

# A Welfare Ethos for a Free People?

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*David G. Green, From Welfare State to Civil Society: Towards Welfare that Works in New Zealand, New Zealand Business Roundtable, Wellington, 1996*

**I**N the run-up to New Zealand's first proportional-representation election on 12 October 1996, the policy debate revolved around the issues of whether the Employment Contracts Act would be 'softened', whether the Reserve Bank's inflation target would be raised, and whether New Zealand could look forward to higher spending or lower taxes. Notably absent was any rigorous discussion of social policy. Such debate as did occur concerned levels of spending. The really hard questions (what the state's social obligations should be, what minimum standards are acceptable, and what weight should be given to equality of opportunity relative to equality of outcomes) were not asked. The publication of *From Welfare State to Civil Society*, a thought-provoking book that squarely confronts these issues, is therefore particularly timely.

The author, David Green, is Director of the Health and Welfare Unit at the London-based Institute of Economic Affairs. Unlike many other social policy specialists, Green takes the debate back to basic principles of political philosophy. This is a real strength of his contribution, although, as I discuss below, there is a difference between grounding the issues in this way and offering a formal framework within which specific problems can be addressed.

Green's basic thesis is that reliance on social welfare cannot be viewed simply as an economic problem, because it is fundamentally a moral problem. It is this moral dimension that is lacking from most analyses of social issues. Green argues that individuals respond to the moral climate that governments create. Specifically, the current welfare environment is one in which not only has persistent reliance on state assistance become acceptable, but access to comprehensive, continuing support by the state has come to be viewed as a 'right' of citizenship. According to Green, before the development of the modern welfare state, responsibility for social support was divided among individuals or families, the community, and the state. Drawing heavily on the philosophy of the late Michael Oakeshott, he introduces a distinction between 'civil association' and 'corporate association'. This distinction is the centrepiece of Green's analysis.

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### Civil Association vs Corporate Association

Civil association is based on three inseparable assumptions: 'human nature is . . . about assuming personal responsibility for . . . self-improvement and making the world a better place for others; people are . . . united, not under leadership, but in acceptance of conditions which allow [them] to exercise responsibility; and government [upholds] these conditions, . . . the conditions of liberty'. In such a society, support for the needy is driven by an ethos of 'community without politics' (p. vii). Under corporate association, in contrast, it is assumed that society has a common goal that unites individuals. This requires an active government to manage the pursuit of the common goal; individuals are part of the 'grand scheme' and must be directed by government as appropriate.

The analysis in the first part of the book draws strongly on the lessons of history. Green argues that, during the 20th century, the historical tradition of civil association has been replaced by public institutions based on corporate association. This crowding out has been detrimental both morally and practically: the welfare system has become less effective; it has become oriented towards people's weaknesses rather than their strengths; and it has encouraged people to look towards the state for help rather than seeking their own solutions to the problems they, and others in their community, face.

Green is careful to distinguish his view from a simple 'market forces' perspective on welfare. For economists, there is a useful reminder that classical market-oriented analysis is not necessarily based on the ideal that everyone should be left to fend for himself or herself. In fact, as Green and other authors have pointed out (for example, Ormerod, 1994), Adam Smith's analysis of 'the free market' was inseparable from his broader social and moral philosophy. Green notes, for example that while *The Wealth of Nations* is Smith's best known work nowadays, his *Theory of Moral Sentiments* recognised that a good society was one in which individuals took responsibility for improving the lot of the community as a whole. In this sense, Green offers a much richer analysis than many liberal economists.

Indeed, Green criticises those free marketeers who attempt to side-step moral issues or who think purely in terms of individuals as utility maximisers. He is even more scathing of collectivists, noting such problems as private capture of government assistance programs and the 'victim' mentality that paternalistic collectivism tends to encourage. In particular, Green criticises the 'social justice' rationale for collectivism, arguing that relieving poverty is not about enforcing equal outcomes and that such rationales deliberately confuse freedom and power.

The book suggests that New Zealand is repeating the mistakes made in the US in dealing with social problems. This is contributing to even worse social outcomes, in particular rising crime and family breakdown. Green interprets these as the result of a simple, deterministic view of the poor as victims of circumstance who must be assisted by the state without resort to any moral judgments. He also argues that 'resource rights' (effectively, rights of access to the wealth of others) have come to dominate 'protective rights' (designed to enhance people's opportunities).

At the end of the first part of the book, Green draws together his philosophical views and defines a 'welfare ethos for a free people'. This ethos has three components: the depoliticisation of law-making (law-making should return to upholding the conditions of liberty rather than controlling behaviour); the restoration of a sense of personal responsibility among citizens; and a move back towards the provision of welfare by civil society (voluntary associations) rather than the state. The ethos is underpinned by two ideals: 'community without politics' and a sense of 'duty without rights' (in which there is a duty to help others but no presumption of an entitlement to assistance).

The first part of the book has much to recommend it. By taking the debate back to some basic principles of political philosophy, Green introduces a degree of rigour that is often lacking in this area of policy, and he makes explicit the assumptions underlying the rest of the analysis. He recasts the debate so that it is not about a simple choice between the free market and intervention but about the appropriate role and dynamic implications of intervention. Furthermore, Green's historical perspective reminds us of the extent to which our views are shaped by existing institutions that quickly become treated as the norm.

The book also implicitly makes a useful link into some other recent institutional literature and the social policy debate: for example, Epstein's (1995) concern with designing the law around a few simple principles that promote liberty rather than complex rules which attempt to control activity; Putnam's (1993) interest in democracy and civic traditions; and Olson's (1996) reminder that the precise design of social institutions matters in determining economic outcomes. In the past, this sort of broader perspective has been lacking from this debate and it will be interesting to see whether these sorts of links are developed further in the future.

Despite these strengths, an important element is missing from Green's approach. This can be summed up in one question: why did we make the transition from civil association to corporate association? To be fair, Green does address this question to some extent. In particular, he notes the way in which the growth of state intervention undermined many of the institutions of civil society, such as friendly societies and private schools and hospitals. But the more fundamental question is: why did this happen? What dynamics were at play? Did it simply reflect the rise in political power of one group over another? These are important questions, not because of their historical interest, but because they offer a guide to how change might be achieved in the future. From my (admittedly narrow) perspective as an economist, I do not think such questions can be addressed adequately with political theories alone. What is required is a theory to explain the existence of different institutional arrangements and why one institutional type might be preferred to another.

In economics, the so-called comparative institutional literature and the related 'contracting' literature offers some insights. These schools of thought acknowledge that the attainment of either individual or collective goals is always constrained by certain fundamental attributes of human existence. In particular, all social and economic interactions confront the problem of interdependency (there are also often

problems of opportunism and imperfect information). There are costs in overcoming these constraints (such as coordination and contracting costs); and, depending on what outcome is sought, some institutional arrangements are better at reducing those costs than others. The 'optimal' institutional arrangement for delivering a particular outcome will change over time, reflecting changes in preferences, technology and the impact of various 'shocks' that change social, political and economic circumstances.

What does this tell us about the shift from civil to corporate society? It might be that a particular shock (the Great Depression) combined with the emergence of a less homogeneous social structure, led to a 'rational' shift in preferences towards less voluntary provision of welfare and greater state involvement. No doubt Green would, quite rightly, point out that this is a partial view; it needs to be underpinned by a definition of 'optimal' (based on some fundamental values) and it lacks a theory of how individual preferences are translated into political action. Moreover, even if the move was a rational one at the time, there is no reason to believe that the current institutional arrangements continue to be 'optimal'. Nevertheless, this sort of formal framework raises some interesting questions. For example, is it the case that political parties lie along the same institutional spectrum as friendly societies in the sense that both structures represent a coalition of like-minded people who seek to improve their circumstances through collective action? The difference between the institutional forms is that friendly societies are 'inward looking' (they seek to produce their own benefits) while parties are 'outward looking' (seeking to extract benefits from the political process). In that case, the question of interest is: what factors might result in a shift from a one institutional form to another? (Examining the historical development of trade unions might offer some clues.)

### **Welfare Reforms**

In the second part of his book, Green takes the ideal of civil association (and the 'welfare ethos' it engenders) and applies it to four areas of social policy: welfare benefits, health care, education and age pensions. He recommends fundamental reform for the benefit system. Four principles should guide this reform: the system should be consistent with a flexible economy; it should recognise that money transfers alone are not necessarily a solution to poverty; it should encourage self-help rather than narrowing opportunities; and the historical tradition of 'community without politics' (voluntary assistance) needs to be rebuilt.

This analysis leads to several specific recommendations. State grants to the voluntary sector should be reduced in order to encourage private charities to be truly independent; events which can be privately insured, such as sickness or injury, should be; state-provided income support should be seen as a last resort; individuals should be able to opt out of the public welfare system and seek the help of voluntary groups who would focus on individualised 'self-help' approaches; never-married mothers should be required to work as a condition of receiving benefits; and men should be discouraged from fathering children outside marriage and should be made to take responsibility for the children they do father.

On health care, Green's main recommendation is that it should be primarily funded out of private insurance. He sees the 1991 White Paper as offering a viable model: individuals should be able to choose between regional health authorities and alternative health care plans. Regardless of the source of funding, hospitals should be privately owned.

Green favours direct parental payment for education rather than a voucher scheme. This gives parents the strongest incentives to take an interest in their children's education and minimises governmental interference in the education system. Tax credits should be available for low-income families. Control of schools should be handed over to independent educational trusts. For the tertiary sector, Green recommends a phased move to fees covering 100 per cent of costs and a continuation of the student loans scheme. Tertiary institutions should be privatised.

In the chapter on pensions, Green argues that private provision for retirement should be viewed as the primary means of support, with New Zealand Superannuation operating solely as a safety net. He considers that the current level of New Zealand superannuation payments is too high; he recommends that the link to wages should be abandoned, with the invalids benefit viewed as the more relevant comparator. Income and asset tests should apply. Recognising the scale of these changes, Green suggests that they should be phased in over a long period.

### **Getting from Here to There**

I do not propose to debate the merits and defects of these detailed recommendations. They are obviously consistent with the principles Green has previously set out. In this sense, he offers a comprehensive and coherent set of recommendations. Nevertheless, in general, the second part of the book is less satisfying than the first. There are two main reasons for this. First, to many readers, sympathetic or otherwise, there is not much new here and the conclusions drawn are fairly predictable. To a large extent this is unavoidable. However, this effect could have been mitigated by the use of more explicit criteria in assessing different approaches and of more examples to illustrate various successes and failures. For example, Green's general approach is to show how a particular institutional arrangement (say, private education) is consistent with civil association and will therefore deliver better outcomes than the current system. He could more profitably have compared different approaches by reference to standard criteria such as equity and efficiency. This would illustrate how particular arrangements are not only more consistent with some high-level values, such as liberty, but are also superior on more 'practical' grounds. More examples would reinforce this. The book certainly contains elements of this approach, but a more formal and rigorous treatment, underpinned by an institutional framework, might have been more convincing.

The second source of frustration with Green's analysis of specific policy issues has to do with the question of transition paths. In a few areas, Green tackles transition problems directly. However, while civil association might well be preferable to corporate association, it remains unclear how society makes the transition from the latter to the former. It is always tempting to treat transition issues as subsidiary.

But, as many policy-makers have learnt from bitter experience, they can constitute a major hurdle to change. Certainly, for some types of policy reform, the best approach is the 'short sharp shock': signal that the 'world has changed', implement legislation and move on. Many of the policy reforms enacted in New Zealand over the last ten years were of this nature. The approach succeeded where the reform involved changing the general rules of the game (for example, the Reserve Bank Act, the Fiscal Responsibility Act, and the Employment Contracts Act). It was less successful where the reforms involved a lot of detail and required large shifts in attitude as well as rules (for example, the health and education reforms).

Green's reforms are of the latter type: they rely strongly on the ability to shift attitudes and preferences, to 'restore' civil association. This seems to be a very challenging task and may even be founded on some shaky assumptions. For example, as Green repeatedly emphasises, the family unit is absolutely central to civil association. But is the breakdown of the family, about which he is so concerned, simply a reaction to the incentives created by the expansion of the welfare state? Or is it as much to do with increased social diversity (less homogeneous preferences) combined with increased social stresses? Again, a theory about why different institutional arrangements arise would be helpful.

As well, the issue of social preferences is a complex one. In the first place, preferences relate not only to social outcomes (such as whether income equality is desired) but also to the institutions which deliver those outcomes (such as state-run organisations as opposed to charitable organisations). Restoring civil association requires changes in both sets of preferences. In the second place, it may be the case that preferences are 'path-dependent'; existing institutional arrangements become preferred over previous arrangements. In this case it becomes difficult to invoke change in the absence of some sort of shock to the system.

Green has produced a very challenging and provocative book. He boldly tackles one of the most crucial sets of policy issues facing New Zealand. His willingness to ground the debate in some fundamental philosophical principles makes the first part of the book rich and interesting. However, the analysis might have been strengthened by the use of a comparative institutional framework and thus some ideas on dynamics. This would have contributed to our understanding of how and why we came to be where we are today and how we might push forward to achieve a better set of social outcomes.

## References

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