner who implements pollution controls pays the cost of control (in the absence of a subsidy) but captures only a small part of the benefits to his community. At the global level, the classic counterpart case is the reduction of greenhouse gas emissions: countries that commit resources to reduce emissions cannot capture all the benefits for themselves. Just as local pollution control requires that some government entity impose regulations or create offsetting incentives through taxes or subsidies, global-level control of greenhouse gas emissions is likely to require that an activist international community (including at the least the major polluter countries) impose controls or agree on incentives.

Climate change is another example of a global problem that hits the poor people and countries hardest. By an unfortunate twist of fate, tropical countries that contributed least to the accumulation of gases are likely to suffer the worst declines in agricultural productivity, in precisely the sector where the poor within countries are heavily concentrated. In the absence of corrective action at the global level, projected declines in agriculture in India are on the order of 30 percent in the next 70 years – and as much or worse in parts of Africa. Sea level rise in Bangladesh, drought and floods, and the expanding reach of malaria and other diseases in many tropical areas will also hit those most vulnerable hardest. And even for the same risks, poorer people and poor countries have fewer resources with which to protect themselves and adjust to changes and will therefore suffer much higher welfare costs if not higher absolute costs from the effects of climate change.

Other global public goods that the market naturally neglects (in these cases a pecuniary market failure) include agricultural research and development likely to benefit people and places with low incomes and limited market power and health research and development on malaria and other diseases that primarily afflict the poor. These are areas where in the last several decades large philanthropies like the Gates Foundation have stepped in to compensate for chronic underfunding by rich-country "donor" governments.

In short, in the absence of government intervention, markets alone are not a sufficient organizing principle for socially and politically stable societies. They tend to generate inequality, since alone they favor those who already have financial or human capital or other assets (such as political privileges or family connections); they fail to protect the poor and vulnerable during financial and other crises, and alone will not provide the pension, health and other social insurance needs that reduce insecurity among the middle class (and invite reasonable risk-taking and innovation); and they naturally fail to provide for key public goods (due to what economists refer to as missing markets or market failures).

Building a global social contract: A development agenda

The conventional development agenda begins (and too often ends) with an emphasis on the quantity of aid. Let me suggest a four-part agenda for building and sustaining a robust global social contract, which includes but goes well beyond aid.

First, as is the case within country borders, there should be a laser-like focus on avoiding harm to any members of the global community. An apt example is the imperative, from a development point of view, that rich countries during this global economic crisis do not yield to the protectionist pressures that were so calamitous in the 1930s for the then "world" economy. I am optimistic they will not – perhaps with leadership from here in the Netherlands, since you are a small sea-going economy that has mastered and is dependent on global trading opportunities.

Doing no harm also requires changing some current rich-country policies and programs. The Common Agricultural Policy, which ends up hurting developing country agricultural producers, is an obvious example in Europe – as are cotton, sugar, and other forms of agricultural protection in the United States. The subsidy and protection for corn-based biofuel in the United States is discouraging investment in biofuels in which developing countries have or could have a comparative advantage. The WTO-agreed intellectual property rights regime reflects a tradeoff between access and innovation pushed by the United States and others in the 1990s that is inappropriate for the world's poorest countries – where the premium has to be on access, particularly to new medicines; Ha-Joon Chang discusses this problem in more detail in his remarks. And then there is the tough issue of migration. A colleague of mine at the Center for Global Development argues that emigration *is* development. Certainly for the unskilled, emigration from a poor country to a rich country is the single easiest and most effective escape from poverty. Nigerian, Haitian, and Honduran construction workers and taxi drivers with little education can instantly increase their incomes fivefold and more by simply moving from their home to a rich country. Immigration is a difficult domestic political issue in all countries – rich and poor – and it would be naïve to expect all countries to liberalize this market as they have liberalized trade and capital markets. But development advocates could be more assertive in calling for easing of current illiberal restrictions on the movement of people across borders, given the growing evidence of the benefits of such movements for both sending and receiving countries.

The idea of do no harm extends as well to enforcing anti-corruption rules on investors abroad and supporting actively the Extractive Industries Transparency Initiative, the Equator Principles, the Kimberly process, and other efforts to bind private and public agents to good behavior in their dealings with developing countries. Cooperating on programs to document and fight illegitimate and illegal tax and capital flight also falls into this category.

Second, again as is the case within country borders, all governments should allocate more resources to global public goods by spending both at home and abroad. As happens within countries, there should be some redistribution through taxes and expenditures of the burden and benefits of such spending from rich to poor – in this case across countries – in the enlightened self-interest of the rich. A good example is investments in clean energy technologies to minimize climate change, including spending within rich countries on energy research and development. Naturally there is concern that rich governments will divert resources from traditional aid programs to "global" programs; but, in fact, recent evidence suggests that the effects of climate change are already imposing high welfare costs on the world's poor, so whatever tradeoff there may be is far less clear than heretofore assumed. Ideally in the context of a climate change treaty, the much greater per-capita emissions of rich countries compared to poor will imply major compensatory financial transfers from the former to the latter to purchase emissions rights. Those transfers would not be aid, with its administrative and proto-paternalistic burdens on poor countries, but legally based transactions in which all parties honor contractual obligations. In any event, R&D on clean energy would ideally include a major focus on sun, wind, and biofuel technologies that would tap the comparative advantage of developing countries, many of which literally have more sun than rich countries, and would be compatible with the needs of low-income and rural populations.

Other global public goods include public investment in new and improved medicines and health delivery technologies and in agriculture (for example to create a Green Revolution in Africa and elsewhere) oriented to the needs of people in developing countries, and public contractual commitments to finance successful development and deployment of such technologies by the private sector.

Whether called "aid" (or better not – Jean-Michel Severino who heads the Agence Francaise de Developpement with his co-author Olivier Ray suggests the term "global public finance" in a recent paper), rich countries should develop and agree on clear norms and agreed financing mechanisms (the European Union aviation tax is an apt example) for the allocation of resources to global public goods relevant for poor countries and poor people.

Third, donor countries should focus on the quality and at the least maintain the current quantity of traditional aid. In domestic social contracts, some transfers (publicly financed education) are meant to support future growth by maximizing society's investment in human capital and to level the playing field in ensuring access to health and education; some transfers (public subsidies and provisions for old age and health insurance) provide social insurance across the board for all income groups; some transfers (welfare payments to the indigent and

unemployable) are primarily humanitarian in the interests of social solidarity. It is not always easy or useful to draw clear lines around these three purposes. As with domestic transfers, so with foreign aid: it is not always easy or useful to distinguish between aid for "growth" and aid in the interest of global solidarity. The Millennium Development Goals obviously address both growth and solidarity objectives; budget support provides for both; infrastructure investments and agriculture are usually viewed as mostly about long-term growth. The bottom line is that aid can be framed as the counterpart of domestic public spending on health, education, credit programs for small businesses and so on – which, as with domestic spending, has multiple purposes. It compensates for the shortcomings of markets set out above, both in the political interest of retaining the benefits of an open, global economy for all and in response to the solidarity impulse in an increasingly interlinked world on which the rich world. The striking difference of course is in the amounts spent – on the global social contract by rich countries less than 1 percent of GDP, while on the domestic counterpart upwards of 20 percent.

The shadow of a "contract" exists at the global level in the form of the commitment of the traditional donor countries to spend at least 0.7 percent of their own GDP on aid – but of course (as amply demonstrated at the UN Doha Conference last month on financing for development) it is in fact only the shadow of a contract. In the face of political resistance to increasing aid in the next year, donor agencies would be smart to focus on getting better results for resources they already commit -- in ways that would create accountability of recipient governments to their own citizens, rather than to donors. At the Center for Global Development, we have suggested one practical innovation toward that end (we call it cash-on-delivery aid), and there are others worth trying and systematically evaluating. Donors could easily and instantly move on far greater transparency of their allocations and expenditures, and all could increase the proportion of their aid that goes through multilateral institutions as one way to minimize recipient governments' transactions and administrative costs.

Fourth, and perhaps most fundamental, is the tougher issue of creating an effective global polity to manage a global social contract. The global economy has far outstripped the institutions and clubs of nations that make up the global polity. In effect the economics of globalization has run far ahead of the politics of globalization. At the international level we have only the faintest shadow of the equivalent of the activist state at the national level – to fetter or manage a global economy or to provide the protection against its ravages for vulnerable global citizens concentrated in developing countries. What we do have is a hodgepodge of official and quasi-official institutions in which various combinations of nations make up the membership (the UN and its 20-odd separate agencies, the IMF, the WTO, the multilateral banks, the Bank for International Settlements, the club-like groups of nations (G-7, G-20, G-77, G-24). But in contrast to the sovereign state, this international polity is relatively weak and ineffective. In contrast to the democratic legitimacy of most states, this polity lacks legitimacy. As a result, in contrast to the condition of the domestic social contract in the world's mature Western economies, the global social contract for which this international polity is responsible is fragile indeed.

Yet the interdependence among nations illustrated by today's financial and economic crisis highlights the need for a more "activist" international polity – not with the power of sovereign states but certainly with more resources and responsibilities than it has today. In the near term, an activist international polity is needed not only for the coordination of a timely global fiscal stimulus and agreement on regulation of global financial markets – but also to agree on some minimal levels of protection (without protectionist trade and other policies) against the downside for vulnerable global citizens everywhere. Beyond today's crisis, ensuring that the global market works better for the poor and middle as well as the rich – in some imitation at the global level of the domestic social contract – seems critical to the political sustainability of market-based globalization.

So I would put high on the development agenda the need to move beyond ad hoc bilateral arrangements between rich and poor countries in two ways. First is the strengthening of the international institutions where the solidarity norms and the global equivalent of taxes and subsidies and regulations for the global polity need to be embedded. In the case of the development agenda, these include most obviously the IMF, the multilateral banks, and the United Nations – but also the WTO, the Basel Committee and so on. Second, for the financial institutions, is the reform of their governance to make them more representative and therefore more credible and effective in developing countries; I and others have written extensively on this issue. It is not surprising that the global trade, intellectual property migration and other regimes reflect the greater market (and military) power of rich countries; and that on such difficult issues as immigration that the domestic political constraints within rich countries tend to trump the needs of world's poor. That does not mean that for solidarity reasons, and to politically sustain a global market system, with all its benefits, the development community should stand aside and accept the hand dealt. On the contrary, it means there is logic in constant vigilance or readiness as global citizens to swim against the tide of market and political power at the global level, just as we do as responsible citizens within each of our countries – in the interests of a better world for all.

In conclusion: Restating two points about the global social contract

A global market-based economy has tremendous potential benefits for improving lives by generating and allocating resources well – but only if it is complemented by a robust global social contract through which rich and poor nations bind each other to commitments in the interest of the common global good. In conclusion, I would like to restate two points about this global contract.

First, it provides a way for the development community to think differently about aid and to think beyond aid. Aid as part of a social contract across nations and peoples can be thought of not only in its traditional form of investment in people, infrastructure, and better government, likely to raise economic growth over the medium term, but also in the form of solidarity or redistributive transfers to protect and improve the welfare of unlucky fellow global citizens today. Furthermore, aid is only one mechanism by which rich and poor nations interact. Beyond aid are trade, migration, investment, climate change, and other policies of rich nations

by which they directly or indirectly affect poor nations and which should be shaped to promote development and the common global interest.

Second, management of a robust global social contract requires a strong and effective global "polity" to provide opportunities for the unlucky, protect the vulnerable, and bind us all to agreed rules and commitments through and by which those opportunities and protections are guaranteed. Development advocates in this 21st-century setting of global hyper-connectivity ought to put considerable priority on strengthening the institutions that make up our current global polity. A key aspect of their strengthening is to make them more representative and legitimate; without greater representation of developing countries, both small and poor and large and geopolitically ascendant, we put at risk the political and social sustainability of the market-based global economy itself. It is in the end through these institutions that the habits and norms, as well as the rules of a global social contract, are most likely to be shaped in a way that will put global markets and globalization to work for the majority of people everywhere.

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