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INTRODUCTION

Michael James

David Green's book *From Welfare State to Civil Society: Towards Welfare that Works in New Zealand* was published by the New Zealand Business Roundtable in 1996. Although it attracted a good deal of hostile commentary, the overall response was, as the *National Business Review* observed in its editorial of 12 April 1996, 'mild and generally favourable'. Since then, the terms of the public debate about welfare have shifted significantly in a way that betrays widespread unease with the way state welfare policies have been implemented over the last 50 years or so.

As Director of the Health and Welfare Unit of the Institute of Economic Affairs in London, Dr Green has revived interest in the idea of 'civil society'. This idea refers to a realm of human activity that is both independent of government and not dominated by commercial motivations and criteria. The sources of welfare in civil society range from the efforts of individuals and families to the organised activities of voluntary associations and private insurance. Although all of these sources of welfare flourished in the pre-welfare state experience of New Zealand and the United Kingdom, in both countries the state has been by far the most significant supplier of welfare for at least two generations. In that time, it has displaced civil society in the imagination as well as in practice, so much so that the voluntary sector has been reduced to a residual status, almost below the threshold of popular awareness.

Dr Green's conception of civil society draws on a theory of limited government which, originating in British social theory in the eighteenth and nineteenth centuries, has in the twentieth century been eclipsed by the view that the state's rationale is actively to promote collective goals rather than to maintain a framework of rules that enables individuals and associations to promote their private goals. The welfare debate in New Zealand, where this view of the state has been overwhelmingly dominant on both sides of politics, is especially in need of the wider terms of reference that Dr Green's book advances.

Already, the welfare debate is moving into new territory. At the Department of Social Welfare's 'Beyond Dependency' conference in March 1997, many contributors spoke about the need for welfare dependants to move into work or training – the 'workfare' experiments in the United States attracted considerable attention. Equally important, politicians' rhetoric about welfare is changing. In New Zealand as in Britain and Australia, governments are referring to 'reciprocal obligations' between the citizens whose taxes finance state welfare and those who benefit from them. This principle of mutuality lies at the heart of the idea of civil society that Dr Green advances. In the wider society, after several decades of high rates of divorce and sole parenthood, understanding is returning of the importance of the stable two-parent family for the long-term welfare of all its members.

So far, however, the debate has remained at the level of trying to make state welfare programmes work better. This collection of reviews has been published, like Dr Green's book itself, to help ensure that the welfare state is evaluated in terms not only of its own potential but also that of the alternative, non-state sources of welfare that Dr Green identifies. Civil society is flexible and responsive to particular welfare needs and preferences in a way that the typically rule-bound, one-size-fits-all state welfare programmes can never be. Dr Green's policy proposals in the main areas of welfare delivery are reviewed by a combination of friendly and hostile critics; as well, his notion of civil society is subjected to rigorous criticism by two reviewers who identify themselves as supporters of limited government. The final contribution is Dr Green's rejoinder to his reviewers. The collection is preceded by the summary of *From Welfare State to Civil Society*. The aim is to indicate and clarify areas for continuing debate that build on but go beyond the initial response to the book in 1996.

Over the last 15 years, New Zealand's economic policy regime has been transformed by a recognition of the limitations of state intervention and an appreciation of the strengths of the private sector. Some of the country's present difficulties are arguably due to the failure to maintain and extend that regime. The need to advance the reform process by testing the welfare state monopolies against the actual and potential performance of civil society is becoming ever more evident, as, despite ever-rising welfare-state spending, public dissatisfaction with education and health services remains unabated and welfare dependency increases. Internal reform seems to be producing meagre returns. Attempts to improve state education lead only to successive confrontations with teacher unions, health reform unguided by revealed consumer preferences can never escape the treadmill of successive unsatisfactory orderings of service priorities, and everyone knows that New Zealand Superannuation is unsustainable in its present form.

Yet the idea that state services should be contestable because civil society may be able to do some things better is surely no longer an outlandish one. As British Prime Minister Tony Blair has observed, a strong society should not be confused with a strong state. As New Zealand society ages, demands on the public purse will continue to grow, and future governments will have no choice but to seek alternatives to tax-financed welfare services. Politicians should be encouraged by the fact that past reforms, despite initial resistance, have come to be broadly accepted as their benefits become evident, and there may be every reason to suppose that, as in the past, bold leadership on extending reform would be rewarded.

Finally, my thanks go to Roger Kerr, for inviting me to put together this collection and for his subsequent encouragement, and to all the contributors, for their diligence in meeting the deadlines I set them, and for their subsequent cooperation. Sadly, Archbishop Brian Davis did not live to see the collection published. He died in June 1998.

Summary of *From Welfare State to Civil Society: Towards Welfare that Works in New Zealand*

David G Green

INTRODUCTION

- The welfare problem is moral as well as financial. Welfare programmes have tended to impair human character, above all because they have undermined the older ethos of 'community without politics'.
- Before the nationalisation of welfare, responsibility was divided three ways: there was, first, individual or family responsibility; second, the community as distinct from the state; and third, the government.
- Claiming a benefit was considered to be 'letting the side down' and instead of expecting the government to provide assistance, the majority of the population assumed personal responsibility for fostering a 'public but not political domain' which cared for people who were not able to support themselves.
- The crowding out of this tradition of concerted but non-political action for the common good has had two especially harmful moral effects:
  - it has rendered welfare services less effective in their central task of bringing out the best in people who are temporarily down on their luck. Consequently, instead of appealing to people's strengths, the social security system panders to their weaknesses; and
  - it has diminished opportunities for people to be of service to each other, impairing the quality of life and encouraging us to look outwards to 'the authorities', instead of inwards to our own strengths and skills, for solutions to shared problems.

THE IDEAL OF LIBERTY: A RE-STATEMENT

- Liberty is not '*laissez faire*' or 'market forces'. It is best understood as 'civil association', as distinct from 'corporate association'. A society of civil associates is based on three inseparable assumptions:
  - human nature at its best is about assuming personal responsibility for both self-improvement and making the world a better place for others;

  - people are seen to be united, not under leadership, but in acceptance of conditions which allow us all to exercise responsibility; and
  - government is understood to be the upholder of these conditions, that is, the conditions for liberty.
- A market economy is sometimes caricatured as the celebration of selfishness, whereas classical liberals from Adam Smith onwards understood liberty as a moral ideal. Contrary to some representations, the market is not 'amoral'.
- A market system is morally educational in a workaday sense, but the market is not morally self-sufficient and its champions need to foster a moral order consistent with freedom.
- Three mistaken arguments advanced by some, but not all, free marketeers are criticised:
  - there is no 'natural right' to be free from all interference by the state. Not all actions of the state are invasions of private rights;
  - concern with morals is not inevitably 'authoritarian'. There can be responsibility without control; authority without commands; and respect for our common heritage without central direction. The moral order compatible with liberty is 'habitual' rather than 'intellectual'. It requires constant effort by everyone to uphold it. This dispersal of responsibility gives each person important tasks to perform – everybody is somebody – and at the same time distributes those personal strengths and skills that help to guard against intrusive governments bent on imposing partisan doctrines; and
  - hard-boiled economism, the doctrine that man can best be understood as a maximiser of his satisfactions, is mistaken. It neglects the importance of unthinking good habits and the ethos of self-improvement.

RATIONALES FOR COLLECTIVISM

- Why has collectivism retained its vitality? Five rationales for collectivism are described and rebutted:
  - the ideals of the medieval religious corporation provide part of the parentage of modern totalitarianism and retain a residual influence;
  - the idea that the nation–state *is* an economy, rather than a social order which *has* an economy, continues to provide inspiration for modern collectivists;

  - modern majoritarian democracy has corrupted the true democratic spirit. The higher ideal is to confine the political process to making laws that protect us all, and to refrain from use of the political system to benefit one group at the expense of another. There are three problems: the political system has become a place where private interests bargain with governments for benefits; it has become more like a meeting of shareholders in a corporate enterprise, with national targets set for this or that and proposals put to the vote, with the outcome rarely in doubt; and law making has increasingly become the issuing of mere management instructions; and
  - claiming 'victim status' has become a popular strategy for winning political support for measures that confer advantages on some at the expense of others. Such tactics undermine not only liberty, but also the self-respect of would-be victims.
- In respect of the fifth rationale for collectivism, social justice, the following points are made:
  - the relief of poverty should not be confused with politically enforced equal outcomes;
  - merit cannot be politically enforced. Enforcing equality at the starting gate undermines the family;
  - the duty to assist the poor has been mingled with less worthy notions, including envy and the desire to profit at the expense of anonymous others;
  - the deliberate confusion of freedom and power, by distinguishing between positive and negative freedom, is nothing but sophistry calculated to trick the unwary into surrendering their liberty in the name of freedom;
  - forcing the middle class into the state education and health systems does not raise general standards, but leads to middle-class capture;
  - the claim that welfare should be universal as a badge of democratic citizenship has created division rather than solidarity. Democratic citizenship is desirable but the political process is not the only potential outlet for the desire to be a good citizen. The political process intensifies the corruption of the vote-buying process; and
  - Rawlsian theories are useful to collectivists because they muddy the water, falsely implying that it is possible to have a little bit of equality without a serious reduction in freedom.
- Corporate association appeals to two personality types: first, those who imagine they will be the leaders; and second, those who welcome

the release from life's cares promised by the leaders. Such doctrines tend to weaken human character by diminishing opportunities for us to develop skills and virtues through direct participation in overcoming the hazards of life.

- Civil association, by contrast, is intended to equip us for self-rule not political rule, that is, for non-political cooperation in joint endeavours. In doing so, it increases opportunities for service to others, whereas corporate association diminishes such opportunities and reduces our potential to grow as people, rendering us still more in need of paternalistic guidance.

THE GRADUALLY CHANGING PERCEPTIONS OF WELFARE

- Two approaches have emerged from the evolving welfare debate in the United States: explaining behaviour as the result of perverse incentives and contending that there has been cultural breakdown.
- New Zealand is in the process of repeating the American mistakes, leading to rising crime and family breakdown. Five intellectual errors bear special responsibility, namely:
  - Behaviourism: Poor people are understood to be the victims of circumstance and the duty of government is to devise programmes to remedy their problem. The assumption that people react to outside stimuli which can be manipulated to bring about changes in their conduct provides a rationale for political paternalism.
  - Victimism: Poverty is considered to be the result of external forces which are unjust and entitle the victim to compensation. Not only does this view undermine personal responsibility by telling victims that they are incapable of solving their own problems, it provides a rationale for group hatred and demands for political discrimination.
  - Non-judgmentalism: Moralising is seen as imposing values without the grounds for doing so. This view confuses external control with self-imposed moral restraint.
  - Resource rights: Freedom is precisely the ability to act within a legally protected domain of initiatives, but welfare rights are different. They are 'resource rights', or demands that political power be used to take the earnings or savings of one group for transfer to another. They are calls for other people to work or save in order that the holder of the right can live without necessarily

working or saving. Protective rights, by comparison, are intended to give everyone a chance. They are mutual, whereas resource rights are confiscatory.

- Integrationism: Citizenship theory, typified by the 1972 Royal Commission on Social Security, claims that giving people spending power integrates them into the community, and that without spending power people are excluded from the community. This view assumes the solidarity of the leader and the led in corporate association, not the moral commitment and personal responsibility of civil association.

A WELFARE ETHOS FOR A FREE PEOPLE

- Three requirements for a welfare ethos are suggested:
  - we need to begin the depoliticisation of law making. This will involve constitutional reform to confine the state to its proper task of upholding the conditions essential to the achievement and maintenance of liberty;
  - we need to restore a sense of personal responsibility and to rehabilitate virtue in its best sense; and
  - we need a positive campaign to restore tasks to civil society, that is, to the domain of 'community without politics'. Governments should, first, step back to create the space for a renewal of public but not political action; and, second, refrain from actions which undermine personal responsibility, the family and voluntary associations.
- Historically, voluntary assistance through charities and mutual aid associations supplemented by a minimum safety net provided by the state offered superior protection because it attended not only to material needs but also to character. Support services should appeal to people's strengths, not their weaknesses.
- There were two elements of the philanthropic ethos:
  - there was 'community without politics', a sense of solidarity with others that was based on an obligation to help others without degrading the recipient. Political solutions, by contrast, assume that lives are to be directed by the authorities and tend to be based on low expectations, with the result that people who are temporarily down on their luck are more likely to be 'locked-in' to their predicament; and

  - there was also a sense of 'duty without rights'. Everyone had a duty to help but no one had a right to receive assistance. Giver and receiver were both expected to take pains to show mutual respect. The modern mentality of welfare rights encourages people to demand whatever they can get away with.

POVERTY, WORK AND THE BENEFIT SYSTEM

- The following policy recommendations for benefit system reform are advanced:
  - a genuinely independent voluntary sector should be encouraged by reducing the reliance of voluntary organisations on government grants. The increasing reliance on such grants since their introduction has meant the steady infiltration of voluntary organisations by politicians and political concerns. Some voluntary associations have become lobbyists for taxpayers' money and others have ceased to play their traditional pioneering role because they are fearful of upsetting their political paymasters. A distinction should be made between registered voluntary organisations, which can receive government grants but do not benefit from tax concessions, and charities which rely 100 percent on private finance;
  - individuals should be responsible for making good any loss of income that arises from insurable events. Sickness and invalids benefits should be abolished to allow private alternatives, including services offered by mutual aid associations, to emerge. Existing commitments should be honoured;
  - assistance to those able to work but out of work should be the shared responsibility of government and voluntary organisations;
  - a new attitude should be encouraged. Instead of 'claim all you can get', income support should only be claimed as an absolute last resort. It should be a matter of honour to avoid claiming and to rely on savings and insurance wherever they exist. Consequently, it should be necessary to have exhausted all capital to be eligible for a benefit, and all private income should be deducted from benefit income;
  - individuals should be able to avoid the more stringent means testing by opting to receive support from a voluntary association instead of the New Zealand Income Support Service. Voluntary organisations would be free to support individuals as they believed

best, using their own money. Individuals opting for voluntary support would not be legally required to spend their savings or have their earnings deducted from benefit. Such associations would concentrate on devising personalised schemes to help people back on their feet, and would need to be free to devise innovative policies. They would be able to arrange pathways back to independence through part-time work or training or personal morale-building without the benefit system producing perverse incentives. A face-to-face relationship with a voluntary association worker will not have the same corrupting effect as state benefits because all assistance will be discretionary and subject to mutual agreement. In such a personal relationship, mutual respect, honour and good faith have a chance, whereas an arms-length relationship with a public official encourages dishonesty, bad faith and 'working the system';

– never-married mothers, but not divorced or widowed sole parents, should be required to work as a condition of receiving benefit. Their benefits should not be stopped, as Charles Murray and some American analysts contend, if doing so would cause too much hardship for their children;
– men should be deterred from fathering illegitimate children. The clear message the law should send is that any man contemplating sex outside marriage must be prepared to face the consequences of his actions. To father a child and to refuse to take responsibility should be marked out as one of the lowest things a man can do. Fathers who neither marry the mother nor have custody should pay full maintenance. If their incomes are too low for full maintenance they should be reduced to the unemployment benefit level after the payment of maintenance and the handing over of savings or non-essential assets. Those out of work should be required to work.

HEALTH CARE IN A FREE SOCIETY

There should be much greater reliance on private insurance. Urgent, non-discretionary treatment should be available to all, but follow-up systems for recovering costs should foster self-reliance and thereby reward those who are insured.

The 1991 white paper on the New Zealand health system envisaged that some people might not want to rely on a regional health authority

(RHA), preferring to determine what health services would be available to them. Instead they might opt to receive back the taxes they had paid for health services, and to make provision by means of an alternative health care plan.

Relative to the status quo, this scheme had the potential to encourage health care in New Zealand to develop in a less paternalistic manner and should be revived. Individuals opting to receive care from an alternative plan could be paid a tax credit on an age-related scale.

Hospitals (Crown health enterprises) should be privatised as access to health services can be underwritten by government funding and does not require government ownership of providers.

EDUCATION AND CIVIL SOCIETY

Education should be financed by parental payment, not from taxes. There are three main advantages for parental payment compared with voucher finance. First, payment more fully restores parental responsibility and thereby strengthens the family. Children's awareness that their parents are paying for their education creates a strong bond, helping to unite the generations. Second, there would be less reason for governments to interfere, because they would no longer have the excuse that they were exercising caution in the use of public funds. Third, taxes can be lowered, thereby reducing deadweight losses.

A system of education tax credits should be introduced to ensure that all parents can afford to educate their children. For people on low incomes, a credit payment would be made, whereas others whose tax liability exceeded the voucher value would pay less tax. For those paying tax at source, an adjustment to the tax code would probably be the simplest method.

It is now well established that the key to the successful functioning of any market is the possibility that new entrants will attract customers from existing providers. Without this discipline, established suppliers too easily settle down to a quiet life. For this reason, the state should not have the power to run schools, and should relinquish control over existing schools. This could be accomplished by means of a phased hand-over to independent educational trusts.

Tertiary education should also be financed by parental or student payment. The simplest solution would be to increase fees over a 10-year period until they cover 100 percent of the cost of each course. The income-contingent student loan scheme is generally well designed and should be extended to cover students in a wide variety of institutions, in New Zealand and overseas, in competition with public tertiary institutions.

The universities, polytechnics and teacher colleges should be privatised.

PENSIONS AND SAVINGS IN A FREE SOCIETY

On current plans, the qualifying age for New Zealand Superannuation will be 65 in 2001. It would be advisable to raise the age by a further six months per year until it reaches 70 by 2009. People are now fitter for much longer and have a good deal to contribute in the workplace well after they are 65.

The present level of New Zealand Superannuation is too high. The link to wages should be abandoned and the rate set to coincide with the benefit system, as recommended by the 1988 Royal Commission on Social Policy. The appropriate comparison is with the invalids benefit, which allows for long-term costs, and for that reason was chosen as the rate for transitional retirement benefit. The 1995 net weekly rate for a single person is $173.06 (compared with $197.76 for New Zealand Superannuation) and for a married couple $288.44 (compared with $304.24).

An income test should be retained and, at some future point, the retirement benefit should be subject to an asset test. Claimants should be expected to spend down to an agreed amount of cash and to dispose of property other than their own home or car. According to the Todd Task Force, about 70 percent of the over-60s own their own home without a mortgage.

Because any such changes involve a radical break with the past, it would be right to give a long period of notice to allow sufficient preparation. A reasonable future date for the introduction of income and asset testing would be 2009 when, under these proposals, the retirement age becomes 70. This would allow ample time for people to adjust and make private provision.

The TTE (taxed contributions/taxed growth of the fund/exempt benefits) regime should continue, but taxes should be cut and the special tax on the growth of pension funds lowered in line with reductions in income tax. Under these proposals the state would continue to maintain a safety net, regulate in the interests of competition and choice, and would provide useful comparative information to strengthen the hand of the consumer and enhance competition.

Provision of income in retirement should be an individual responsibility. Retirement is a highly predictable event. Individuals have different preferences for present and future consumption. They can save to fund their spending during retirement in many ways. There are no compelling grounds for government support for retired people in the medium term beyond the provision of a modest safety net for those who cannot be assisted in other ways.

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Dr David Green is the Director of the Health and Welfare Unit at the Institute of Economic Affairs in the United Kingdom, a position he has held since 1986. He was formerly a Labour councillor in Newcastle upon Tyne from 1976 until 1981, and from 1981 to 1983 was a Research Fellow at the Australian National University in Canberra. He is the author of numerous articles, essays and monographs on health and welfare issues, as well as the books listed below. He lives in Surrey with his wife and two children.

Books by David G Green

Benefit Dependency: How Welfare Undermines Independence
Institute of Economic Affairs, London, 1998.

Community Without Politics: A Market Approach to Welfare Reform
Institute of Economic Affairs, London, 1995.

Reinventing Civil Society: The Rediscovery of Welfare Without Politics
Institute of Economic Affairs, London, 1993.

Everyone a Private Patient: An Analysis of the Structural Flaws in the NHS and How They Could be Remedied
Institute of Economic Affairs, London, 1988.

The New Right: The Counter-Revolution in Political, Economic and Social Thought
Wheatsheaf Books, Brighton, 1987 (published in the United States as *The New Conservatism*, St Martin's Press, New York).

Challenge to the NHS: A Study of Competition in American Health Care and the Lessons For Britain
Institute of Economic Affairs, London, 1986.

Working-class Patients and the Medical Establishment: Self-help in Britain From the Mid-nineteenth Century to 1948
Gower/Temple Smith, London; St Martin's Press, New York, 1985.

Mutual Aid or Welfare State: Australia's Friendly Societies
Allen & Unwin, Sydney, 1984.

Power and Party in an English City
Allen & Unwin, London, 1980.

Economism, Civil Society and Welfare

Norman Barry

From Welfare State to Civil Society is the latest book by David Green which explores the moral foundations of a free society and places a critique of the familiar institutions and policies of modern Western welfare states in the context of a carefully elaborated concept of liberty. It is characterised by some excellent scholarship and intimate knowledge of the workings of the various statist strategies that have been used throughout this century to tackle the problems of poverty, health, education and the family that have vexed policy-makers. As he notes, these persist despite the vast increases in welfare spending and the extension of the state into areas which were traditionally thought to belong almost exclusively to the private world (or, as Green puts it, 'civil society'). What is new in this work is an extension of Green's analysis to New Zealand. It is not surprising that the problems of divorce, illegitimacy and family breakdown, and the dissatisfaction with the nationalised education, health and pensions systems that have been sedulously examined by writers in other liberal democracies seem to be reproduced in New Zealand. The problems generated by welfare states appear to be virtually universal.

However, what is interesting about this book is that Green implicitly, and frequently explicitly, rejects the analytical conclusions, and policy prescriptions, of some other writers in the field. Most notable is his criticism of the economic approach to welfare problems. It might be thought that, since these conundrums are virtually universal, they can be subjected to the academic prophylactics of economics, which is, after all, the only social science that has produced 'laws' of a compelling kind and predictions that are regularly confirmed by events. Indeed, economists have extended their analytical tools and behavioural assumptions, such as the presence of a universal self-interest in the context of permanent scarcity, beyond the market for ordinary goods and services and ventured into the broader social area. But Green is dissatisfied with this approach, even though he implicitly makes use of it in his critique of the state's role in providing typical welfare services, be it poverty relief or zero-priced education and health care: these policies simply encourage excess demand and social dysfunctioning in the former and perverse redistributions in the latter. Yet Green would clearly be unhappy with a policy approach that merely changed the incentive structure of the welfare state, or concentrated exclusively on creating the conditions for economic growth, or dealt with the poor by more or less generous handouts. As he says, "Because our eyes have been fixed on 'the economy' we have not been alert to mistaken doctrines which have caused family breakdown and turned voluntary associations – once sources of that strength of character which insulates nations from tyranny – directly or indirectly into instruments of the state" (p 30).

Even earlier in the book Green expresses his dissatisfaction with the identification of freedom with economics: "Liberty is not '*laissez-faire*' or 'market forces' " (p vi). For him it has a broader definition which embraces the main elements of civil society. The latter comprises autonomous institutions, which lie somewhere between the formal market and the all-powerful and monopolistic state on the one hand, and responsible agents on the other. Thus, although Green's policy conclusions would, if implemented, lead to the dissolution of the conventional welfare state, its functions would not simply be returned to the market and subjected to the economic calculus, but would be administered by various voluntary agencies, the personnel of which would be motivated by things other than conventional economic rationality. Although his various policy proposals emphatically recommend the privatisation of most of the familiar welfare services, they would not be returned to market society but to civil society. He concedes a role for the insurance method in dealing with such problems as health and disability, but it is a rather reluctant concession.

At the heart of Green's theory of civil society is a moral doctrine that gives sustenance to people who will have to make their way in a world without the crutches of the state. Like many critics of capitalism, Green is convinced that the market is not enough. Not merely is it (perhaps) unable to generate autonomously desired welfare goods and services, but its moral deficiencies produce an uncivilised social order in which the dominance of self-interest prevents the emergence of a welfare ethos which could enable individuals to lead a civilised life in the absence of the superficially generous, but in practice highly constricting, hand of the state. In other words, the market is not morally self-sufficient, and this lack of an ethical impulse produces a situation in which pressing welfare concerns (and free marketeers, including Milton Friedman, do believe there are some) can be handled only by government.

Before I discuss specific welfare issues, it is perhaps advisable to tackle the metaphysics that lies behind Green's arguments, for I hope to show not only that he is mistaken about the supposed amorality of the market but also that his offer of civil society has implications which I am sure he would find objectionable. Although much of my criticism is negative, I shall suggest a qualified defence of 'economism' (one of Green's favourite targets), not only as the single reliable explanation of the welfare mistakes that Green correctly and assiduously identifies, but also as the indispensable key to any improvement on the current situation.

IS THE MARKET AMORAL?

Green does not explain or describe the lack of moral self-sufficiency of the market – he simply assumes its existence and hopes to fill the gap by reworking the theory of freedom from a perusal of the comments of Adam Smith, Michael Oakeshott and Friedrich von Hayek on a similar theme. It is their doctrines that provide the moral ballast for the theory of exchange. However, perhaps the most revealing aspect of this issue comes from Green's use of a quotation from the German Ordoliberal theorist, Wilhelm Röpke. Röpke wrote that:

> The market, competition, and the play of supply and demand do not create these ethical reserves: they presuppose and consume them. These reserves have to come from outside the market ... Self-discipline, a sense of justice, honesty, fairness, chivalry, moderation, public spirit, respect for human dignity, firm ethical norms – all of these are things which people must possess before they go to market and compete with each other. These are the indispensable supports which preserve both market and competition from degeneration. (quoted in Green, p 13)

The interesting question is: where do these ethical norms come from if the market does not supply them? This has a practical implication, for the idea of civil society (which is itself a contested concept) has been used by non-socialist writers who are, nevertheless, sceptical of the market and capitalism (see, for example, Seligman, 1992). They have imported ideas from outside the market which are invariably welfarist in some form or other. No doubt Green would have good arguments against them, but the point is that, once this alleged deficiency is admitted, there are no theoretical limitations (although there may be many practical objections) to the proposed corrections. It is noticeable that German Ordoliberalism (and its offspring, the Social Market Economy) proceeds from a position rather like Green's – namely, the inadequacy of a morally unaided market – and it degenerated, over time, into just the autonomy-reducing welfare state to which Green has such cogent objections (see Barry, 1993). This happened largely because the policy-makers ignored those injunctions (derived from the universal 'laws' of human behaviour) which 'economistic' social theorists have always stressed: people are as self-interested in the public realm as they are in the private. Yet Green himself seems to prefer a kind of moral education through which citizens will acquire a certain public spirit and a sense of duty without the aid of an incentive structure derived from orthodox economics.

The extra-market morality which Green is anxious to demonstrate owes a lot to Adam Smith's *The Theory of Moral Sentiments*, a book often contrasted, perhaps mistakenly, with his more illustrious *Wealth of Nations*. Green is attracted to the former work because in it Smith seems to be saying that the success of the market depends on a prior morality. It is an anodyne ethic that is apparently less concerned with selfishness as the driving motive of behaviour. In fact, like Smith, Green makes clear a distinction between self-interested behaviour and crude selfishness. For Smith, the desire to be 'well-thought of' ultimately motivates individuals, and they are as much concerned with the approval of their fellows as they are with their own worldly success. Furthermore, they are guided not only by a sense of sociability but also by the stern admonitions of the 'voice within' which gives them 'objective' knowledge of right and wrong. It is clear that Green needs this ethic since he is anxious to stress the fact that good behaviour, including a limited benevolence, can flourish in an environment which is not purely market dominated.

Indeed, Adam Smith's credentials as a genuine free-market philosopher should be questioned. Not only did he import a curious external morality into the exchange process, he also thought that benevolence was the highest of the virtues – it was simply an impractical aim for people as we knew them. A serious market theorist would ask questions about the likely consequences of a universal benevolence; these would include social and economic impoverishment. As is well-known, Smith thought that too great an extension of the division of labour would produce a kind of moral deformity in ordinary people. He therefore recommended partially state-financed education. Like any modern welfare economist, Smith was always on the lookout for market failure. He should not be taken as an appropriate moral philosopher for those who want radical reforms of the welfare state.

Smith was not even a particularly innovative moral philosopher. He could neither demonstrate the compelling nature of the moral sentiment nor explain how it can develop without the normal incentives. His argument appeals to a highly contentious view of 'nature' which is supposed to give us knowledge of 'propriety' and all the other moral attitudes that make markets work. But his great friend and contemporary, David Hume, had a much more sophisticated and plausible account of morality – one which made no special assumptions about human nature, but employed those found in orthodox market economics. Hume stressed that moral rules are simply conventions that develop over time through a series of interactions that advance the well-being of the agent. Cooperation between self-interested (even selfish) actors simply pays in a utilitarian sense. As people play the market 'game' over and over again, they learn the benefits of keeping promises, honouring property rights and following all the other basic ethical rules that make civilised life possible. Hume put this brilliantly in his description of the trading relationship:

> Your corn is ripe today; mine will be so tomorrow. 'Tis profitable for us both, that I should labour with you today, and that you should aid me tomorrow. I have no kindness for you, and know you have as little for me. … Hence I learn to do a service to another, without bearing any real kindness, because I foresee, that he will return my service … . (Hume, 1948, pp 61–62)

Nothing in Hume's ethics depends on a moral capacity in human beings that cannot be accommodated in the features of the normal exchange process. Even justice, which both Hume and Smith maintain is the basic necessity for a market society, is, epistemologically, no more than a superstition, but it is of such great utilitarian importance that no society could be stable and predictable without its enforcement. There is no special moral sense, and even sociability is said to emerge from repeated interactions between self-interested individuals.

The crucial point about the methodology that lies behind the economic approach to human affairs is that, despite the wording used to describe it, it does not claim that money or wealth is the only maximand (the end-state to be maximised). All it says is that people have stable preferences and that rational behaviour consists in the efficient use of resources to bring these preferences to fruition. People may have benevolent preferences, and they often feel better off if poverty is relieved (that is in fact the major rationale that economic liberals often use in justification for some poor relief: see Friedman, 1962; Barry, 1995a). It is true that most of the time money, or some surrogate for it, will be the maximand, but to say that is all people care about would obviously be false. But any welfare system that did not take account of a fundamental selfishness in human beings is certain to lead to unintended, and unwelcome, consequences. Furthermore, this pervasive human motivation is highly impervious to moral education. Green's own welfare system depends to some extent on the cultivation of non-selfish sentiments. Although hard-boiled classical liberal economists do not formally exclude them, these writers are highly suspicious of attempts to overplay their significance. As Richard Epstein recently said, "This characteristic of wanting more is universal" (1995, p 75). But, as he is anxious to stress, this human motivation is responsible for progress and civilisation.

The danger in Green's approach is that a whole range of extra-market 'necessities' could be persuasively produced which could gradually undermine the exchange system. Of course, Green would be the first to condemn the enforcement of these duties by the state, especially in the welfare field, but his determination to demonstrate the inadequacy of the market in the production of moral values licenses just this. Indeed, in his criticism of libertarianism (pp 17–18) he makes much of this. He argues that writers like Samuel Brittan have encouraged an 'anything goes' ethics, which is thought to be an essential adjunct to economic liberty. But this is surely unfair, for the objection here is to the state's enforcement of moral values which are not necessary for market coordination or stability and predictability. Brittan would have no objection at all to the type of moral persuasion that Green is engaged in.

Furthermore, although Green is concerned to show that the great classical liberal economists all stressed the necessity of morality, he is somewhat selective in his examples and not entirely accurate in his interpretation of their moral metaphysics. It is true, for example, that James Buchanan does occasionally emphasise the importance of morality for market coordination, but he also constantly complains of the 'cacophony' that occurs when moralists dominate the social and economic debate. As well, he stresses that morality depends on 'agreement', but this is so rigorously interpreted that it would leave little room for an objective morality with any intellectual credibility, beyond the enforcement of the rules of just conduct (Buchanan, 1975; see also Barry, 1985). He maintains that those who go beyond this are simply 'playing God', and his own view of the development of morality is basically Humean (his sternest critics might well say it was Hobbesian). The classical liberal economists were basically subjectivists in ethics; they doubted that there were any truths waiting to be discovered by the philosopher. But this does not make them nihilists, for they certainly believed in the importance and viability of coordination rules.

ECONOMISTS AND WELFARE

The classical liberal economic tradition has clarified the welfare debate by its application of the familiar tools of analysis to areas which were hitherto the preserve of woolly-minded sociologists. If people are paid to be poor, then the numbers of the poor will increase; if education and health care are supplied at more or less zero price for all, then these will be 'captured' by the middle class; if the costs of unmarried motherhood are reduced, then there will be a collapse of the family and the emergence of an irresponsible class of feckless fathers. The list of the malign consequences of ill-designed welfare schemes is endless, and Green has made many distinguished contributions to their analysis. However, the exposure of such dysfunctional effects of state welfare is apparently not enough. The economist's approach assumes a kind of determinism in human behaviour: people always respond to incentives, and good behaviour is therefore produced only when the incentive structure is appropriate. Green objects to this approach, for two reasons. First, it cannot account for the occasional lack of correlation between the implementation of a particular welfare policy and predicted outcomes. Second, and more importantly from Green's perspective, it underplays the possibility of people changing their values, and of developing an attitude of personal responsibility which will reduce the personal dependency generated by ill-designed welfare policies.

There is some truth in the first claim, but not enough to undermine the basic economistic explanation of social dysfunction. Of course, there is no exact correlation between policy and predicted outcome. One familiar example, not mentioned by Green, is that the value of welfare benefits in the United States (including Aid to Families with Dependent Children) fell in the late 1970s with no discernible effect on the creation of dysfunctional families. Indeed, the rise of unmarried motherhood in the United States seems to be impervious to changes in welfare policy. But these minor deviations do not change long-run patterns; with all social phenomena, there are lags. What cannot surely cannot be denied is the massive increase in 'moral hazard' that is an observed consequence of welfare policies. It is true of all Western states and was graphically identified in the notorious Poor Law Report in the United Kingdom that led to the much-maligned Poor Law Reform Act 1834.

Regarding Green's second claim, one American commentator, Charles Murray (1994), who is often associated with the economistic approach, does, as Green correctly observes, point to the mistaken 'moral messages' that the welfare system transmits, and stresses the changes in personal morality and the neglect of traditional American values of probity and independence that welfare has produced. But these moral messages are fundamentally market signals that encourage dysfunctional behaviour. That behaviour, however varied it might be, would not have occurred if it had not been rewarded. It is also true that an equally distinguished critic of American welfare policy cited by Green, Lawrence Mead (1985), rejects the economistic approach. He blames the problem on certain changes in character that the welfare system has generated and maintains that the problems will not be solved by simple manipulation of the incentive structure facing individuals. In fact, he recommends a degree of government intervention with policies like workfare which would not be entirely welcome to economic liberals. Despite this, such intervention is clearly a response to behavioural changes that are linked to incentive structures. What Mead wants is a diminution in liberty: "The solution to the work problem lies not in freedom but in governance" (1992, p 181). The problem has arisen because the provision of welfare, subject to undemanding conditions, has been superimposed on a country whose inhabitants have a strong tradition of personal liberty; the prevailing view was that welfare recipients ought not be denied valued American freedoms. While libertarians would undoubtedly object to the loss of liberty that a Mead-type welfare system implies, they could not deny the consistency of his argument. His point is that the freedom which Americans value so much has led to the denigration of the hardworking but poor two-parent family and the encouragement of unmarried motherhood. This may not 'prove' economism, but it would be a naive social philosopher who understated its significance; and Green is anything but a naive social philosopher.

Even institutions like marriage and the family, whose importance is constantly stressed by Green and which are supposedly the most intimate of our relationships and the least subject to economic incentives, can be profitably analysed in the economistic way. Who could deny that the rise in divorce in the United States and Britain is mainly a predictable consequence of the new economic status of women and the change in the divorce laws of both countries towards 'no fault'? And who could deny that the main reason why women are the main instigators of divorce in Britain is that they are especially favoured by the law in terms of maintenance and child custody (Barry, 1995b)?

Of course, Green himself would be the first to argue that the change in attitudes that he desires, and the development of persons who are sociable and virtuous, cannot occur without a change in prevailing welfare systems of the West. But he feels that structural reforms are not enough. It is difficult to trace out the exact causal connections between policies and outcomes, but it is worth bearing in mind a comment by Hume on attitudes and behaviour. He said that the rules and actions of government must be founded on the fact that men "cannot change their natures. All they can do is change their situation, and render the observance of justice the immediate *interest* of some particular persons" (Hume, 1948, p 220). I can see no reason for doubting the universal relevance of his advice. I am reminded of a recent radio interview with Lee Kuan Yew, the founder of modern Singapore, a community with a non-individualistic morality supposedly superior to that of the West. When asked why Singapore did not have a welfare state like Britain's or America's, even though his country is rich enough to afford one, he replied that he did not want to import the welfare problems of those countries. Indeed, there is little unmarried motherhood in Singapore precisely because girls in that predicament do not receive any support from the state.

Green's proposals for the privatisation of the bulk of the state's welfare services again display a marked reluctance to take on board the full message of economic liberalism. He shows a disaffection for the familiar market methods, particularly insurance and profit, in the supply of welfare goods and services. Of course, he is right to reject the massive, centralised and inefficient method of social insurance, but this does not automatically mean that private insurance could not be effective for many welfare issues. Health comes to mind straight away. Although Green has a superb section on the alleged flaws in the private market for health care in the United States (the vast increase in expenditure has come mainly from public provision of services, Medicare for the elderly and Medicaid for the poor), his reluctance to embrace compulsory medical insurance is noticeable. This would go some way towards resolving the 'adverse selection' problem, which is endemic to completely private welfare provision, and it would preserve considerable freedom of choice for patients.

His rejection of private unemployment insurance (p 128) is conventional, but unexamined. It is now becoming increasingly evident that private unemployment insurance is perfectly feasible. Michael Beenstock (1996) persuasively argues that as capitalist societies develop, more of the returns go to labour, so that workers are better able to take out private insurance – in the early stages of economic development the necessity to build up capital prevented this. Mature Western economies have now reached the stage where self-sufficient labour can insure against most contingencies. Even the remote possibility of catastrophes like the Great Depression of the 1930s recurring does not render private unemployment insurance infeasible. There is a well-developed international capital market which enables reinsurance to prosper so that unforeseen contingencies can be coped with. But at the micro level, the advantages of private insurance should be obvious. Private companies have every incentive to monitor potential beneficiaries for moral hazard, the payment of benefits would be time limited as opposed to the open-ended commitments offered by the state schemes, and premiums would reflect risk. In other words, the private unemployment insurance market is exactly like any other market.

Green's reluctance to embrace pure market solutions to welfare problems partly springs from his affection for community and solidarity without the state, but also from his belief that these values can flourish without the economic nexus. Indeed, much of his best work has been in the description and analysis of voluntary organisations which in nineteenth-century Britain, and elsewhere, provided the whole range of welfare services, including medicine, poverty relief and some aid to the unemployed. But there is nothing in this analysis that requires an additional morality to that of the market, as discussed earlier in this review. For such institutional arrangements as the voluntary and quasi-collective supply of welfare goods develop spontaneously out of a market society driven by the forces described by Hume. In a decentralised world in which such benefits are provided, good behaviour can be assured by the coordination produced by informal rules and by social pressure for their enforcement. Indeed, the familiar problem of moral hazard, and the necessity for close monitoring of claimants, would be more efficaciously achieved in such a world. Most important, the problem of knowledge – of what people need and who needs it most – is much better solved in the decentralised world so described than in the vast, impersonal and inefficient state welfare systems with which we are familiar. That Green readily concedes the necessity for monitoring human behaviour reveals that the permanent features of the human condition identified by classical liberal economists have to be coped with in the absence of a radical transformation of human nature. In a free society, different methods will be discovered which deal with various welfare problems, but the basic behavioural assumptions to do with selfishness and opportunism remain constant.

Green has some well-grounded dissatisfaction with the virtual monopoly supply of education in most Western democracies. But once again, he shows a reluctance to support a fully fledged market solution to the problems of poor-quality teaching, political indoctrination in the classroom and lack of parental control, or even influence, over what is taught. He is rightly sceptical of the efficacy of voucher systems as conventionally theorised (and occasionally practised); since they leave the final decision on finance to the state, parental input into the system is accordingly reduced. As long as the state retains the final say here, it will have an undue influence over education. For this, and other reasons, Green recommends the complete privatisation of schools, with parents paying for their children's education. But he prefers a system of 'trusts' rather than straightforward for-profit schools. Schools must be allowed to go out of business as a consequence of parental dissatisfaction, but he still maintains that "restoring education to civil society does not mean restoring it to the sphere of crude economic calculation" (p 179). But why should economic calculation be 'crude'? For-profit schools would only be responding to parental choice, and competition would drive the price down. Furthermore, a profit system would have the inestimable advantage of preventing the 'capture' of the education system by unionised teachers. This is especially important in higher education where, in the United States, politically motivated professors have taken control of the most prestigious private universities precisely because they are not owned in a 'crude' economic sense.

CONCLUDING COMMENTS

There is much to recommend in Green's book. Not only is it informed by a wide knowledge of welfare systems, but important aspects of its philosophical underpinning would meet with the approval of many classical economic liberals. His three inseparables – the importance of personal responsibility for action, the ideal of a community united by impersonal law and the limitation of the role of the state to the enforcement of the conditions of social peace and security – remain crucially important features of a free society. His understanding of freedom as encompassing that personal space in which autonomy can flourish without government is a valuable corrective to the fashionable notion of freedom as 'power', an approach which licenses endless state intervention supposedly to increase people's capacities and opportunities. Again, his criticism of unlimited majority-rule democracy, and the tendency of modern legislatures to disrupt the traditional system of law in pursuit of illusory social agendas, is one that would be shared by rationalistic libertarians. Important is his readable presentation of some rather arcane criticisms of social justice; he neatly demolishes the currently dominant doctrine of John Rawls in the process. As Green rightly points out, the theory not only has potentially disastrous effects on productivity, since it makes the products of individual talents and abilities available for redistribution to society at large, but it has also subtly undermined the traditional concept of justice which was exclusively linked to personal and responsible behaviour under general rules. The welfare state has been corrupted by the 'rights' argument. Now that claimants can demand the right to welfare as if it had the same logic as the right to personal protection or free speech, the legislature will continually be harassed by interest groups demanding privileges, private property will be under the permanent threat of incentive-reducing taxation, and personal responsibility for action will be further eroded.

My major complaint, and it is an important one, about this book relates to its foundations. I do not see the need to modify greatly the economic theory that has traditionally been used to criticise the welfare state. Specifically, I am unhappy with the way Green downplays the significance of incentive structures in the explanation of the social disorder that the welfare state has produced. Green hopes for a kind of moral regeneration which will make hitherto dysfunctional individuals fit for full participation in civil society. But this, if it is possible (which I doubt), would take an extraordinarily long time. Meanwhile, we are stuck with a costly and inefficient system which has inbuilt destabilising elements (especially a long-term commitment to funding pensions). A short sharp shock, such as a serious attack on the benefits enjoyed by single parents and idle youths, as well as the unjustified privileges of the middle classes in education, health and pensions, would be more effective than the long-run attempt to create a civil society through an attitudinal change. Indeed, Green would approve of some of these measures, but he is reluctant to accept that their rationale derives entirely from the behavioural assumptions of orthodox economic liberalism – the very doctrine he seems determined to sideline.

Equally important are my doubts about the idea of civil society itself. To the extent that it draws upon a morality which somehow stands apart from the conventional morality of the market, it will tempt activists to attenuate the rigour of the exchange system. Already left-wing theorists of civil society are drawing upon T H Marshall's theory of 'citizenship' (of which Green provides an excellent critique) to validate the continuation, and even the extension, of the prevailing welfare system. The doctrine of civil society that is prevalent in Eastern Europe (outside the Czech Republic) is much closer to a notion of a moderately collectivist welfare society than it is to market society. Who is to say that these versions of civil society are inferior to Green's when the logic of all of them involves significant departures from the theory of economic liberalism? The picture of man painted by market theory may not be a flattering one; but when was the truth about social behaviour ever morally or aesthetically pleasing?

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WELFARE REFORM OR MORAL REVOLUTION?

Charles Richardson

Over about the last 20 years, the terms and framework for the discussion of public policy have shifted dramatically. We have witnessed the collapse of Keynesianism and an almost universal disavowal of the belief in central economic planning. As a result, policies that were once all but unimaginable have been seriously proposed and sometimes implemented. The worldwide trend has been towards privatisation, deregulation and a reining in of the growth of government.

David Green is one of many commentators who have observed that the welfare state has so far been largely sheltered from this changing climate. In New Zealand and elsewhere, transfer payments have continued to grow at an alarming rate: see, for example, the remarkable graphs in Jones (1997, p 46), which show increases of several hundred percent over the last 20 years.

Nor is there much evidence that this expenditure has been cost effective. Indeed, there is a widespread recognition that the existing programmes have failed in their goal of reducing poverty. (The pioneering work is Murray, 1984; for the most recent New Zealand data, see Cox, 1998.) As a result of this failure, most Western countries are starting at least to consider radical reform of their welfare systems, and in the associated fields of health, housing and education.

David Green's *From Welfare State to Civil Society* advances this reform agenda, but there is more to it than that. Green evidently fancies himself as a philosopher, and much of his time is spent exploring the nature of society, morality and the state. This might be seen as a virtue; John Savage, for example, says that "[taking] the debate back to basic principles of political philosophy … is a real strength of [Green's] contribution" (1997, p 83). There is much food for thought in Green's discussion, although there is much to quarrel with as well – including quarrels which, as a philosopher, I would happily engage in on another occasion. And there is undoubtedly a real philosophical division among welfare reformers since, as I shall explain, some conservative critics of welfare are really advocating a state-sponsored moralism.

In general, though, the link between Green's philosophical discussion and his concrete proposals is not made out; his views about welfare reform seem not to flow strictly from his political philosophy. This is hardly surprising; we know that different people can be equally faithful to (for example) Oakeshott and Hayek, but still produce very different schemes for reform of age pensions or unemployment benefits. The lesson I draw is that the philosophical material is of marginal relevance to the issue of welfare reform. I therefore wish to leave aside the abstract discussions and to assume that the disagreements that plague welfare policy are primarily technological or political, not philosophical. This is not to deny that the problems remain difficult, whatever we call them; part of my argument will be that welfare reform is in fact more difficult that its proponents normally admit. But I hope to show that concentrating on the practical side rather than the philosophical offers more hope of finding a way forward.

This review begins by investigating the aims of welfare reform: first, by distinguishing (as I think Green fails to do) moral goals from genuine welfare goals, and second, by trying to unpack the latter into different possible reform strategies. My conclusion will be that at present we are not in a position to decide between the different strategies; we do not even know what an ideal welfare system would look like. I shall then make some suggestions on how, despite these limitations, we can try to advance the objectives that welfare reform is supposed to serve.

MORALISM

Recent contributions to the welfare debate from the political right have displayed a growing obsession with what I shall call 'moralism', or the view that welfare programmes should aim at the moral improvement of the poor as well as (or instead of) their economic well-being. Gertrude Himmelfarb (1995), perhaps the most prominent exponent of this view, contrasts today's society unfavourably with Victorian Britain, showing at least as much concern about divorce and illegitimacy as about poverty and unemployment. Her concerns are echoed by a number of conservative writers, particularly in the United States (examples are Murray, 1986; Magnet, 1987; Segalman and Marsland, 1989; Olasky, 1992; Anderson, 1995). Politicians are also not immune to moralism. Tony Abbott (1997), Australian parliamentary secretary for employment, education and youth affairs, boasts that "Work-for-the-dole is actually an expression of the Government's ethical rather than its economic priorities".

A liberal view of the state, however, rejects moralism, for two closely connected reasons. The first is a commitment to *neutrality*, which means that, as far as possible, government should be neutral between competing visions of moral goodness (Bird, 1996, is a good recent discussion of this issue). It should not try to enforce any particular moral code, except to the extent that might be necessary to protect people's rights and preserve society as a place where they can pursue their own ideals and projects. In Oakeshott's terms, the state should be a 'civil association' (see Green, pp 5–7).

The second reason is the liberal belief in the efficacy of free choice, meaning that individuals are the best judges of their own well-being and that therefore (other things being equal) they are best placed to maximise their welfare by participation in a free market. This explains why a concern with the citizens' economic welfare may be proper for governments in a way that concern with their 'moral welfare' is not. The former aims to improve their ability to participate in the market, but still respects their status as choosing agents. Attempting to reform their morals by government action, on the other hand, involves overriding their own choices and therefore denying them that respect.

In other words, liberalism is not wedded to a grubby materialism, despite regular claims to the contrary by its opponents. The same issue arises in debates over censorship, where conservatives argue that if the state protects people from physical harm (for example, with public health laws), it should also protect them from the 'moral harm' caused (allegedly) by pornography. The difference, of course, is that people consume pornography as an act of choice, knowing what is in it, but they do not choose to consume polluted water or adulterated bread. Believing that this difference is important does not require believing that material well-being is more important than non-material things.

Green appears to share many views with the conservative moralists, as when he criticises the welfare state for "having harmful effects on human character, encouraging the breakdown of the family … " (p 97). Criticism of Himmelfarb is dismissed as "an effort to build a rationale for self-indulgence" (p 102). We need to distinguish, however, between moralism as an end in itself and moralism as a means to the more morally neutral ends of welfare. Green could be interpreted as wanting to encourage moral attitudes such as self-reliance and personal responsibility, not because they are good in themselves (even if they are), but because people will be better off as a result and become less dependent on the welfare system.

What distinguishes genuine moralists is that they see the *aims* of a welfare system differently: goals like self-sufficiency, stable families and regular work patterns are regarded as valuable independently of the contribution they make to economic well-being. Their recurrent bugbears are things like "divorce, cohabitation, homosexuality and abortion" (Green, p 17; Segalman and Marsland provide an egregious example of this, with their phobia about Sweden, where "cohabitation is rising … [and] total fertility rate has fallen" [1989, p 7]). They aim to preserve certain cultural values, and they worry about the decline of religious sensibility, if not the tenets of a particular religion. But these are the sort of value judgements that a liberal state should not make (see Mill, 1848, pp 335–336).

Because it is the ends rather than the means that distinguish genuine moralists, it is not necessarily inconsistent for Green and his supporters to believe in the state as both a 'civil association' and a force for improving the morals of welfare recipients (see, for example, Green, pp 128–129). This sort of 'interventionism' can be a means to more value-neutral ends; it need not be prompted by a general scepticism about rationality and free choice. Norman Barry (1997, pp 338–340) distinguishes liberals from moralists in much the way that I have, but he seems to assume that liberals have to be non-interventionists. In view of what I said above about the nature of the liberal state this is an understandable conclusion, but it comes from confusing means and ends (on this point compare Cox, 1998, p 74).

Liberals might accept interventionism as a necessary response to past measures that have distorted the workings of the market. If bad policies in the past have led to consequences such as family breakdowns and the destruction of a work ethic, then it is not inconceivable that active measures might be needed to fix things. If this is Green's argument, then he is making a valid point. Showing that some welfare programmes (for example, the 1938 welfare reforms in New Zealand) were misguided does not mean that if we abolish them now everything will be all right again. Their effects are still with us and have to be dealt with (I call this the 'what do we do now' problem).

An interpretation of Green as less than a full-blooded moralist is, however, difficult to sustain. While his concept of the state is fundamentally a liberal one, it exists in tension with other influences. After citing Edmund Burke, Green proclaims that "Liberty rests on some institutions, habits, values and dispositions being seen as sacrosanct", and goes on to quote approvingly Adam Smith's somewhat careless remark that "the civil magistrate is entrusted with the power … of promoting the prosperity of the commonwealth, by establishing good discipline, and by discouraging every sort of vice and impropriety" (p 103, quoting Smith, 1759, p 81). There is much of this moralist rhetoric in Green, and it is hard to believe that it is philosophically innocent.

Even if we give Green the benefit of the philosophical doubt, his moralism is tactically dangerous. No one disputes that (for example) illegitimacy and drug-taking are indicative of poverty and social problems, and it may be perfectly sensible for welfare reformers to take account of them for that reason. But they are not themselves social problems, and it is careless at best to write as if they are. The political context of welfare reform makes it all the more important to distinguish liberal reform from moralism, because the view from the left sees conservatives and free-market liberals indiscriminately as 'the right', all prisoners of a moralistic mindset. Green ignores this context, and therefore makes no real effort to distance himself from the most extreme moralists.

Writers like Himmelfarb, of course, are not defending morality in general; they are defending a particular conservative moral code. Green is being typical of moralists when he implies (pp 17–20) that opponents of his particular morality are opposed to morality in general – in effect, that authoritarian morality is the only morality there is. But if reformers characterise the welfare debate in a moralistic way, even partially, then the foundations of reform are undermined, because this moralism can be sustained only by a code which is hostile to the values of the free market. And if the free market goes overboard, welfare reformers are going to be left stranded.

The market thrives on diversity and individualism. It encourages experimentation and the constant questioning of practices and institutions. Its basis is freedom of contract: the *voluntary* association of individuals. Conservative moralists, although they claim to favour personal responsibility, also emphasise values that push the other way: deference, obedience, social conformity, and fixed distinctions of class and gender. Their strongest preoccupations, like homosexuality and illegitimacy, are at best irrelevant to a liberal society. Worse still, the structure of conservative morality, with its appeal to authority rather than individual judgment, tends to negate the usefulness of any individual virtues that it teaches (see Richardson, 1996, pp 485–486, for further discussion of this point).

Green himself provides an example with his plans for sexual terrorism in the area of child support: "The clear message the law should send is that any man contemplating sex outside marriage must be prepared to face the consequences … . The man should be held responsible in all circumstances, without exceptions" (p 131). This amounts to pretending that the sexual revolution never happened. Today, with contraception and abortion readily available, single women can control their own fertility, and any children they have are theirs by choice and should primarily be their responsibility to support. Green poses as an advocate of individual responsibility, but responsibility for fertility control is not to be admitted.

We might also note that the practical benefits of moralism are liable to be overstated by those who are already committed to the importance of certain moral values for their own sake. Neutrality is not only an important liberal ideal, it is also the best perspective to take in evaluating different strategies. We cannot just take for it granted that moralistic intervention will even be pragmatically useful. Increasing the stigma associated with receiving welfare, for example, may stop some people going on welfare in the first place, but it may also make it harder for people to get jobs and so get off the welfare rolls (compare Cox, 1998, p 3).

WHAT ABOUT THE PRIVATE SECTOR?

Green might respond to this criticism by arguing that moralistic intervention, according to his proposal, would be confined to the private sector. This is no help, of course, if the moral code adopted by the private sector is a harmful one. It may, however, avoid the charge of violating neutrality, but only if what Green suggests is genuine privatisation. The issue of privatisation has become an obsession shared by both the left and the right, and indeed the return of government operations to private ownership and control has been one of the most remarkable features of the last 20 years of worldwide economic reform. In the case of welfare, however, there is a real danger of misdescription of what is going on.

The heart of privatisation is private ownership and control. If privatisation of social welfare means anything, it means getting government out of the provision of some benefit altogether, and leaving it to the insurance market or the discretion of private charity whether or not that benefit gets provided in any given class of cases. According to this definition of privatisation, many proposals for reform, including some of Green's, are really outsourcing, not privatisation.

For example, Green proposes to confine tax deductibility to associations that accept no government funding, so as to leave them free to assist the poor without the entanglement of government involvement (p 119). But *which* associations are these to be? Surely he does not mean that any voluntary organisation (the Ku Klux Klan, for example) should enjoy tax deductibility; someone, namely government, has to decide, and these associations are still therefore getting a large financial benefit at the government's discretion. This is just as capable as direct funding of corrupting the voluntary sector, and it still represents a state-sponsored moralism, albeit implemented at second hand. (One possible solution to this problem would be for the government to define the social purposes it wishes to be served, like relief of poverty, and then confine tax deductibility to associations that received no government funding *and* whose aims were confined *solely* to one or more of those purposes. The government would not concern itself with whether or not the organisation was pursuing these aims effectively – that would be a matter for the donors – but if it were pursuing other aims, such as churches proselytising with tax-exempt donations, it could be restrained by the courts.)

Genuine privatisation in the welfare sector is a more radical proposal, and although it may bring some real gains it should not be regarded as a panacea. Much of the appeal of privatising a business operation comes from the fact that we already know basically what the business should be doing – supplying electricity, flying aeroplanes, whatever – and we want private ownership in order to get it done better. But the problem of welfare is that we are *not* sure what we should be doing. A competitive market for the welfare dollar (such as charities, in effect, already operate under) should create some pressure to find better answers, but someone will still have to find them. It is rather like proposing privatisation of the police force as a solution to crime – the police may work better as a result, but the move would not of itself answer the hard questions about crime policy.

The problem with privatising the welfare sector is not that market failure, in comparison with government failure, is any more likely than with other public goods; the two have to be balanced out (for welfare programmes as a response to market failure, see Barry, 1997, pp 333–334). And if we do not know where we are going, we cannot know even that increased efficiency is a good thing. There is no point in improving the efficiency of the performance of some task that should not be performed at all. If tax rates are too high, for example, then improving efficiency in the tax office is likely to do harm rather than good.

ULTERIOR MOTIVES

The prevalence of moralism among reformers on the right results in at least the appearance of insincerity or ulterior motives. Anyone who engages in discussions on welfare reform, or even reads between the lines in some of the published work, will realise that some participants are not interested in helping the poor but really just want to bash the welfare industry: either from their own visceral dislike or because they expect it to be politically popular. There is a close analogy with industrial relations reform, where, at least in Australia, simple union bashing seems to have been much more common than a desire to assist the unemployed. Reformers see a reduction in unionisation or union power as an end in itself, not as a means to a better functioning labour market.

None of this means that reformers' ulterior motives will necessarily stop reform from achieving worthwhile goals; to see motives as all-important in this way is characteristic of a sort of vulgar Marxism. They do present real risks, though. The devil of reform is often in the details, and if the details of reform are in the hands of people with different goals, things may miscarry. Moreover, if the less creditable motives of reformers are obvious to the observer (as they often are), this will imperil broad-based support for reform.

Moralism is really only the most serious case of a general problem with welfare reform, namely, that many of the participants come to the debate preoccupied with their own concerns, and therefore fail to get to the heart of the welfare problem. At the same time they contribute to political polarisation. Many of the right's failings have their mirror images on the left; for example, the moralistic emphasis of conservatives like Himmelfarb is matched by the left's tendency to treat 'compassion' as an unlimited virtue, without considering the actual effects of supposedly compassionate policies.

Just as those on the right are often incapable of seeing any good in the welfare industry, the left suffers from myopia about the relative merits of governments and markets. Despite the death of socialism, the most prominent voices on the left remain prisoners of the belief that government can do no wrong. They display a wilful refusal to examine instances of government failure, resulting in an inability to see the incentive effects of welfare measures.

BEYOND MORALISM

When we move away from all of these distractions (if indeed we ever can) we reach the heart of the debate on welfare reform. The problem here is that there is no real agreement, even among the sternest critics of current arrangements, about which direction to go in. Not only are there differences about what reforms to make now, but there is no agreement on what welfare in a more or less ideal society would look like.

Fundamental welfare reform began with the English Poor Law reform of 1834, which abolished 'outdoor relief', or broad-based income support, and established the workhouse system. As A J P Taylor explains, "The new Poor Law swept away the old principle of the right to work or maintenance, the idea that society had some responsibility for its members; it substituted the idea that men must be driven to work by hunger – the basic idea without which capitalism will not work" (1976, p 71).

In time the workhouse system came to be seen as wantonly cruel, but traces of it survive in the 'work test', under which the unemployed must demonstrate their willingness to take jobs if they become available in order to receive benefits. The same idea emerges more strongly in 'workfare' schemes such as Australia's new work-for-the-dole plan. The basic moral idea behind these schemes is very persuasive: that welfare recipients should make some contribution to their own support, instead of enjoying a taxpayer-funded holiday.

Workfare can report some successes, notably in recent reforms in Wisconsin (see Rector, 1997; Cox, 1997, pp 77–78). Such programmes, however, do involve some additional costs, especially if they require additional government jobs. The American neo-liberal Mickey Kaus (1992, ch 8) has proposed a large-scale job creation scheme as part of a new crusade for big government. Conservatives who support workfare sometimes even boast of this increased expenditure, as if to demonstrate that they are not just heartless economic rationalists (Abbott, 1997).

Michael Jones might almost have had Kaus and Abbott in mind when he said that workfare "often seems to be more about populist political rhetoric than effective programs, and such programs can become coercive and vindictive" (1997, p 24). Even if the reasoning behind it is not moralistic, intervention in the lives of beneficiaries may produce results that are too authoritarian for a liberal society to accept (see Mead, 1992, pp 171–184). Workfare can seem miserly and intolerant, imposing petty restrictions on the poor to achieve minor savings to government. Surely, many people have said, society can afford to be more generous than this to the unfortunate.

Another option is general means-tested support, popularly known as a 'negative income tax' (see especially Friedman, 1962, pp 190–195; Brittan, 1995, p 261). This would eliminate the whole apparatus of work tests and assistance in kind, thereby reducing administrative costs to a minimum as well as meeting the ideals of transparency and neutrality. Its very simplicity would be a great virtue. Although Kaus derides it as the 'give them cash' approach, it also meets many demands of the left, and has a number of supporters there. It avoids the stigma of traditional welfare, and many of its perverse effects (such as 'poverty traps'), although it does not avoid a certain general weakening of incentives.

The key question is how great these perverse effects would be. The evidence collected from a negative income tax experiment in the United States between 1968 and 1979 is discouraging, but limited. Charles Murray regards these results as devastating and conclusive, but he also acknowledges that the "experiment [had] strayed far from its intellectual origins" and "bore only a family resemblance to the original conceptions" (1984, pp 149, 288). Any moves towards a pure means test are routinely opposed not only by moralists, but by powerful vested interests on the left and in the welfare bureaucracy. Unless these obstacles are overcome we will never know how great the costs of a negative income tax would be. When compared, though, with welfare as we actually know it rather than some abstract ideal, I suspect we may find that they would be manageable.

How we look after the poor clearly depends to some extent on the size of the problem. If serious poverty is only an occasional affliction, direct cash assistance is probably appropriate. A larger number of the destitute may need more intervention, such as assistance in kind, compulsory insurance, a work test, or some such device (compare Friedman, 1962, p 188). All of these interventions will have some element of a means test, and therefore to some extent have perverse effects (Jones, 1997, p 23). The magic words 'incentive effects' do not dispose of the case for a negative income tax; its advocates accept that there will be some reduced willingness to work, but argue that this is a price worth paying (on incentive effects, see especially Cox, 1998, pp 6–7,47–58; Jencks, 1992, p 89).

Despairing of ever reconciling the demands of efficiency and appropriate incentives, some have proposed the abolition of general welfare support – what we might call the 'zero option'. Although this tends to be more of an underground presence in policy discussions, it does have its advocates (Hazlitt, 1973; Murray in Auletta, 1985, pp 21–22). It sometimes seems the only possible solution to what Hazlitt describes as "the fact that there are a substantial number of people who would rather live in near-destitution without working than … live comfortably at the cost of accepting the disciplines of a steady job" (1973, p 117).

Pointing to the corrosive effects of welfare, however, is knocking down a straw person. No one pretends that welfare dependency is a good thing (although some on the left have come close; see Wilding, 1986). The question is how to end it without causing greater misery (the 'what do we do now' problem again). Not only is the zero option beyond the bounds of the politically possible, but it comes with its own set of problems. John Stuart Mill, for example, drew attention to the fact that since prisoners are fed at public expense, any less of a guarantee to the indigent might encourage them to commit crimes (Mill, 1848, p 335). In fact, with society as we find it, some sort of basic welfare is an indispensable function of government.

(Although I am treating welfare here as more or less a pragmatic issue, it might be objected that this does not do justice to the 'zero option'. Libertarians like Murray object in principle to coercive transfers of resources as a violation of rights rather than (just) an unsuccessful policy. This is a big topic, but briefly my view is that coercion is not a property of the welfare system, but a property of the agency that happens to be doing it: government financed by taxation. As I said earlier, having everything done by a voluntary agency would not make the public good problem go away. Libertarians need to learn to distinguish the problem of what gets done from the problem of who does it.)

These three options – the work test, the pure means test, and the zero option – are in ceaseless conflict in the debate on welfare reform, but they also shade into one another. A zero option may not be quite that in practice (especially when private charity is taken into account), most workfare proposals are not as strict as they sound at first (even Kaus does not propose that those who refuse to work should be allowed to starve on the streets; see Kaus, 1992, p 128), and a pure means test or negative income tax would probably unavoidably include some add-ons for the most disadvantaged (for example, programmes for infant nutrition, special assistance for the disabled, and so forth).

A PLEA FOR PIECEMEAL TECHNOLOGY

It is hard to say whether we will ever resolve the welfare debate in theory. Let's instead see what might be done in practice by leaving the big theoretical issues to one side. One of the things driving economic liberalism has been the belief in incremental change, or trial and error. Liberalism is a doctrine about means as well as ends, about the peaceful resolution of conflict. So liberals support the *piecemeal* resolution of conflict, as Karl Popper would say (Popper, 1945, pp 157–164; see also Smith, 1759, pp 233–234), and they support the market at least partly because of its capacity to adjust continuously to small changes in information.

A similar gradualism in the face of uncertainty should apply to structural reform of institutions such as the welfare system. As Jones (1997, p 52) aptly comments, "Social programs are experiments, not final solutions" (compare Jencks, 1992, p 203). Liberals and conservatives both stress the failure of grand attempts at social engineering. Large-scale reform, however, is also a sort of social engineering and suffers equally from the law of unintended consequences.

Sometimes we do not have the luxury of gradualism, and where the direction ahead is clear – particularly when existing arrangements involve obvious injustice – there is no substitute for immediate action. But, at least in countries such as Australia and New Zealand, which have avoided so far the development of a permanent underclass, there is nothing in the welfare situation that would justify a 'big bang' approach. And if I am right in saying that the problems of welfare reform are mainly technical, then leaving aside plans for large-scale reform has the added advantage that it gives time for analysts to gather more empirical data.

Liberals also need to remember that, despite some recent successes, they remain very much an intellectual minority. One of the major risks in any large-scale reform is that it will be hijacked by those with different goals in mind, and will become instead a crusade for moralism or centralism or some other ideology that leaves the poor and their problems in the rear. This is especially a problem in today's debate because, as I have said, 'interventionist' proposals may or may not be motivated by a moralist agenda. One cannot always tell from inspection of someone's policies where they are ultimately going to lead.

ISOLATING THE PROBLEM

Although I pointed earlier to the size of the welfare problem, as evidenced by the level of transfer payments, it is nonetheless not as big as it might seem, if by 'welfare' we mean programmes for the relief of poverty. It is acknowledged by all sides of the debate that a large proportion of 'welfare' spending is in fact going to the already well-off, particularly old-age pensions, various forms of child assistance, and government provision of free health and education.

Although it is hardly a simple matter, reform in these areas does not share the fundamental difficulties of welfare reform in general. Much of the expenditure could be eliminated by measures such as means testing and privatisation. The reasons for not doing so are largely political. Even if there are genuine reasons for maintaining 'middle-class welfare' programmes, they do not relate to the relief of poverty. (Some argue that it is necessary to maintain a large government-owned system of health or education for all sectors of the community in order to ensure adequate service delivery for the poor, but even if this were true it would be unfair to characterise all of the resulting expenditure as 'transfer payments', since most of it is simply the middle classes 'transferring' resources to themselves.)

In other words, although Green is correct to say that the welfare sector (interpreted broadly to include health, housing and education) is the last major area resisting reform, it is misleading and indeed dangerous if people are led to think this of 'welfare' in a narrow sense, that is, the relief of poverty. Such a conclusion has the perverse effect of encouraging reformers to spend most of their effort on the most difficult problems, when there are much bigger and easier targets still standing. (On this point, see Brittan, 1995, p 276; and my comments in Richardson, 1996, p 90).

DECISIONS AND SOLUTIONS

In conclusion, we should look at the possibilities for piecemeal change. In particular, I suggest we consider how reforms to areas of government that are not directly part of the welfare system might bear on the problem. This is because poverty is often a product of government, in two ways. Firstly, the sheer presence of big government wastes resources and ossifies society. It provides a general bounty on inefficiency – including, of course, inefficiency in the administration of welfare. Every dollar going in unnecessary taxation and deadweight costs is a dollar that could otherwise be adding to society's wealth and helping to lift its citizens out of poverty.

It is often assumed that bigger government means more resources devoted to the care of the unfortunate. But the diseconomies of scale associated with big government are enough to outweigh any such advantage. As it grows, government becomes not only more remote and bureaucratic, but also less integrated; it becomes more and more difficult to impose any single policy direction on its disparate units. Welfare recipients, who have frequent dealings with government, find they have to comprehend a whole array of different programme rules, means tests, benefit levels, and so on.

Big government generally means centralised government, with its resources distributed less by democratic decision-making and more by interest-group politics. Smaller government and smaller units of government potentially make welfare less impersonal and more responsive. Devolution of responsibilities to the state/provincial and local level also enables more experimentation with different reform strategies. This has been a key theme of welfare reform in the United States. It is unfortunate that Australian conservatives, by contrast, have downplayed the role of local government and tried to reduce its accountability.

The second area to consider is the many specific government policies that hurt the poor. Compulsory retirement forces many of the able-bodied into idleness before they have been able to accumulate adequate savings. Minimum-wage laws create unemployment among the least capable workers, especially the young. Government education leaves many of these same young people ill-equipped for employment, and high school-leaving ages prevent them from gaining income and work experience in their teens. Zoning laws create a pattern of commercial and residential development that is biased against the poor. Even child-labour restrictions, although they prevent infants working in coal mines, prevent many more innocent arrangements that could benefit poor families.

Perhaps some of these policies can be justified. However, it is important that we recognise the costs of these measures. If conservatives, for example, defend zoning laws to keep middle-class suburbs clean and neat, they have lost the moral high ground in denying relief to the poor from the poverty that zoning helps to create. The terms of the bargain need to be made explicit – only then can we judge whether we have made a good bargain or not. Since the poor come to the political bargaining process with the least to offer, it is not surprising to find that their interests have largely been neglected.

Two policies in particular need to be emphasised, because they seem patently a bad bargain, yet their support comes largely from people on the right who are otherwise vocal against the incentive effects of the welfare system. One is drug prohibition, which has proved itself a uniquely effective progenitor of urban decay. It is amazingly absent from almost all discussions of welfare reform (and sometimes also of crime policy, to which it is even more obviously relevant). The most that can be found in the literature is an occasional reference to 'drug use' as one of the many problems of the poor (for example, Kaus, 1992, p 105; Himmelfarb, 1995, p 222). But of course it is not drug *use* but drug *prohibition* that lures organised crime into the field, corrupts police and politicians, forces addicts to turn to crime, kills them with drugs of unknown content or strength, and turns cities into deadly battlegrounds.

The other is the almost universal policy of government subsidies for child bearing. Once promoted on the basis of 'populate or perish', these subsidies are now a major cause of poverty and sexual inequality. But Green is silent on this piece of official moralism. Commentators sometimes notice that poor women have babies for reasons other than prospective welfare payments (Kaus, 1992, p 118), but they rarely mention the ways in which, in addition to explicit subsidies, governments give their support – in education, advertising and political rhetoric – to inappropriate social pressure in favour of child bearing.

Issues like these might offer something the left and the right can find common ground on, or, perhaps more realistically, a basis for reuniting the long-estranged wings of the left, the economic and social liberals. My plea is that here if anywhere is the place for a piecemeal resolution of social problems. First, we should try the answers that can be implemented without turning the welfare system upside down. Let's leave the existing safety net of government-funded welfare where it is as long as there is a fighting chance that the real problems are elsewhere.

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Some Christian Reflections on the Welfare State

Brian Davis

THE WELFARE DEBATE

In 1991 government cuts in benefit payments levels in New Zealand brought a strong reaction from church leaders and their social justice spokespeople. They argued that the government has a responsibility to care for the poor and needy members of society, that, if necessary, taxes should be increased to make more generous welfare payments possible, and that the poor have a 'right' to an adequate income for food, clothing and housing.

In 1993 (an election year) church leaders produced a Social Justice Statement for study within the churches. It states that "the principles which lie behind our concern for social justice are firmly rooted in the teaching of Jesus Christ and the Hebrew Scriptures". The Statement then explains these principles: "The first principle of social justice is to support and develop structures that serve the well-being and protect the dignity of every human person" (para 10). It assumes that social justice is the responsibility of government, and goes on to say: "Human dignity is not possible without the recognition of human rights and corresponding responsibilities. Christian thinking about human rights has its origin in the conviction that all persons are created in the image of God and are to be valued unconditionally" (para 11).

The Social Justice Statement further asserts: "A just society recognises that all citizens have a right to food, housing, clothing, rest, education, health care, employment, and security in old age. Access to these things must be on the basis of needs and not limited by a person's status in society or ability to pay" (para 14). It notes that Christ's command to love is not confined to 'acts of charity' but includes "working for justice. Charitable work in the service of those in need must go hand in hand with the work to establish just structures so that citizens do not have to depend on charity". The Statement adds: "Government has an indispensable role in ensuring that no citizen is deprived of human rights" (para 15).

The assumptions behind the Social Justice Statement are clear. While all the biblical quotations used by the writers relate to personal responsibilities, the Statement gives more weight to government institutional responsibility for justice in society, and its demand is for more government social spending. It is therefore not surprising that the publication of David Green's book, which provocatively challenges the whole concept of the welfare state as we have come to know it, was received negatively by some church leaders and social justice spokespeople.

However, New Zealand governments have been increasingly beneficent in recent years in the social welfare area. One in every three dollars the government spends goes to social welfare, and the figure continues to rise. From 1975 to 1996, spending on the main Income Support benefits rose from 1.14 percent of gross domestic product to 5.13 percent (Cox, 1998, p 15). Spending on the domestic purposes benefit alone rose during that period from $200 million to $1,440 million (in 1996 dollars). Of all working age people in New Zealand, 21 percent are dependent on the state – up from 8 percent in 1985. Thirty percent of children live in families dependent on benefits – up from 12 percent in 1985. In 1996, 54 percent of all working age beneficiaries had been in receipt of their current benefit for more than a year (Department of Social Welfare, 1996).

It was the steep growth in the economic cost of welfare and also concerns about its effectiveness that led the government in 1991 to review benefit payments and to impose cuts. What was missing at the time – and the church leaders pointed this out – was wider public debate about the principles that might guide our social policy as a nation, about where the government's obligations lay, and about the role other sectors of society might play in caring for the poor and needy.

It is precisely these kinds of questions that David Green addresses. But he also raises questions about the moral costs of welfarism, an issue one would have expected the churches to find particularly relevant. His basic thesis is that the welfare state, by encouraging dependency, erodes personal and communal moral responsibility. His solution is to reduce state welfare and to introduce more caring at the level of the family and the local community (what he calls 'civil society'), and to encourage more personal responsibility.

Green's thesis came into conflict with recent official church statements at several points. He challenges the assumption that government has the major responsibility for providing for the welfare needs of its citizens, he emphasises the need for a more active civil sector and more non-government charity, and he claims that welfarism has had detrimental moral effects on human character and the family and eroded community values. I would like to consider these issues in turn in the light of the Christian tradition and recent official church statements.

THE ROLE OF GOVERNMENT IN WELFARE

Christian socialism has a long and honourable history within the church, but in recent years it has been in danger of being driven more by utopian ideology than biblical theology. Its adherents have identified institutional evil as the cause of social need and tended to overlook the significance of individual sin and personal responsibility. Christian socialists view 'charity' very negatively, as an inadequate means of meeting the demands of social justice. They seem more concerned about equity than freedom and characteristically believe that it is the responsibility of the state to redistribute the resources of a nation to ensure a fair and just society. Statements by church social service and social responsibility spokespeople echo these views.

In August 1996, an open letter titled *Poverty in New Zealand*, addressed to all Christian people in New Zealand from the New Zealand Council of Christian Social Services and supported by concerned members of the Anglican, Baptist, Catholic, Methodist, Presbyterian and Salvation Army churches, stated:

> Throughout history, Christians have responded to poverty through practical caring for those who are poor, providing them with food, clothing, shelter and employment. When poverty exists, such charity is important and necessary to prevent greater human tragedy, but it is not sufficient. Nor on its own, is it just. It is not just to give to someone in charity what is theirs by right of being human. Justice requires that we meet human needs in a way that upholds the dignity of each person.

It would be interesting to know what Jesus would have made of this statement, especially in the light of his teaching about duty to one's neighbour, invariably expressed in terms of interpersonal relationships. In fact, the kind of compassionate charity Jesus commended to his disciples seems to be rendered suspect by the open letter.

The language of 'human rights' used in the open letter and the Social Justice Statement is notably missing from the teaching of Jesus and the New Testament as a whole. There, the emphasis falls much more on human responsibilities and obligations and the need, with the help of God's grace, to strive for personal improvement – a life of compassion and generosity being a key component of the better way. It would be difficult to find in Scripture support for the claim that the duty of Christians to care for their needy neighbour is best left to government.

Neither in the teaching of Jesus nor in the New Testament is there a clear picture of the Christian understanding of the role of the state, beyond ensuring public order and security. St Paul sees the state as exercising God-given authority (Rom 13:1–2) and as having a moral function to reward good and punish evil (Rom 13:3–4). St Paul (Rom 13:6–7) and St Peter (1 Peter 2:17) both exhort Christians to honour state authorities and to pay taxes. Jesus also seems to have supported the principle of taxation (Matt 22:21), but the Kingdom of God he spoke of was not the outcome of political action. Nor was human dignity to be established by securing 'human rights' or a system of liberal state welfare. For Jesus, human dignity rested on spiritual and moral foundations and was dependent on one's covenant relationship with God. It was the government of God, not worldly government, that Jesus was primarily concerned about.[1] However, Green's arguments for a government tax-funded welfare safety net to protect the most vulnerable and needy, the strengthening of charitable community organisations and families, and more responsible and caring individual citizens, does not conflict with the New Testament witness.

The Social Justice Statement (para 27) makes a passing acknowledgement of the principles of subsidiarity and supplementation, which feature prominently in recent Catholic social thinking and are in line with Green's position. The principle of subsidiarity requires a government to undertake only those activities which exceed the capacity of individuals or private groups acting independently. It calls for a combination of decentralisation, community initiatives and mutual cooperation. The principle of supplementation requires the government to assist communities and individuals to contribute more effectively to social well-being and to supplement them actively when demands of social justice exceed their capacities. If the churches are to play a larger role in welfare they would need to look to government, and perhaps also to the corporate sector, for additional funding.

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[1] It should be recognised that the state authorities referred to by St Paul and St Peter were the authorities of the Roman Empire, including the Emperor. Since people in those days did not enjoy the political status of citizens comparable with those of modern democratic states, Christian ethical principles enunciated then are inadequate for today's very different political scene.

Christians are likely to be divided on the role of government, depending on the value they place on equity as opposed to freedom. But within our churches' membership there seems to be an increasing acceptance of the principles of subsidiarity and supplementation. There is a growing recognition that a healthy society needs to build an active civil sector, to value voluntarism and to emphasise individual responsibilities alongside human rights. Our current political leaders are beginning to talk about these things as 'social capital'. But while Christians may disagree about the precise role of government, they will agree that a society that is in any sense Christian will be a compassionate one and will care for, in one way or another, the weak, the poor and the needy. This is a constant theme running through Scripture. However, Christian ethical teaching endorses no particular political strategy to achieve this. Rather, it encourages an openness to a varied combination of government and civil, public and private action, for the sake of economic and social well-being.

CIVIL SOCIAL CARING VERSUS STATE WELFARISM

While Green promotes the virtue of personal and communal face-to-face charity and sees this as a fulfilment of Christ's command to love one's neighbour, recent church leaders' statements have criticised charity, as noted, on the grounds that it falls short of justice and undermines human dignity. Christians on the left argue that a state welfare system makes 'impersonal' giving possible, which preserves the dignity of beneficiaries, protects the receiver from humiliation and also discourages condescension on the part of the giver. The public servant in the welfare office supplies a 'right' or 'entitlement' in the form of cash payments. But is human dignity preserved? What is sacrificed, as Green observes, is the moral character of the transaction.

Christ's examples of caring involved face-to-face relationships. He was concerned for the moral and spiritual welfare of both the giver and receiver. Only face-to-face relationships make genuine human caring and true community possible. Welfare conceived as a 'right' reduces the Christian 'good neighbour' to a payer of taxes and the needy to a receiver of a cash payment. The social, spiritual and moral dimensions of the transactions are minimised, or limited to the appropriateness of the size of the entitlement.

Christian socialists also tend to argue that poverty is typically the result of structural injustice and of forces beyond the control of the needy, and can only be alleviated by enlightened governmental policies. They regard questions of moral accountability as unnecessarily judgmental, humiliating and demeaning. In their view, there can be no such distinction between worthy and unworthy recipients: all people in need have a right to receive. Green argues that this view undermines personal responsibility, negates behavioural change and encourages welfare dependents to see themselves as helpless victims unable to improve themselves. In turn, this can easily lead to negative, angry, anti-social behaviour which further contributes to social dislocation, personal deprivation and strife.

A more holistic (and biblical) view of the cause of social need recognises the effects of evil political and economic structures that serve to reward some and hurt others – and also the contribution of human ignorance, folly and sin. Following the way of Christ demands both personal discipline and a desire to grow into the likeness of Christ. The Christian citizen gives to the needy with thanksgiving for what has been received, not out of any sense of paternalism or condescension but in solidarity and with compassion. The receiver is treated with respect as a morally responsible agent, and encouraged and helped to become more self-sufficient. Where the gift is accepted with equal respect and gratitude, the receiver may experience inward renewal and change their behaviour. Any social policy that has the effect of overlooking or down-playing personal responsibility, or recipients' potential to improve themselves, in Christian terms contradicts our God-given nature as sons and daughters of God. Our dignity as human beings demands the acceptance of our status as God-gifted moral agents and responsible stewards.

The problem of relative poverty in any society is unlikely to be solved by financial entitlements alone. Those in the poverty trap often have other, related, problems such as budgeting, drug dependency, unemployment, family breakdown, and so on, which a truly caring society will be equipped to address. Only when these factors are recognised and attended to will the dependent beneficiaries make the necessary personal changes and move toward independence and well-being. It is difficult to disagree with Green that a society which allows for and encourages a web of caring social agencies between the state and the individual is one most likely to strengthen in its citizenry the notion of personal moral responsibility and a quality of caring that meets the real needs of those in trouble.

Social policy cannot afford to overlook its spiritual and moral implications for societal health and well-being. Green makes a strong case here and provides a sharp challenge to the Christian left. In a healthy society, all must contribute to the common good. Those in need due to factors beyond their control must be cared for and the causes of their need addressed, but there must be no free riders expecting to depend on the charity of others when they are capable of caring for themselves and helping others.

WELFARISM AS A MORAL PROBLEM

Welfare states like New Zealand have for some time been alarmed at the increasing *economic* cost of welfarism. The social, moral and spiritual costs are now also being recognised as equally or even more significant. David Green has served us well in this respect.

Green argues that government welfare programmes have had a detrimental effect on human character, dulling personal initiative and desire for self-improvement, but also undermining the sense of social responsibility within local communities. He also sees the welfare state as contributing to the breakdown of the family. Before the advent of the full-blown welfare state, care of the poor and vulnerable was the responsibility first, of the individual and his or her family, second, of the community civil groupings as distinct from the state, and only third, of the government.

The kind of civil society Green envisions is based on three inseparable assumptions:

- "human nature at its best is about assuming personal responsibility for both self-improvement and making the world a better place for others";
- "people are seen to be united, not under leadership, but in acceptance of conditions which allow them to exercise responsibilities"; and
- "government is understood as the upholder of these conditions, that is, the conditions of liberty" (p 121).

According to these principles, liberty is a necessary prerequisite for moral responsibility.

Green's emphasis on 'civil association' and freedom will sound to some in our churches like a call for minimal government and an unrestrained market economy. The same people would tend to blame all of New Zealand's current social ills on market-economy thinking and what they claim is the selfish individualism it encourages. However, Green points out that the writings of classical-liberal thinkers like Adam Smith presumed a moral underpinning of market activity. Green himself rejects enlightened self-interest as an adequate basis for any economy and affirms the need for an underlying moral ethos for free democracy to work.

Green argues that a free civil society depends on encouraging personal responsibility, and therefore on virtue, and that virtues are nourished in the family and in voluntary associations. He acknowledges the role of churches (p 104). He envisages a civil society as one that aims for "moral responsibility without control ... and respect for our common heritage without central direction" (p 22). Every individual would be expected to play his or her part cooperating spontaneously within civil associations for the good of all.

Green identifies the family as having a critically important role in this process. He believes that reducing the welfare state would lead to a strengthening of family life and its essential role of moral formation. He identifies overly generous social welfare 'entitlements' as a cause of family breakdown, by encouraging illegitimacy, unstable single-parent families, under-employment and socially destructive values. He also claims that welfarism has had the effect of eroding the family as a key value-forming and caring civil institution.

Christian thinking is divided in its response to Green's analysis. Conservatives welcome his assessment, while liberals on the left dismiss him as moralistic and hard-hearted. Certainly, welfarism cannot take all the blame for the more recent changes in the family as an institution, or for changing family values. Family breakdown is also a product of other factors, including the greater economic freedom women now enjoy, moral uncertainty and confusion, the stress caused by rapid cultural change and the reduction in employment opportunities. Nevertheless, Green's analysis cannot be totally dismissed.

A national conference, 'Beyond Dependency', was convened in Auckland in March 1997 by the Department of Social Welfare to encourage public debate about welfare reform. Some opponents of any erosion of the current welfare state organised a parallel conference titled 'Beyond Poverty: Citizenship, Welfare and Wellbeing in the 21st Century'. The former conference talked of welfare reform, moving beneficiaries out of dependency, benefit redesign to provide work incentives, a case-management approach toward beneficiaries and a reduction of state spending on welfare. The latter conference talked of inadequate social welfare policies, the need for a more just distribution of resources, the inadequacy of civil charity and the need for more generous entitlements directed to the poor. Christians were actively involved at both conferences!

Jim Greenaway (1997, p 25), reporting on these conferences as one of the two Social Responsibility Commissioners of the Anglican church, quoted the vision in Isaiah (65:20–23) as a starting point for a more just society:

that children do not die
that old people live in dignity
that those who build houses live in them
that those who plant vineyards eat of the fruit.

Greenaway suggests that the kind of reform Green has in mind is "a manifestation of the inequities being borne by the low income community" and that "the church has a responsibility to respond practically and theologically to forces of injustice and their voices of the night" (1997, p 27). I do not know if he saw the balance in the Isaiah vision. Material benefits were not 'rights' independent of responsibilities. The promise of houses was to those who were willing to build, and the fruit of the vine to those who were willing to plant. In this text there seems to be scriptural warrant for ensuring that welfare beneficiaries, where they are able, should make an appropriate contribution as a requirement for receiving a benefit. In fact, this principle is to be applied in proposed welfare reforms.

It is noteworthy that Sir Peter Tapsell, lamenting the breakdown of Maori cultural values and disproportionate Maori economic disadvantage, recently stated: "I don't want to suggest that social welfare has not been life-saving for many in time of need, but indiscriminate handouts have been utterly destructive of Maoridom". He added: "greater expenditure on social welfare will only make the problems worse" (*The Evening Post*, 25 June 1997).

Certainly, a good welfare policy will seek to help needy people become as self-sufficient as possible and better able to contribute to the care of their families and their neighbours. It will assist people to realise their dignity by exercising more responsibility for themselves. By ensuring the growth of an effective and productive economy, and therefore better employment prospects, the role of government is to provide the conditions and opportunities for individuals and families to improve themselves.

REALISM AND IDEALISM

Green was labelled as a 'fundamentalist' by Brian Easton, a Wellington economist, in his dismissive review (Easton, 1996). I do not think this is a fair criticism. Green is certainly an idealist, and some of his practical policy suggestions are less than convincing. But his social analysis avoids extremism and is often compelling. He is not an unrestrained libertarian, and his promotion of civil society does not imply an end of responsible government. His primary concern is to get the mix right between the role of government, the contribution of the civil sector (including church and family) and a morally responsible citizenry.

However, Green's idealism and his high view of human nature are open to criticism. He accepts that for a free democratic society to work cohesively and to be economically productive there must be an undergirding common law and a freely accepted value system that is recognised as having ultimate sanction. Green suggests that for an adequate moral and spiritual foundation for any society it is difficult to go past the two profound commandments of Christ to love God and love your neighbour as yourself.

There are at least two problems with Green's idealism. Human beings do not have a good record of exercising, whether as individuals or through institutions, the kind of moral excellence that he sees as essential to a healthy civil society. Human behaviour can be and often is altruistic, but the truth is that human beings are also often selfish and are not always spontaneously caring and responsive to the needs of others. Human nature needs redeeming.

The second problem is that the Christian ethic that Green commends is based on certain beliefs and a spirituality nourished by churches. There is no certainty that it is possible, in the long run, to have an effective Christian ethic without Christian belief. In recent years, Western democracies like New Zealand have become increasingly secularised and pluralistic. During much of the twentieth century, spiritual reality and theological wisdom have been systematically undermined. Modern secularised culture has tended to trade absolute virtues for relative values and encouraged materialism and hedonism. Cynicism and nihilism have flourished. Unless this trend is reversed, our modern or post-modern culture will not provide the fertile soil required for the growth of civil responsibility, healthy family life or responsible caring citizens – the outcomes Green hopes for. People will be too busy doing their own thing to care about their neighbours, or too stressed-out or mixed-up to have any energy to attend to needy others.

Green is possibly too idealistic in his conception of Victorian society, when he considers that civil duty and moral virtue were at their height. The welfare state emerged because of the failure of nineteenth-century civil society to deal with poverty. Only the collective action of government was capable of addressing large-scale urban poverty. The poverty of the Great Depression of the 1930s reinforced this view. In New Zealand this led to the socialism of the first Labour government and the beginning of modern welfarism. However, what was appropriate at one point in history may not be appropriate at another.

It is increasingly hard to resist the claims that there has been a loss of personal moral responsibility in our society and that there might be fewer social problems and more happiness and unity if we somehow recovered some old-fashioned Christian virtues like honesty, self-discipline and mutual respect, as well as compassion for the most needy and vulnerable. A welfare system like New Zealand's that encourages dependency and discourages self-help, and that contributes to the growth of single-parent families and problem children, will be questioned. Those in the churches who continue to call on the government to throw more welfare money at sole mothers and at individuals who are able to work will find their words fall on deaf ears. The government has tried this approach for some time now, and social problems of every kind have escalated.

How do we move from a welfare state to the kind of responsible and caring society Green describes? Green suggests some strategies. He wants constitutional reform that confines the state to its proper task of upholding the conditions essential to achieving and maintaining liberty, a restoration of a sense of personal responsibility, a rehabilitation of virtue and a positive campaign to restore caring voluntary associations. Green argues that the problem of poverty would be best addressed by encouraging greater economic flexibility and growth; creating more opportunities for 'the poor' to help themselves through job growth, tax cuts and saving incentives; and by the government creating the conditions for the re-emergence of voluntary associations for assisting the less fortunate. He proposes social policy that distinguishes between the deserving and undeserving needy – one that appeals to and encourages the best in people rather than the worst.

Many of Green's proposals will be condemned by the Christian left, who generally avoid talk of personal moral responsibility and of deserving and undeserving cases, and see the government or the free market and other societal structures as the causes of social disease and poverty. In fact, social ills have complex causes involving structural injustices, misfortune, and personal folly and sin. Human dignity lies not only in the truth that we have been created in the image of God, but that we have been created morally responsible agents in God's world. To be morally responsible, human beings need to be free to make choices.

What Christian realism demands is acceptance of the fact that no political or socio-economic system will ever be perfect. Human evil and sin corrupts even the best human enterprises. Human perfectibility apart from the grace of God is impossible. And utopianism is not only unrealistic, it can be a cause of great evil, as Hitler's Germany and Stalin's Soviet Union have shown. Christian thinking about social policy recognises the sin of individual human beings as well as the evil of unjust social structures. It also acknowledges that spiritual vision and moral aspiration are essential ingredients in the ecology of healthy societies.

CONCLUDING COMMENTS

Christians are found at all points on the political spectrum. There are those who are unwilling to accept the ambiguities of life and demand clear-cut choices from the rest of us. There are fundamentalists on both the right and the left. Because life is complex, Christians will decide the best political way forward as a result of informed debate, the weighing up of alternatives, and compromise. This process demands strategies of informed consultation and respectful cooperation.

The church has a vital contribution to make to the social debate. Its calling is to bring to the nation spiritual vision and ethical values which will best preserve human dignity and freedom, and promote personal responsibility, mutual trust and the well-being of all. Churches are found in all of our local communities, and they will see themselves called to work with other voluntary agencies and with the government to ensure that the needy are cared for and the hungry are fed. There is plenty of room for closer and more creative cooperation between these sectors. Possibly, church social services could effectively expand, given the opportunity and the necessary financial resourcing.

I very much welcome the publication of David Green's *From Welfare State to Civil Society* because the author raises questions that we need to address at this time. We do not have to agree with all of his answers, or even all of his analysis, but we must not avoid the questions, especially the moral questions he raises so sharply, if we have a real concern for the well-being of our families, our communities and our nation.

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Before his retirement in 1997, the late Brian Davis was Primate and Archbishop of the Anglican Church in Aotearoa, New Zealand and Polynesia, and Bishop of Wellington.

Restoring Maori Civil Society

Wira Gardiner

When I read *From Welfare State to Civil Society* I was struck by the common sense underpinning David Green's ideas. Green is inviting us to rediscover the lessons of the past which we have so successfully obliterated from our memories in the name of progress.

Green's ideas of civil society and the development of a new welfare ethos serve to highlight the deficiencies in the present approach to social welfare and, what is just as important, offer a practical alternative to the failed policies of past and present governments. His ideas are not new, nor do they require millions of dollars to develop and implement. Rather, they call for an opening of the mind, a shift in attitudes and a willingness to recognise that we have gone badly astray.

The central argument in this review is that Maori need to rediscover those elements of their once vibrant and dynamic society, a society which exhibited the key features of Green's conception of civil society. This objective will not be achieved overnight – it requires a transition in which government will still need to intervene, but on a diminishing scale and with different strategies. During this transitional stage politicians and bureaucrats as well as Maori leaders will need to consider policies that will have to be significantly different from those being implemented today.

Green argues that the three requirements for a new welfare ethos are: the depoliticisation of law-making (limiting the state to upholding the conditions essential to the achievement and maintenance of liberty); the restoration of personal responsibility; and the restoration of the domain of 'community without politics'. For Maori, the first of these requirements is somewhat moot given the serious damage that the policies of Rogernomics wreaked on Maori society. It is very difficult for those who cannot flourish under 'big government' to enjoy the fruits of 'small government'. The second and third requirements, however, are the keys to the recovery of Maori society. Only when these goals have been achieved will Maori be in a position to contribute towards reducing the role of government in their lives.

THE CONDITION OF MAORI SOCIETY

Many social indicators suggest that Maori New Zealanders enjoy a lower level of welfare than non-Maori. In the 1996 Census, over half a million New Zealanders identified themselves as Maori, which is approximately 12.5 percent of the New Zealand population, yet they represent 16.8 percent of the unemployed compared with 6.7 percent of the non-Maori population (Statistics New Zealand, 1997). The rate of cervical cancer for Maori women is nearly three times that for non-Maori (Ministry of Health, 1997, p 12). Over 50 percent of the prison population is Maori. Forty-four percent of all Maori families are headed by a sole parent, and most of these are women (Department of Social Welfare, 1996, p 16). Yet on the political and economic fronts Maori society is showing signs of a dynamic resurgence. There are grounds for optimism: the large number of Maori members of parliament; the settlement of two of the largest Treaty of Waitangi claims; the growing wealth of large Maori farming entities and tribal investment portfolios; and the dominant role now being played by the Treaty of Waitangi Fisheries Commission, which helps Maori control more than 25 percent of the inshore fishing assets around New Zealand's coasts.

The hope is that Maori communities will recapture the spirit of adventure and innovation that saw their ancestors travel across thousands of miles of ocean to found a new society. It is the same spirit and endeavour that saw Maori soldiers perform feats of extraordinary bravery on the fields of battle of the first and second world wars. Political and tribal leaders will have to make significant shifts in their thinking, policy-makers will have to accept that there are better ways of helping Maori, and Maori themselves will have to break the cycle of poverty, unemployment, violence, ill health and dependence on handouts that has blunted their willingness to take risks.

POLICY FAILURE AND THE CLASH OF PHILOSOPHIES

The policy failure of successive governments can be traced largely to the outlook of the founding fathers of modern New Zealand. The ethos of the settler barons and farmers was one of rugged individualism and self-help. This ethos was reflected in the policies pursued by the politicians who occupied the colonial parliaments of the nineteenth century. But the ethos of the Maori was, and continues to be, diametrically opposed to that of the colonial settlers. The first settlers relied on the vibrancy and dynamism of the collective. This collective was a civil society in that it observed firm rules and guidelines to resolve the spiritual, cultural, social, economic and political issues of the day.

The core unit of Maori society is the whanau (extended family). A number of extended families together can make up a whanau group or hapu. A number of hapu combine to make an iwi or tribe. The whanau is the central organisational unit, and in it reposes the responsibility for the coordination of family members. Maori society required its members to observe a strict code of reciprocity. The collective looked after the individual, and in return the individual had to contribute towards the survival and health of the collective.

The clash between these two significantly different cultures was bound to be devastating. The often reluctant embrace by Maori of the policies introduced by a Western-style democracy contributed to the near demise of their way of life. Policies aimed at bolstering the pioneer spirit of the settler society, while excellent for the growing settler population, led, and continue to lead, to the Maori being deprived of their lands and also to the slow but insidious breakdown of a way of life. Attempts by generations of politicians and bureaucrats to shoe-horn Maori into policies based on the primacy of the individual as the core recipient of the state's assistance have proved to be largely unsuccessful. Policies based on individual entitlements have failed and in all likelihood will continue to fail. For example, the present domestic purposes benefit, while helping enormously to alleviate the plight of sole parents, usually mothers, has encouraged Maori men to abdicate their responsibilities. This programme attacks the very roots of the whanau system in which families and individuals gain support from the strength and cohesiveness of the collective.

Public policy is likely to be more successful in improving Maori welfare if it reflects the holistic Maori ethos, rather than the Western view that compartmentalises activities and functions for administrative convenience. Instead of treating housing, health and employment through separate departments, policy-makers should recognise that a person who is employed and properly housed is likely to have a better health and public behaviour record than one who is cared for from a much narrower, single-department perspective.

The principle of personal responsibility lies at the heart of the rescue effort. The aim must be to recover the ethos of reciprocity which underpins traditional Maori society, but which seems to have dissolved under the weight of welfarism.

CHANGING THE NATURE OF STATE INTERVENTION

Holistic policies

The New Zealand government is trying to implement housing programmes for Maori on the East Coast and the Far North of New Zealand. These programmes have been spectacularly unsuccessful, because the programme does not address the other social problems of unemployment, illness, domestic violence and inadequate schooling. Similarly, the Ministry for Education is in the process of developing interventions for schools on the East Coast after reviews have identified significant deficiencies. Bureaucrats and politicians have failed to grasp that the underlying sets of circumstances for both projects are the same. To solve the education problem, children must be better fed and housed, and protected from domestic violence. The government has to tackle problems of this kind with innovative approaches that recognise the Maori ethos.

Treaty of Waitangi settlements

The government's objective of settling all major Treaty of Waitangi claims by the year 2000 is a commendable one. It provides a number of major tribes with resources to enable them to take control of their own future. It is impossible to underestimate the psychological impact on a tribe of a government remedying injustices committed in the nineteenth century. Such government action can contribute significantly to tribes recovering their asset bases and having the confidence to make a worthwhile contribution to the health and wealth of the nation.

In 1997 the Ngai Tahu tribe signed a Deed of Settlement with the Crown. In simple terms, under the settlement the Crown apologised for the actions of its administrations of the nineteenth century, and awarded the tribe a settlement of $170 million as compensation for the wrongful deprivation of its land. In addition, the Deed of Settlement included a large number of innovative policies and provisions which, over the years, will significantly enhance the wealth of the tribe. For example, Ngai Tahu has a first right of refusal over any Crown land offered for sale in its territory.

For years the tribe had struggled to bring the Crown to terms over the breaches of the Treaty of Waitangi. It is now in a position to become a powerful corporate participant in the commercial and social life of most of the South Island. There is a sense of confidence about the future, where previously there was despair and dwelling on the past. Ngai Tahu has moved dramatically out of grievance mode into development mode. The consequences for Ngai Tahu people and for other South Island cities, towns and rural areas will be huge.

Devolution of services

The amount of taxpayers' dollars transferred to Maori through health, training and social-service providers is growing. The devolution to communities of responsibility for their own welfare should greatly benefit society as a whole, not just those Maori involved.

In the confusion of the health reforms of the early 1990s, many Maori communities saw opportunities to enter the health arena, which previously had been monopolised by a non-Maori system. In 1992, the Tainui people of the central North Island established Raukura Hauora o Tainui to oversee the implementation of health plans and to provide primary health care to its own people and to others. In the past six years, Raukura Hauora o Tainui has become established in the Hamilton region as a significant health provider. It now offers health services from nine general practice clinics. It provides visiting specialist services, free prescription services for those under the age of five and over the age of 60, community nursing, child health services and health promotion services. It presently employs nine salaried community health workers, nine doctors, four practice nurses and four receptionists (Ministry of Maori Development, 1997, p 21).

One of the remarkable features of the Raukura Hauora initiative is that in its first years nearly 23 percent of its patients were non-Maori. This project demonstrated that when a Maori community is given the resources, it can successfully develop itself and, moreover, provide professional services at a cost and quality equal to those being provided by mainstream practitioners.

Community initiatives

In 1983 the first Kohanga Reo ('language nest') was piloted. This simple yet profoundly significant pre-school initiative came from the community, supported with seed funding from the Department of Maori Affairs. The underpinning philosophy was that young Maori would gain confidence and be better prepared for the challenges of broader society if they could learn to speak their own language – the key to their cultural identity.

The success of the scheme rested in its early years almost entirely on the voluntary effort of kuia and koroua (grandmothers and grandfathers) giving of their time unstintingly to prepare their mokopuna (grandchildren) for the future. In the 15 years since its inception, the Kohanga Reo movement has grown to 750 Kohanga Reo centres with 14,000 pre-schoolers being nurtured in their cultural identity by learning their language. Maori women are the main force behind the movement.

The Kohanga Reo movement receives its funding from the Ministry of Education. These funds are managed by a national trust, which in turn charters community language nests to deliver pre-school education. Individual Kohanga Reo are managed by parents who employ the staff. Parents are also actively involved in maintaining the independence and integrity of their Kohanga. At the same time they work with the national trust to develop and implement strategic initiatives such as satellite hook-ups and computer networking.

CONCLUSION

Statistics tell us that the welfare disparity between Maori and non-Maori is not improving and may be deteriorating. This review has argued that the failure of successive governments to recognise this simple truth has led to generations of failed policies.

It will require a huge effort for Maori society to recover itself. Maori must restore the ideas of personal responsibility and reciprocal obligation to whanau, hapu and iwi. The latent strength of these institutions must be rediscovered by Maori and government.

In Maori civil society, communities take responsibility for the actions of individuals, and individuals recognise that they are a part of a holistic environment in which selfish, individual behaviour could well jeopardise the relationships upon which such a system is built.

The role of governments has to change dramatically. Politicians need to develop and act upon much more cogent and relevant policies which take account of the holistic philosophy that informs the Maori way of life.

Change will not come easily, but a number of innovative approaches to intervention are already successfully operating. The establishment and continuing success of Kohanga Reo demonstrate what communities can achieve when they have the will to act. The development of provider mechanisms has enabled many Maori communities to take charge of their own destiny. The Treaty settlement programme also provides a number of major tribes with potential economic muscle to make a significant contribution to the well-being of their iwi as well as the nation.

Finally, the most powerful antidote to inaction is action. Over the past 15 years beacons of hope have appeared as Maori communities have taken the initiative and decided to achieve something. Only when the flames have touched all Maori communities will we be able to be satisfied.

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Poverty, Work and the Benefit System

David A Preston

David Green has written what some would consider to be a tract for the times in his chapter on poverty, work and the benefit system. The problem he addresses is clear. It is the huge rise in the proportion of the working age population that have become dependent on social welfare benefits as their main source of financial support. The present and longer-term consequences of this trend have produced disquiet among public policy advisers around the world, and a raft of proposals for reforms. Dr Green's solutions are more drastic than those proposed by most policy analysts who have sought to reform the benefit system. They involve a substantial degree of phasing out of the public social welfare benefit system and its replacement by a largely privatised system heavily underpinned by the activities of self-funding charities and voluntary organisations.

I am uneasy about three aspects of Green's analysis and proposals. The first is what is left out of his account of the history of the role of private charities and voluntary agencies in Western societies. The second is his level of understanding of the specifics of the New Zealand situation. The third concerns the likelihood that his proposals for the social welfare system would really work in the way he suggests.

The History

Green places a strong emphasis on the role of civil society as distinct from the state in the interface between individuals and the market economy. His analysis draws heavily on his understanding of nineteenth-century Britain. In particular, he stresses the role of charities and voluntary organisations such as friendly societies in dealing with poverty, unemployment and social distress. He posits a golden age of a strong and positive civil society in Britain in the eight decades after the 1830s: more specifically, in the period between the Friendly Societies Act 1834 and the National Insurance Act 1911. He believes that civil society deteriorated thereafter. I note in passing that the era he highlights followed the Poor Law Reform Act 1834 and a more rigorous approach to providing public assistance, but Green himself does not lay any stress on the poor law reform in this chapter of his book.

My historical unease stems from the fact that Green's golden age happens to coincide with the completion of the first industrial revolution, and is prior to the subsequent waves of social and economic change in Britain and elsewhere. In all advanced societies, from the late nineteenth century and through most of the twentieth century, these changes led to the development of various models of the welfare state (Overbye, 1996). The issue is: why did this happen? Perhaps all advanced societies fell victim to certain collectivist fallacies. An alternative explanation is that the development of the welfare state was a delayed reaction to fundamental social and economic changes, based on considered judgments about social cost effectiveness.

In the centuries prior to the industrial revolution and to Green's subsequent golden age, much of the society and economy of Western Europe was rural, semi-subsistence and still partly feudal. The extended family was the main source of social security for most people, as it is to this day in traditional societies in Asia, Africa and the Pacific. A much smaller, though still significant, social security role was played by the charity of religious organisations, the activities of fraternal organisations and by begging. In England, at least, the state also played a small role.

This society based on the extended family gradually broke up as modernisation shifted a growing proportion of the population into a predominantly cash economy, with people increasingly living in cities and towns. Geographic dispersion and a more individualistic attitude eroded the role of the European extended family and local community, as it has done in the twentieth century in New Zealand for the Maori whanau and hapu. This change occurred over many centuries in Europe, but accelerated dramatically during the period of major technological development that we refer to as the industrial revolution.

Green's reference period thus constitutes a transition. The traditional mutual social assistance role of the mainly rural extended family and the local community declined, and a gap appeared that needed filling. Green documents how the role of charities and friendly societies expanded to fill part of this gap. This part of his analysis is very useful, even though he fails to highlight sufficiently the fact that the friendly societies, as mutual-aid groupings, provided mutual insurance rather than unilateral transfers. However, Green pays negligible attention to a number of other developments in the nineteenth and twentieth centuries that provided different ways of dealing with poverty, unemployment and social distress. A fuller analysis would deal with commercial insurance, employer-funded social protection, compulsory social insurance and tax-funded welfare benefits or social assistance.

Commercial insurance

In many developed countries, commercial insurance has come to play a significant role in several areas of social protection: most obviously in health insurance and private pensions, but also in some other fields. It operates best where the contingency is insurable (and by implication less subject to behavioural responses), and where those insured have adequate resources to finance insurance policies.

Employer-funded social protection

Social protection by employers extended to health cover, accident compensation, superannuation, redundancy pay and a variety of other measures. Sometimes these forms of protection were unilaterally offered by employers, usually the larger ones (such as Krupp in Germany), as part of their employment packages. In other cases they resulted from the collective bargaining efforts of a strengthening trade union movement. Employer-funded schemes often provided the basis for the subsequent development of compulsory social insurance, as in Bismarck's Germany in the 1880s. One curious delayed impact of this development was the major role that enterprise-based social protection played in the communist countries in the twentieth century.

Compulsory social insurance

Compulsory contributory social insurance (the Bismarck model) came after the friendly society developments that Green notes, but ultimately became far more important in most European countries. A distinctive characteristic of it has been the compulsory co-contributions of employers and workers to the funding base of the schemes. In New Zealand, only the accident compensation system has its origins in this approach to social protection.

Tax-funded welfare benefits and social assistance

The expansion of social welfare benefits or social assistance funded from taxation or general public revenues has played a major role in English-speaking countries in particular. The New Zealand variant is referred to as Social Security.

What Green does not tell us is that England was one of the pioneers in the expansion of assistance funded by the taxpayer, especially in the form of the sixteenth-century Elizabethan poor laws. This may have resulted partly from the activities of Elizabeth's father, Henry VIII, whose confiscation and privatisation of monastery lands removed one of the traditional sources of assistance for the poor. The poor laws made the poor a charge on the local parish rates. Some localities adopted innovative approaches to encouraging workfare; one example was the Speenhamland system, which was swept away by the Poor Law Reform Act 1834. However, the rural parish-based system proved unsustainable once most of the population and economic activity had shifted to the towns, and the Speenhamland system itself was subject to capture by local employers. In its more modern form of programmes administered by central government, this model of social protection dominates the contemporary New Zealand welfare scene.

The substantial displacement of charities and friendly societies by the other options since the nineteenth century is something that Green deplores. More precisely, it is the growth of tax-funded social security and compulsory social insurance that he is most unhappy about. In his view, this was a major policy mistake. An alternative explanation is that Green's golden age was not that golden for many people who lived through it. The universal shift to more public forms of social protection may indicate that this is the preferred approach of most of the population and has perhaps been assessed as being more cost effective when operated sensibly.

THE NEW ZEALAND CONTEXT

Green's book is subtitled *Towards Welfare that Works in New Zealand*. His revealed knowledge of New Zealand social history and institutions is decidedly sketchy in parts. His presentation does not focus on Maori issues in social welfare, and he has developed perspectives on the effectiveness of particular local programmes without much supporting evidence.

Green treats the New Zealand situation as if it were not very different in its background from the British situation he is more familiar with. For parts of the system, this approach does not create too many problems, because many New Zealand institutions are transplanted British institutions. But in other areas, the approach can lead to misleading conclusions. For example, the New Zealand central government – and, earlier, the provincial governments and colonising societies – played a much more active role in New Zealand's development than did British governments of the same period. This included an early focus on workfare development schemes for the unemployed.

One searches in vain for an awareness of the specifically Maori dimensions of social welfare in New Zealand, or of the impact on the Maori people of the nineteenth-century loss of their resource base. Ironically, the settlement of tribal resource claims in the late twentieth century may yet provide an alternative way of addressing some of the Maori social welfare problems if the development perspective of Sir Tipene O'Regan (1997) of the Ngai Tahu Trust Board is adopted. This approach would be based on tribal and kinship links rather than the voluntary associations Green favours.

Green tends to make sweeping judgments on New Zealand programmes and institutions without offering any real evidence to support his views. For example, he claims "The NZISS [Income Support] is often reluctant to act on the recommendations of the NZES [Employment Service]" (p 126). Again, he claims that Compass (a New Zealand programme to assist sole parents to move off benefit) actually "encourages dependence" and "should be scrapped" (p 132). The Compass Evaluation (Rochford, 1995) does not support this assertion.

Green also seems to be unaware of, or perhaps unwilling to face, the extent to which social welfare policy changes during the 1990s have halted or slowed the increase in the cost of social welfare in New Zealand. Between 1990/91 and 1995/96, social welfare spending on income support programmes fell from 13 percent of gross domestic product (GDP) to 11 percent (Department of Social Welfare, 1993; 1996). The reductions were most marked in superannuation, where the pension age was raised. The 1991 changes also cut real benefit levels, but policy had much less impact on the numbers of beneficiaries – hence the present focus on further benefit reform within the existing system. Green seems unsympathetic to this approach, possibly because a more effective public system would weaken his case for abolishing it.

WOULD GREEN'S POLICIES WORK?

The central issue raised by Green's study is whether his policy prescriptions would work in the positive manner he suggests. To answer this, I will look at each of his major proposals.

Encouragement of private charities

Green proposes (p 119) to encourage the expansion of private charity as an alternative to public welfare through unlimited tax deductibility of private donations (it is curious that Green does not see unlimited tax deductibility of donations as involving any use of public funds). He also proposes to deny charitable status to any organisation which obtains finance in any way from the public sector. At the same time, tax rates are to be cut, and the government is to withdraw from providing services in areas deemed suitable for the activities of charities (which include most of the social welfare system).

The tax deduction option would clearly encourage the growth of organisations professing charitable objectives. However, whether this would lead to the outcome suggested by Green is uncertain, for several reasons. First, the erosion of the tax base as a result of increased opportunities for tax deduction means that income tax rates on the residual taxable income must rise unless government spending falls by at least as much as the lost tax revenue. If not, then tax rate increases rather than tax cuts would be faced by the citizenry. Second, there is no guarantee that the increased donations would necessarily flow into financing the activities from which the government wished to disengage. These often tend to be unpopular activities, even if it is conceded that they have to be financed in some way. Third, policing compliance with the definition of a charity would become increasingly difficult under conditions of unlimited tax deductibility. Ingenious people would seek ways of defining activities as charitable but which were for their private benefit. The upshot would be a degree of government supervision that would expand rather than reduce the role of the state in this particular area of regulation and compliance audit.

Green's proposal (p 119) to deny charitable status to any organisation directly receiving any public money is also problematic. In practice, it is likely to be very difficult to enforce. Any innovative charitable board would soon find ways of setting up two legally separate organisations to take financial advantage of each option. The resulting game of bureaucratic make-believe would be amusing to some, but not add much to the sum of human well-being. If, improbably, some new and expensive super-quango managed to stop all double-dipping, the consequences would also be unfortunate for the public sector. Voluntary and not-for-profit organisations are often the most cost effective in delivering publicly funded services. Much of the success of contracting services, which has been a prominent feature of New Zealand's public sector reform, depends on the activities of such organisations. Forbidding them to contract for the delivery of publicly funded services would drive up the cost of public provision.

Another curious aspect of Green's approach to charities is his apparent disdain for the organisations he is relying on to pick up a major burden from the public sector. He characterises many such organisations as "pioneering provision for new 'needs' and calling for an expansion of state welfare" (p 120). In some instances Green is correct, but in others he is skating around a problem of identifying new priorities which may be a legitimate role for the voluntary sector. An example is the 'opening of the closet' on domestic violence and child abuse, or dealing with drug dependence.

To summarise: we cannot anticipate the full consequences of Green's proposals on charitable organisations. What is certain is a cut in government tax revenue, and a situation where it is more difficult or expensive to contract out social welfare programmes. What is unclear is whether the expansion of activities officially designated as charitable would occur in the areas government wished to evacuate, or be of sufficient magnitude to offset the tax revenue losses and the additional contracting out costs for public programmes.

Sickness and invalids benefits and accident compensation

Green suggests that "the ultimate objective should be to replace compulsory state provision by private provision" (p 124). He proposes that in the areas of benefits for sickness, invalidity and accidents, the negative selection problem could be handled with risk pools and by the government forbidding insurers from taking pre-existing conditions into account. He concedes that his proposals might require a "once-for-all transfer from tax revenues" to insurers, and also admits that risk-based premiums might require "an agreed subsidy from public funds".

Clearly, a partly privatised sickness, invalidity and accident insurance scheme could be made to work, though it would probably have to be compulsory to prevent most of the worst risks continuing to end up as a charge on the taxpayer. Less clear is whether the combined cost of voluntary private premiums and the agreed subsidy from public funds would end up costing the average person any less than a public system run on an efficient basis. If insurance became compulsory, the resulting hybrid system should probably be more accurately classified as social insurance rather than full private enterprise.

Evidence on the cost effectiveness of Green's proposed alternative is necessary if a proper comparative evaluation is to be made. But the evidence he puts forward is rather slim. He supports his contention that a privatised system would work better by noting the existence of "a number of successful examples for risk pools for medical expenses insurance in the United States" (p 125). Perhaps so, but risk pools, notwithstanding the insurance-based health system in the United States, absorb the highest share of GDP in the whole OECD area, largely because of the high relative unit costs of specified services within the system. Green moves to somewhat more mainstream thinking where he suggests as an alternative "to maintain the existing sickness and invalids benefits, but to add conditions, such as a partial work test". However, this reflects a benefit reform approach rather than the abolitionist stance he has spent the previous few pages advocating.

The unemployed

Green proposes (p 128) a drastic 'spend down' for claimants of the unemployment benefit, requiring the unemployed to use up all of their savings before becoming eligible for benefits, and all earnings to be deducted from benefit payments. Alternatively, the unemployed could avoid a spend down by seeking assistance from voluntary organisations instead of Income Support.

Such drastic requirements from the public sector would clearly increase pressure on the unemployed for active job search. They would also increase hardship and the likelihood of slipping into a poverty trap. Yet Green seems not to have worked through some of the possible consequences of such a policy. Faced with this situation, trade unions would be likely to push for more generous redundancy pay, employer-funded unemployment insurance and job-protection arrangements as part of the employment contract. These and other non-wage labour costs would escalate if there were no adequate public safety net. It is a sobering thought that the cost of employee health insurance is now said to absorb a higher share of US car-making costs than the material costs of the steel going into the vehicles. The level of non-wage labour costs in Western Europe is now a major factor in the competitive weakness of European industry. Starting down a path which risks raising non-wage labour costs may not be in the best interests of New Zealand industry.

Financing and managing a large part of the unemployment system is likely to be beyond the resources of the voluntary sector even if boosted by tax concessions. In New Zealand, unemployment benefits in 1996/97 were projected to cost NZ$1,052 million (Government of New Zealand, 1996–97, p 1274). This figure excludes supplementary assistance such as Accommodation Supplement. Even if the voluntary agencies ended up with a little under half of this cost, they would still have to find over $500 million. To put this in perspective, consider the estimated donated resources which have gone into the food bank movement in New Zealand – the largest of the community-based initiatives of the past decade and the one closest to Green's preferred model (Mackay, 1995). Total resources raised for this are estimated at about $25 million annually.

The issue of how the voluntary sector could run such a system, even if the cash materialised from somewhere, is also problematic. New Zealand currently has over 150,000 unemployment benefit recipients. Total individual claims for the benefit in any year exceed 250,000 because of short-term movements between benefit and work (Department of Social Welfare, 1996). If the voluntary agencies had to deal with even 150,000 cases a year, this would require a massive administrative resource spread over the country. To do it on a voluntary part-time basis with each volunteer managing and acting as a mentor to an average of, say, five cases a year would then require 30,000 willing volunteers. More plausibly, if the agencies hired full-time staff, and each staff member dealt with 150 cases a year, then 1,000 full-time staff would have to be recruited and paid for. Staff numbers would be higher again if extra administrative and support staff are allowed for.

Once the practicalities are considered, Green's proposals seem over-optimistic. With 150,000 cases, the voluntary agencies would have to set up systems and processes, training for staff and financial procedures. There is little difference between this and what the staff in Income Support and the Employment Service do now. Green asserts that "a face-to-face relationship with a voluntary worker will not have the same corrosive effects as a relationship with a public official" (p 129). In fact, face-to-face relationships with designated client case-management workers are exactly what programmes such as Compass are about. They are also decentralised to local offices. It is difficult to see that voluntary sector paid employees would be in a very different situation from their public sector counterparts once programmes became very large scale.

In summary, Green's proposals for the unemployed involve significant hardship for benefit recipients during a transition of unknown length to the new system. They also involve longer-term consequences for other organisations, including some substantial ones for employers, which Green does not seem to have worked through. To the extent that some part of the responsibility for the unemployed could be transferred to the voluntary sector, the problems that the voluntary sector would then face would be remarkably similar to those currently faced by the public sector agencies. The range of solutions – case management, restructured income-support systems, job search and training requirements, community mobilisation, and other options – are also likely to be very similar to those now being adopted by the more progressive public sector organisations around the world (OECD, 1994; Johansson, 1997; Bjornskau *et al*, 1997; Meade, 1997).

A significant residual issue is whether the voluntary sector could undertake some tasks in dealing with the unemployed on a more cost-effective basis than the public sector or the commercial private sector. If this were the case, then it would be logical to contract that part of the work out to voluntary agencies. Ironically, this is the very thing that Green's model would forbid.

Family breakdown and sole parents

Green proposes to attack the problem of the massive rise in numbers of sole parents on benefits by cutting benefits for never-married mothers and targeting the fathers of such children. He suggests that unmarried pregnant girls should live with their mothers or under the supervision of voluntary agencies.

What Green does not tell us is than teenage sole parents make up less than 3 percent of people on the domestic purposes benefit (DPB) in New Zealand (Department of Social Welfare, 1996) and that girls under 18 who give birth are already normally ineligible for the DPB and are required to be supported by their parents. He also does not tell us that in New Zealand there are more male sole parents on the DPB than teenage girls. Men now make up 9 percent of sole parents on the DPB. He glides around the fact that the biggest group of beneficiary sole parents in New Zealand is divorced or separated married women, followed by single mothers, and by women formerly living in *de facto* marriage relationships, and that most members of all of these groups are adults in their 20s, 30s and 40s. The fixation on the behaviour of wayward teenage girls diverts attention from the larger issues of why there are so many adult sole parents and why so many of them are dependent on social welfare benefits.

What to do about the growth in sole parent numbers, and sole parents' tendency to become a charge on public welfare, has exercised social policy advisors around the world, particularly in English-speaking countries (Marsh and MacKay, 1993). Most approaches are based around several key elements:

- Enforcing the financial obligations of the absent parent, usually the father, by mandatory child support requirements: This has been a feature of recent policy development in New Zealand, Australia, the United States and the United Kingdom. This approach, however, requires a larger and more active state mechanism to enforce payments from the unwilling or the irresponsible. The implications of this are not adequately explored by Green.
- Work requirements for sole parents scaled according to the degree of time needed to look after dependent children: It is ironic that the strict Wisconsin proposals (Rogers, 1997) which caused an uproar from some community groups at the 1997 'Beyond Dependency' conference in New Zealand largely copied what social democratic Sweden had already implemented for many years, but which New Zealand admirers of the Swedish welfare state seemed to be unaware of.

  Even though the proactive work requirements model saves costs in the long term, this approach requires considerably more resourcing to put it into effect than the administration of a benefit system, which merely passively pays out benefits. Resourcing issues in administrations which have followed this model include staffing of case management, job placement, child care, training and a variety of linked issues.

  New Zealand has started in this direction with the introduction of full-time work requirements for sole parents whose youngest child is 14 years of age or older, and part-time work requirements for those with youngest children aged six to 13.
- Case management: Innovative public sector agencies around the world have put considerable resources into 'case management' of sole parents and other beneficiaries. Promising results to date (Rogers, 1997) do not support Green's thesis that only voluntary agencies can require beneficiaries to modify their behaviour. Public sector agencies may quite properly be more constrained in what they can ask of people than a purely voluntary organisation, but they can still require economically significant behavioural changes.
- Reform of the income support system to encourage beneficiaries to take up paid work (OECD, 1996), including the logical corollary of

supporting low-income families in work: Green's hostility to this (p 132) seems difficult to understand, particularly in the light of the promising initial results of the UK Family Credit scheme in shifting people off benefits and into work (Marsh, 1997). Family Credit is an income top-up arrangement for low-income working couples with children and for working sole parents. Green provides no evidence for his puzzling claim that Family Credit may encourage family breakdown. New Zealand initiatives in income support reform have included changes in benefit rules to encourage part-time work by beneficiaries, and the new Independent Family Tax Credit for low-income non-beneficiaries with children.

Overall, Green's proposals for sole parents are less than adequate, with a strict policy being proposed for wayward teenagers, but little that is constructive proposed for the much larger numbers in other groups.

SUMMARY

Green's approach to the benefit-dependence issue has widened the scope of the debate. Whereas most other participants in the debate have focused on how the social welfare benefit system can be reformed (Preston, 1996) or have opposed the direction of the reforms, Green has played the devil's advocate by suggesting that we simply abolish the system and let the voluntary sector and private insurance deal with the consequences.

However, playing the devil's advocate is one thing; developing a realistic set of proposals which governments could implement with confidence about their outcome is another thing entirely. In this respect, Green is less than convincing. Several of his key proposals are unlikely to deal with the actual problems in a normal policy timeframe. Others address only part of the problem, and not necessarily the most important part. Also, they have long-run implications for tax revenues, the voluntary sector and non-wage labour costs for employers, which Green avoids discussing adequately. Much of his analysis is based on an exaggerated dichotomy between an idealised voluntary sector model and a pilloried public sector model. He ignores or minimises the worldwide initiatives in public sector benefit reform and practical changes which have already been implemented. He strains at an interpretation of social history in order to present his case.

Whether this amounts to a full case for rejecting Green's perspective is, of course, a separate matter. Those of his critics who are writing from a perspective of wanting reform of the social welfare benefit system, including myself, are concerned about cost-effective ways to reform the public sector. In this framework, most of Green's proposals are not particularly useful. Green's social cost–benefit analysis is quite different, because he is marching to a different drum: that of abolishing most of the public sector role in social welfare, and moving from a welfare state to a voluntary civil society.

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Can the Voluntary Sector Meet the Challenge of Civil Society?

Jim Datson

I am firmly convinced that the voluntary sector in New Zealand can fulfil the role of the main provider of welfare services in New Zealand, as David Green recommends. The real debate should revolve around how such services might best be funded.

The voluntary sector has traditionally been a significant service provider in New Zealand. Yet our general level of awareness of that role remains very low. References to it in social policy literature are rare. Voluntary sector organisations are typically viewed as optional extras – hobby clubs for do-gooders that should be run on a shoestring budget.

In view of these attitudes, why should we promote the use of the voluntary sector to meet individual or community needs, as opposed to leaving it to the state, business or individuals? My own answer is linked to that given by Harold J Seymour's observation that voluntary sectors are peculiar to democracies (1966, p 27). It is appropriate that the voluntary sector's ethos of spontaneous giving and citizen participation should flourish in a democracy like New Zealand. Indeed, as I explain below, the voluntary sector is characterised by democratic processes.

In this review, I address the challenge that civil society presents to New Zealand's voluntary sector. I will:

- define the voluntary sector;
- propose a model for characterising the differences and inter-relationships between the voluntary sector, the state sector and the private sector;
- consider the financial-management and revenue-generating environments for voluntary sector organisations;
- discuss the potential for expanding the funding of voluntary sector organisations in a civil society;
- examine the issue of taxation in relation to the voluntary sector; and
- identify the potentially harmful side-effects of adopting Green's proposals for an expanded role for the voluntary sector.

WHAT IS THE VOLUNTARY SECTOR IN NEW ZEALAND?

Despite the size and impact of the voluntary sector in New Zealand, embarrassingly little is known about it. Ministry of Commerce figures indicate that as at 30 June 1996 there were in excess of 31,800 voluntary associations in New Zealand: 22,584 incorporated societies and 9,265 registered charitable trusts. More than 20 such associations are created each week. Registered charitable trusts have increased in number by 84 percent in the past five years. The voluntary sector includes welfare organisations, social service organisations, youth groups, hobby clubs, sports clubs, music, art and cultural groups, environmental agencies, overseas aid organisations, political parties, health promotion organisations and charitable educational bodies.

The voluntary sector's legislative framework consists of two statutes: the Incorporated Societies Act 1908 and the Charitable Trusts Act 1957. The Law Commission has called for both pieces of legislation to be reviewed in the foreseeable future. A Working Party on Accountability of Charities and Sporting Bodies has highlighted many of the shortcomings of both the current legislation and current practices of voluntary sector organisations (NZAPT, 1997a).

Estimates of the voluntary sector's turnover vary. The National System of Accounts has calculated that the value of the voluntary sector in 1993 for gross domestic product (GDP) purposes was $771 million (NZAPT, 1997b). Recent research undertaken by the New Zealand Association of Philanthropic Trusts (NZAPT) suggests that the true value is closer to $2,000 million (Robinson, 1996, p 3). As for 'gifted income', the Inland Revenue Department's calculations, based upon rebates for donations, produced a figure of $259 million for 1993 (Robinson, 1996, p 9). The top 10 fundraising organisations alone raised $80 million in that year. The value of voluntary work contributed by New Zealanders to the voluntary sector has been estimated at around 500,000 hours a year (Department of Statistics, 1996).

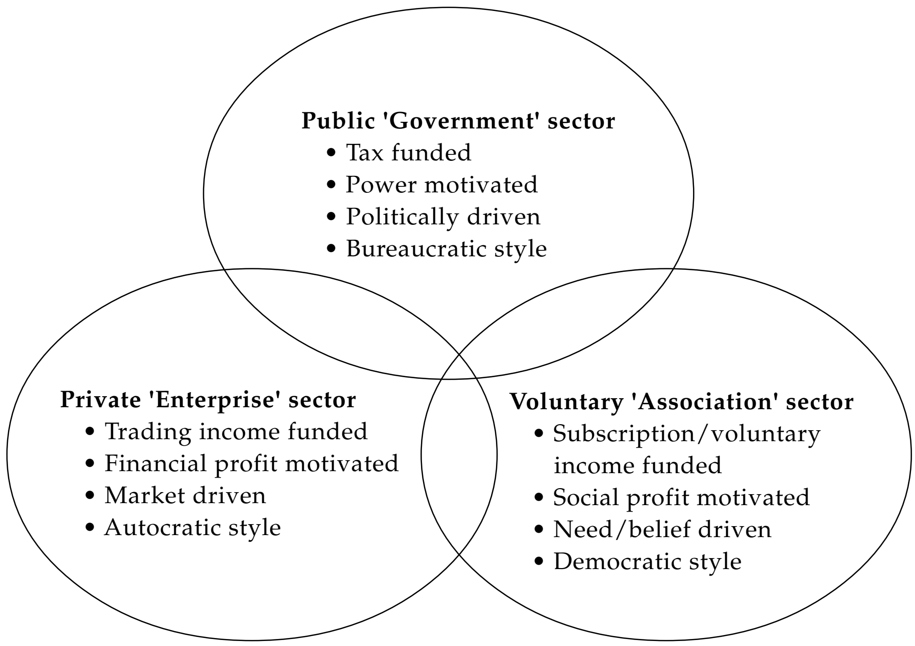
There is reason to believe that these figures are conservative. Certainly we need to devote more resources to discovering the true contribution of this somewhat invisible sector to New Zealand's GDP and quality of life.

A MODEL OF THE VOLUNTARY SECTOR

To aid our understanding of the voluntary sector, I propose a model that highlights its differences from, and its relationships with, the state sector and the private sector. But first, I will clarify the nomenclature of the sector.

In the United States, the voluntary sector is often referred to as the third sector or the independent sector – a sector consisting of non-government organisations (NGOs). In New Zealand, we conventionally refer to it as the not-for-profit sector. I prefer the term I have been using from the start – the voluntary sector – since it captures the motive that distinguishes that sector from the government (based on compulsion) and private enterprise (based on commercial opportunity). The stress on *voluntary* labour, *voluntary* governance and *voluntary* donations conveys its ethos far better than the negative term *not-for-profit* or the neutral *third* or *independent*.

THE PUBLIC, PRIVATE AND VOLUNTARY SECTORS CHARACTERISED



This model highlights a number of salient features of the voluntary, government and business sectors. It also suggests that each sector operates to some extent within the natural territory of the other two. Voluntary organisations frequently operate like commercial trading entities, and many private businesses are established in order to express some belief or to address an identifiable need. Our awareness of this overlap between the sectors helps us to determine to which sector a given activity should belong. It reinforces Green's argument that voluntary sector organisations should provide welfare, education and health services, because:

- it is need that determines the welfare, education and health services that are produced, and only the voluntary sector is driven primarily by need; and
- the outcome of good health, education and welfare services is the attainment of improved social profit for our communities and it is only voluntary sector organisations that are primarily motivated to achieve improved social profit.

There is also evidence to suggest that voluntary sector organisations are better able to identify needs, and to respond to them in a more cost-effective manner, than the state. According to Colin James (1992, p 80), Helen Clark as minister of housing in 1987–89, called for voluntary sector organisations to be contracted to provide state housing assistance services because of inadequacies in the state system.

The model also clarifies ways in which the various types of organisations behave and should therefore be managed. We can conclude that government agencies (central and local) should not be driven by models of private enterprise *practice*. Certainly, many current government services should be managed as private enterprise *businesses* – the commercialisation of most government trading entities has been a success. But the application of private enterprise practice has been too zealous in ministries and departments with regulatory functions.

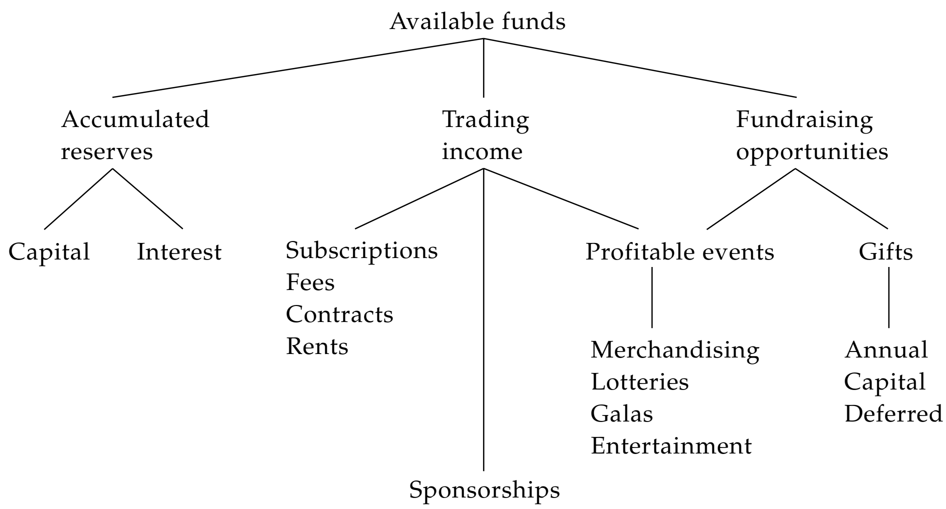
Equally, voluntary sector organisations cannot be successfully managed using either private enterprise or bureaucratic practices. Each type of organisation has an ideal form of management. The model gives the ideal form of management for government as bureaucratic, for private enterprise as autocratic and for the voluntary sector as democratic. Although this review cannot explore the full meanings and implications of these terms, they are clear enough for present purposes, representing as they do the different focuses of the three kinds of organisation.

THE VOLUNTARY SECTOR'S FINANCIAL AND REVENUE-GENERATING ENVIRONMENT

Should civil society be revived along the lines advocated by Green, the most important issue would be financing services provided by the voluntary sector. In this section I summarise the range of options faced by the voluntary sector in its quest for funds (with the exception of government subsidy, which is examined in the next section).

The diagram below sets out the full range of funding options for the voluntary sector.

The voluntary sector's funding options



Accumulated reserves

A high level of accumulated reserves can work either for or against an organisation. Many of the private educational institutions in the United States, such as Harvard and Princeton Universities, have vast financial reserves. Yet they manage to attract huge levels of continuing funding from their alumni because they have built their philosophy on long-term viability. Former prime minister David Lange told an audience recently:

> At Yale University, it's $25,000 per year to be a student. When I was over there in 1989, I asked how kids could possibly afford to come here and a staff member said 'We don't ask them for money, we ask them for excellence and we pay their fees. And then for every year of their lives, our alumni will be

> asked to support'. … and in the year I was there, the class of '73 promised US$75 million to Yale because they had prospered and now they were giving back. (Presbyterian Support Services, 1997)

Few organisations in New Zealand have instilled that ethos into their supporters. For many organisations, known accumulated wealth is likely to be translated into reduced support: you obviously don't need my support when there are so many other struggling causes. Donors and supporters take cognisance of organisational wealth when considering whether to give the organisation their support.

Trading income opportunities

The availability of trading income opportunities evokes a similar response to the presence of accumulated wealth. Organisations that are believed to be able to earn their own keep are expected to do so. Successful examples of such organisations abound and are often not even thought of as voluntary sector organisations. The Automobile Association and the Institute of Management are two examples. Both successfully and rightfully remain in business by trading their way.

I have included sponsorship under the heading of trading income, since sponsorship has nothing to do with corporate philanthropy. It is a straightforward commercial arrangement by which company money is invested through sponsorship of some voluntary sector organisation or activity, in the expectation that the investment will, like any other, earn a return that makes it worthwhile.

Fundraising income

Fundraising involves a wide range of activities. It includes profit-making events to which standard commercial marketing principles apply. As the diagram suggests, such activities may be classified under either 'trading income' or 'fundraising opportunities', depending upon the core business of the organisation concerned. Diabetes New Zealand sells an extensive range of diagnostic and treatment products for diabetes and diabetic foodstuffs throughout the network of Diabetes Societies in New Zealand. This activity has more to do with the core business of the organisation than with fundraising. Meanwhile, thousands of organisations hold events like balls, dinners, galas, lotteries and the like that have nothing to do with their core businesses, but that raise additional funds.

Fundraising includes philanthropy, that is, giving money directly to an organisation in support of its aims. The levels of income that organisations derive from this source vary enormously. New Zealand's most successful fundraising organisation is World Vision, which aims to raise close to $20 million from its supporters in 1998. The single largest capital fundraising campaign in New Zealand to date raised $16.1 million for the Aotea Centre in Auckland. This target is set to be eclipsed by the current campaign run by the University of Auckland, which is aiming to raise $20 million.

New Zealanders respond generously to fundraising appeals. Bob Geldoff's Live Aid concert in the mid-1980s raised money simultaneously from many nations; New Zealanders gave the second highest contributions per head, beaten only by Geldoff's compatriots in Ireland. But for New Zealanders that is usually where generosity ends. The number of committed regular donors to organisations in New Zealand seems, on the basis of anecdotal evidence, to be small: the largest and most active fundraising charities in New Zealand have donor databases that range from 50,000 to 80,000. I suspect that this has to do with the welfare state – as a nation, we tend to believe that we have done our bit by paying our taxes.

Each voluntary sector organisation has its own optimal mix for generating revenue. A full understanding of how these organisations might best mix accumulated reserves, trading income and fundraising opportunities would help them to meet the challenge of contributing to a revival of civil society.

DEVELOPING THE VOLUNTARY SECTOR'S FUNDING BASE

One of Green's recommendations for reviving New Zealand's voluntary sector is to make it less dependent on government subsidies. I agree entirely with his claim that some charities have become "little more than subcontractors to the state" (p 118).

Prior to the public sector reforms of the 1980s, voluntary sector organisations could, under certain conditions, qualify for government subsidies, in recognition of the fundraising difficulties they faced. Since then, the government has adopted a contracting approach that uses precise indicators for judging whether organisations are achieving agreed outputs. This approach has spurred voluntary organisations to focus their efforts on the achievement of results – on actually making a difference as opposed to continuing to provide a service simply because 'that's what we've always done'. But in the process the funders have captured control of services. Moreover, while the funders define the full measure of the service to be provided (for whom, how much, when, where, how), they commonly fund only part of the cost of the service. The shortfall is made up by private donors, who have in effect become double taxpayers. In terms of the model set out above, such control of the voluntary sector is inappropriate. The contracting approach risks damaging the whole fabric of our voluntary sector.

Providing services without recourse to government funds would require voluntary sector organisations to find in excess of an additional $580 million in income each year. That is the level of central government ($185 million), local government ($26 million) and health authority ($376 million) funds directed at voluntary sector organisations during the 1994 financial year (Robinson, 1996, p 3). These sums represent almost 20 percent of the estimated total turnover of the voluntary sector. However, for individual organisations the proportion can be much higher, amounting to most of their revenue.

Replacing government funding with income from alternative sources is likely to prove well beyond the current reach of the public's willingness to give. For a start, some organisations are more popular than others. Despite a lack of hard evidence, anecdotal information from those working in the fundraising field suggests that organisations have predictable levels of donor response and average gift amounts:

- for organisations working in the field of disability, age-care, mental health and dementia, response rates to fundraising appeals hover around the 10–25 percent mark, with average gifts of about $10–$25;
- for church-based social services and many traditional community services (for example Red Cross, St John, Plunket), response rates of 25–40 percent are common, with average gifts of $20–$40;
- for animal welfare, children's charities, and the arts and private education, response rates are in excess of 50 percent, with average gifts of about $40–$60; and
- church evangelical programmes can attract response rates of more than 80 percent and average gifts worth hundreds of dollars.

Age group also affects responsiveness to appeals for funds and willingness to be involved in voluntary work. Harvey and McCrohan report that "today's younger adults appear sceptical of charity's role in solving societal problems". Their research indicates that the 30–34 age group gave only 1.7 percent of their income to voluntary organisations, compared with 2.6 percent from those aged 35–39 and 3 percent from those aged 50–64. They also reported that "voluntarism declined 11 percent points during the reporting period, providing additional evidence that people under 35 are less supportive of such institutions"

(1988, p 47). In the United States, recent research suggests a reduction in levels of giving as a proportion of personal income: between 1964 and 1969, contributions exceeded 2 percent of personal income, but in only one year since 1981 have they exceeded 1.8 percent of income (Price Waterhouse and Caplin & Drysdale, 1997, p 2).

A survey undertaken by the Australian Bureau of Statistics demonstrates similar declines. James Cox reports that whereas a:

> … survey in New South Wales in October 1986 found that 18.5 percent of males and 29.3 percent of females provided voluntary service through an organisation in the twelve months prior to the interview, the corresponding figures from the 1995 survey were 13.1 percent and 17.7 percent, respectively (though it should be noted that the ABS did not release the final report of the 1986 survey, presumably because of concerns about data quality). (1997, p 278)

This evidence suggests that the voluntary sector would be unlikely to receive an additional $580 million in voluntary contributions in the short term, should the government cut funding and reduce taxes by the same amount. However, if sufficient notice were given of these policy changes, it is possible that the equivalent of $580 million could eventually be found – though not just from voluntary giving, but from each organisation reframing its total capability to generate revenue.

Some of the changes necessary to realise the additional funding would be merely mechanical. Other changes, however, would be much harder and require wholesale changes in attitudes, such as:

- recognising the value of voluntary sector organisations as core providers of community services and, with it, accepting the need for such organisations to hold substantial accumulated reserves in order to guarantee service provision through time and to accommodate a level of bad debts;
- accepting the need for voluntary sector organisations to develop appropriate trading activities as legitimate revenue-generating measures; and
- New Zealanders accepting that philanthropy is a natural and important human activity that should be universally practised and encouraged.

Certain additional changes would be required, such as:

- clients and service delivery recipients accepting a higher level of user charges, a shift already under way with many service delivery organisations;

- establishing a safety net of centrally distributed funds to preserve levels of service for unpopular causes, such as the fields of disability, mental health and dementia (Green proposes this as a necessary component of the welfare system, see p 116);
- encouraging cooperative credit union-style options among both individuals and organisations themselves (through umbrella groups) to provide alternative means of spreading the funding load and also to provide establishment and research funds and to accommodate newly identified needs (also as Green proposes, see p 112);
- expanding courses in educational institutions on the management of voluntary sector organisations, and volunteer management and fundraising, in order to upgrade the skills of the thousands of trustees, committee members, and managers and staff of voluntary sector organisations;
- reforming government legislation and regulation to encourage a revival of the voluntary sector; and
- voluntary sector organisations embracing a range of managerial activities in addition to service delivery, including management, performance auditing, research, profile raising, image positioning and fundraising.

If these issues were to be addressed, then it would be possible to begin to transfer service delivery funding away from the state to a rejuvenated civil society.

THE ROLE OF TAX INCENTIVES

Green recognises that some voluntary sector organisations would continue to need some level of government funding. He proposes that voluntary donations to such organisations – organisations that he calls 'registered voluntary associations' – should not be tax deductible. Other organisations – to be called 'registered charities' – would finance their services and activities entirely from non-government sources, and donations to them would be tax deductible. Also, Green proposes to abolish the upper limit of tax deductibility for donations. He argues that, although tax concessions reduce the tax base, "the welfare mentality has so weakened civil society that I believe the use of tax concessions to encourage its renewal to be a higher priority than lowering the general income tax burden" (p 119).

Two significant studies conclude that tax deductibility for charitable purposes should definitely be retained. The study conducted by Price

Waterhouse and the Washington law firm Caplin & Drysdale on the impact of tax restructuring on tax-exempt organisations in the United States concludes that "preserving the historical principle of charitable tax exemption is key to assuring that charities are free to devote all of their resources to carrying out their charitable missions". The authors went on to say:

> tax exemption for charities recognises the important principle that organisations that act voluntarily to further the public good should be freed from the obligation to support government through payment of taxes; exemption maximises their ability to help others. Tax deductibility for charitable contributions acknowledges that contributions are a form of voluntary taxation. When people give income or property to charity, they give up their right to consume or save, in favour of helping others. (1997, pp 1–2)

A similar study undertaken in New Zealand in 1988 in response to the Labour Government's proposal to abolish tax deductibility for charitable organisations also recommends that tax deductibility be retained. Peter Clough (1988) concluded:

- government revenues forgone would be approximately $32 per taxpayer, equivalent in total to 0.4 percent of direct taxation revenue in 1985 figures (p 19);
- in the absence of tax expenditures through concessions, direct grants from government would be required to retain the current level of public goods provision (p 3);
- while considerations of tax neutrality and horizontal equity suggest that exemptions should be removed, institutional constraints suggest that many voluntary sector organisations are not equal entities with private commercial competitors (p 7);
- because such bodies have no recourse to shareholders' funds, they may face higher costs of capital when embarking on trading activities (p 7);
- in the past, government assistance to voluntary sector organisations has been justified on the grounds of both public good and merit good arguments (p 13); and
- tax expenditures are indirectly influenced by government through its conferment of charitable status on organisations, and some of the criticism of tax systems is probably more rightfully a criticism of this selection process which may be subject to pressure group capture (p 23).

Martin Feldstein concluded in his 1980 study that "the common presumption that direct government expenditure was superior to tax expenditures is false, and that in many instances efficiency of service provision could be improved by extending the range of tax subsidies" (1980, p 209).

These studies and conclusions endorse Green's proposal that tax exemptions be extended for 'registered charities'. But they also suggest that such exemptions be made available to all voluntary sector associations, not just those that Green would classify as 'registered charities'.

An argument that has been advanced for scrapping tax deductibility for donations is the cost of administering the system. The government is abolishing the IR12 tax return in order to reduce processing costs. But this reduces the Inland Revenue Department's ability to process applications for personal tax deductibility on donations. An alternative option would be for the government to contribute directly the tax equivalent to qualifying organisations in proportion to the amounts of money they raised from community sources. As voluntary sector organisations are numbered in the tens of thousands, in contrast to the hundreds of thousands of individual taxpayers, this option would reduce administrative costs. It would also mean that a donor would need give only, say, $700 in order for his or her preferred organisation to receive $1,000, as opposed to giving $1,000 now in order to receive a rebate of $300 at a later date. This system would also provide the government with a database for monitoring the levels of safety-net funding required by voluntary sector organisations at any point in time.

POTENTIAL NEGATIVE SIDE-EFFECTS

Could the role of the voluntary sector in a civil society be developed to overcome all the current ills of the welfare state, or would such a system merely develop its own set of problems? Space allows me to identify only some of the potential pitfalls.

We live in a user-pays society, in which consumerism has led to the norm of the two-income household. This has already had significant consequences for welfare, such as declining voluntary care for the elderly. It has also changed the nature of volunteering. The impact of the consumer lifestyle on the availability of time and resources for voluntary work needs consideration.

The most powerful force in our community is the media. The media can make or break an organisation. Donors, in particular, rely upon the media for independent endorsement of an organisation's activities and achievements. Could we implement a safety net against any excessive media bias or even harassment?

The voluntary sector has traditionally helped to shape public opinion. Attitudes towards smoking, the environment, sexism, racism and so forth have been modified by the activities of voluntary sector organisations over the past few decades. All of these started as unpopular causes, funded by the zealots of the day. The risk then is of voluntary sector organisations telling us what we should think and how we should act – the arbiters of personal and community standards to such an extent that it creates confusion.

Green suggests that a healthy voluntary sector is one in which "there is no presumption of superiority by the giver and no doffing of caps by the receiver" (p 108). That is an ideal which reality does not approximate. I have concerns about the potential for subservience to worsen following the implementation of Green's model.

It is interesting to observe that while there are more people with a physical disability than an intellectual disability, and there are more organisations dealing with physical disability than intellectual disability, over the past few decades the quality of life for people with an intellectual disability in New Zealand has been enhanced many times more through the efforts of IHC New Zealand Inc, compared with the quality of life experienced by people with a physical disability, who have many organisations devoted to caring for them. The same has occurred for people with visual impairment (represented by the Royal NZ Foundation for the Blind), compared with people with auditory impairment. While the sample is small, it suggests that having a multiplicity of organisations involved in the same field does not necessarily lead to improved service delivery. More organisations entering the same field can create donor confusion and work against them all.

An associated problem could be the unchecked growth of voluntary sector organisations in New Zealand where no form of organisational contraception is practised. This does not encourage those organisations already in existence to learn more effective or efficient ways of operating. I have grave concerns about this. Grant-making trusts, the New Zealand Lottery Grants Board and government practice do not contribute in any way to overcome this problem (with the one exception, no longer available, of a Management Assistance Grant from the now dissolved Roy McKenzie Foundation). The waste in resources associated with this issue is huge and can only get worse if the sector is to be expanded.

I am uncertain about the potential role of the New Zealand Lottery Grants Board in a system where the voluntary sector is the primary services provider in communities. Our current lottery funds distribution system is political and is more of an extension of government funding than the independent grant-making entity that lottery-sponsored advertising would have us believe.

CONCLUDING COMMENTS

New Zealand's voluntary sector is capable of fulfilling the role that Green prescribes for it, given appropriate changes in attitude and a better understanding of the full range of revenue-generating options available to it. Most probably, the government would need to finance a funding safety net through tax revenue. But above all, there is a need for reliable statistics on donations to and work done by the voluntary sector. The sector is woefully lacking in resources for collecting and interpreting information. This simply must change if the sector is to respond to Green's challenge, or indeed to any challenge at all.

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A Critique of David Green's Approach to Health Care Policy in New Zealand

Claudia D Scott and Jacqueline Cumming

Many countries throughout the OECD are facing important policy questions concerning the ideal role which the public and private sectors should have in the funding, purchasing, delivery and regulation of health care. Like New Zealand, several are experimenting with reducing the dominance of the government and designing systems in which a larger role is played by private institutions from both the not-for-profit and for-profit sectors. Systems are becoming more complex and the interfaces between public and private sources of funding and institutions are increasing in importance.

Like other OECD countries, New Zealand is struggling with a number of complex policy issues – notably, how to redesign a health care system so as to encourage individual responsibility and choice, greater efficiency in the level and mix of services accessed and in the production and delivery of health care, and improvements in the overall equity of the health care system.

The invitation to critique David Green's chapter on 'Health Care in a Free Society' provides an opportunity to assess his contribution to New Zealand's ongoing debate about health care reforms. Green's policy recommendations for New Zealand flow, however, not from a careful consideration of local health care issues but from his broader views concerning the merits of moving to a 'civil society'. These views suggest that health care should be delivered primarily as a result of individual consumers making choices in the markets for insurance and health care services, leaving the state with perhaps a small regulatory role and "the maintenance of a safety net to provide essential medical care for people too poor to pay" (p 135).

About half of Green's chapter is devoted to discussing different explanatory paradigms, sources of market failure and the merits of reducing regulations and practices which limit the capacity of private insurance and health care delivery to operate in a more competitive fashion. Green sees market failures as neither necessary nor sufficient grounds for state intervention in the markets for private insurance and provision, and argues that competitive markets have not really been tried, even in the United States. The views of Canadian health economist Professor Bob Evans (1984), which support the state's monopsony purchasing role, are then contrasted with proposals for 'managed competition', as outlined by American health economist Professor Alain Enthoven (1989). Green then discusses three proposals for reform of the New Zealand health care system.

Our review is undertaken in three parts. First, we examine health policy goals and government roles in health care. This provides the context within which we can summarise Green's views on the nature of health care, the role of government in the areas of funding, provision, regulation and ownership, and the relative importance implied by his views for policy goals such as efficiency, equity and choice. Next we examine three different systems as outlined by Green and link them to reform proposals in New Zealand and in other countries. Finally, we outline some outstanding and pressing issues for the New Zealand health reform agenda.

HEALTH POLICY GOALS AND GOVERNMENT ROLES

The role of governments and markets in the funding, purchasing, provision, ownership and regulation of health care is a debate being carried out in many OECD countries (OECD, 1995). While much of this debate can be conducted in a way which appears to reflect policy choices between a private and a public health care system, the real world is one in which there are both public and private arrangements. Thus, the particular context for the debate is essential to understanding the positions which are being expressed.

The share of New Zealand's gross domestic product (GDP) devoted to health care is rising. At the same time, however, a smaller percentage of total spending is sourced from the public sector. Between 1980 and 1996, total health care expenditure increased from 7 percent to 7.5 percent of GDP, while the proportion spent from public sources decreased from 88 percent to 75.9 percent. The contribution of private health insurance to total heath expenditures increased from 1.1 percent to 7.1 percent. Similarly, out-of-pocket expenditures increased from 10.4 percent to 16.7 percent (Ministry of Health, 1997). Lengthening waiting lists and times, a perceived excess number of beds and small hospitals, poor incentives for efficiency and cost effectiveness, and poor coordination between secondary care and primary care sectors are well recognised problems in New Zealand's health care policy history (Scott, 1994; Cumming and Salmond, 1998).

Green's remedy is to remove the central role of government in the funding, purchasing, delivery, ownership and regulation of health care and to substitute cost-conscious personal consumer choice, accompanied by consumer payment. His proposals would see the withdrawal of universal tax funding of health care, state monopsony purchasing through regional health authorities (recently modified under the 1996 Coalition Agreement to replace four regional health authorities with a single national funder), and state monopoly ownership and operation of public hospitals. Green suggests that health care should be financed through out-of-pocket payments and private insurance rather than taxation.

These proposals are consistent with Green's view that welfare states have crowded out the tradition of non-political collective action for the public good, resulting in dependency on the state and associated shirking of individual and collective responsibility for the welfare of all. In Green's civil society, its members carry personal responsibility for self-improvement and an obligation to make the world a better place for others. Under this social contract all people accept the conditions which allow them to exercise responsibility, and the government maintains a primary role in upholding the conditions for liberty.

The recommendations which flow from this perspective fail to recognise relationships between civil society and democratic governance, and the role that political associations and the larger political setting contribute to a civil society (Foley and Edwards, 1996). Green is not convincing when he suggests that voluntary arrangements and charity will provide appropriate services, and that services will be allocated in ways which appear fair and equitable.

Green's notion of a civil society is one where individuals should be self-reliant. For health care:

> there should be much greater reliance on private insurance. Urgent non-discretionary treatment should be available to all, but follow-up systems for recovering costs should foster self-reliance and thereby reward those who are insured… Hospitals … should be privatised as access to health services can be underwritten by government funding and does not require government ownership of providers. (p xiii)

Green's ideal world is one in which health care is a service whose level and nature can best be determined by informed consumers making individual choices regarding health insurance packages and health service delivery systems. In this world, the role of government is to preserve the legal and moral conditions which allow individuals to be free to assume responsibility for their own health and to collectively ensure the maintenance of a safety net to provide essential medical care for people too poor to pay. Green believes that the government, in the name of trying to protect the poor, has gone far beyond what is necessary to give protection.

Green's prescriptions have a universal quality which, at points, makes them appear to be somewhat disembodied from any real-world health care system. Implicit in his analysis is that these principles are overriding and that no further discussion is required concerning the trade-offs and choices which flow on from elevating this policy goal to reign above all others. Yet policy debates about the relative efficiency of private and social insurance depend critically on one's view of health and on the degree to which health is viewed as a normal good or service.

Advocates of the concept of health as a normal good argue that efficiency is best achieved when individuals are able to express their individual preferences for health services and health insurance, so that welfare is maximised.

An alternative view draws on a holistic definition of health care: a concept associated with the World Health Organisation (WHO, 1947) and also with Maori (Durie, 1994). This view strongly links the state of health for an individual to the families and communities of which they are a part. Viewed from this perspective, health care and health policy must take on a community as well as an individual focus. The close interconnections between individual and community health are already well recognised in the area of public health, but proponents of this view also see the public organisation of personal health services playing a key role in promoting community health.

This view of health care embraces the particular public policy goals people wish to pursue within the health care system. Some view health policy as maximising health outcomes and/or removing disparities in the health status of different groups. This has two implications. First, they would be most unlikely to support approaches to financing health care which did not encourage a focus on health outcomes, recognising that health services are demanded only because of their possible contribution to health outcomes. Second, they might not support approaches to financing health care which link the level of care received to the income of the individual. Under these scenarios, collective universal funding mechanisms would be supported: first, because of the way in which they promote a stronger role in purchasing for care which provides the best outcomes, and second, because of the way in which they remove financial barriers to care for those with low incomes and/or poor health status.

One proponent of this view is Professor Tony Culyer of the University of York. Culyer suggests that uniform insurance is warranted because it has the greatest potential to provide for health gains to those with the poorest health status (Culyer, Maynard *et al*, 1981). Dr Nicholas Barr of the London School of Economics also provides arguments which shift the emphasis from maximising individual choice to notions of improving overall efficiency. He suggests that universal social insurance may be supported on grounds of equity as much or more than on grounds of efficiency. Barr notes that health insurance is different from other insurance in that cover is not for the occurrence of ill health, but rather for servicing health as determined by the health care insurer, medical provider or an individual (Barr, 1989). Thus, he suggests that collective choice rather than individual choice will do most to maximise both efficiency and equity.

Other policy goals may include promoting choice for service users in relation to health care insurance and provision of care, and ensuring that people can access care relatively easily. Yet Green does not acknowledge that these other goals may be compromised by his complete focus on liberty, and that policy choices will often reflect community views on the trade-offs to be made between different policy goals. Moreover, Green's writing tends to confuse objectives with the various institutional and other arrangements which are, at best, strategies or means to achieving broader goals or objectives. This can be illustrated by Green's statements on a new strategy for the health care system in New Zealand:

> There are two objectives for the health care system in New Zealand. First, as far as possible health care should be privately financed. Second, hospitals should be privately owned and managed. (p 155)

HEALTH CARE SERVICES

A system of funding health care based on private insurance would suffer from a range of problems. For example, it may not provide comprehensive cover for all health risks or for all people. Green acknowledges this, but argues that "uninsurable people can be provided for by 'risk pools' which make special provision for the excluded, or by charity" (p 139). A policy solution which rests on the possible existence of charity provides little guarantee that insurance cover would be available to all at some minimum level. The consequence of forming special risk pools for high-risk individuals is that the government would need to provide the insurance itself or subsidise its provision by private insurers. Given Green's reluctance to regulate private insurance markets, it is most likely that the government would inevitably remain financially responsible for the poor, thus placing some limit on the capacity of the system to be self-financing through private insurance markets.

Green is not clear about the specifics. Based on his views on the US system, one must surmise that his particular approach would involve minimal government intervention and a strategy of government intervention only when cases of market failure in insurance had been amply demonstrated.

This raises some interesting issues in the context of the New Zealand health care system, in that the government currently carries much of the financial risk for the costs of 'Cinderella' services like mental health care and care for people with disabilities, not to mention the Accident Rehabilitation and Insurance Compensation Commission, which underwrites the costs of medical care and income-related benefits to victims of accidents. Any move to minimise the role of the government in health care funding and delivery raises the question of whether private insurers, if not 'encouraged' through government regulation to do so, would ever be able to offer comprehensive health insurance cover to handle these risks.

Unless private insurance markets are regulated and/or subsidised, coverage of the entire population through insurance will be incomplete, and access to private insurance will be closely related to one's socio-economic and employment status. Strategies which strengthen the role of private insurance in health care financing need to pay particular attention to regulating and encouraging private insurers to assume greater risk and to offer more comprehensive insurance packages. While one could argue that the public funder has 'crowded-out' private insurers, it is unlikely that a government could or should simply withdraw public insurance for particular risks without some policies to ensure that the risk was taken up by private insurers.

GOVERNMENT AND PRIVATE SECTOR INTERFACES

Green's analysis suffers further from its simplicity as he fails to discuss in any depth the particular roles of the government and the private sector and their interfaces. The potential effects of neglecting such issues are clearly indicated in present New Zealand arrangements. Health care systems in New Zealand are financed through taxation, private insurance, out-of-pocket payments and various other sources. Yet the boundaries between such arrangements are blurred, creating a lack of certainty as to the services people can expect from each arrangement. In some cases, different arrangements can undermine particular policy objectives. For example, New Zealand private insurers currently reimburse the user co-payment charges imposed by the government, so that government moves to provide incentives for consumers to be conscious of health costs can be easily undermined.

At the moment, the funding pressures on the public health system are poised to shift responsibility for much elective surgery to individuals. As less elective surgery is funded through the public system, it will become essential for individuals to secure private insurance to ensure access to care. This raises concerns over the extent to which private insurers will cover these gaps in a comprehensive way and how those unable to pay out-of-pocket or through private insurance will access care. At the same time, differentiating policies according to whether the service is acute or elective seems artificial. A better basis for differentiating public and private insurance could be found, particularly as non-acute services, if not secured, may well result in the need for acute care in the future.

Similar problems with interfaces between arrangements are likely to occur with the proposals discussed by Green. For example, any 'residual' arrangements supported by the government would provide incentives for private insurers to shift higher-risk and higher-cost patients on to the residual system. Thus, incentives for efficient behaviour on the part of private insurers would be reduced.

PRESCRIPTIONS FOR HEALTH CARE REFORM IN NEW ZEALAND

In a section headed 'Possible Reforms', Green discusses three possible avenues for further reform: the first, a scheme for compulsory private insurance as has been suggested by Roger Douglas, New Zealand's minister of finance 1984–88; the second, the development of alternative health care plans as envisaged in the 1993 reform proposals; and the third, 'managed competition', drawing on the work of Alain Enthoven. It is helpful to describe each of these schemes briefly.

The scheme devised by Roger Douglas proposes that all New Zealanders would be responsible for:

> buying insurance to cover themselves against major and unexpected medical costs, and the costs of any additional services they might choose, in return for a reduction in taxes. Where beneficiaries or those on low incomes have difficulty covering the cost of the insurance premiums, the government will provide subsidies but the choice of the insurer will still belong to the individual. (Douglas, 1993, p 127)

Under this scheme, individuals would be required to take out two compulsory health insurance contracts. The first would cover annual health costs that exceed 5 percent of the family income. This is the same as a front-end deductible calculated as a percentage of income and would cover low-probability high-cost events such as hospitalisation but not routine visits to the doctor. The scheme acknowledges some of the problems of the coverage and affordability issues surrounding private insurance, for it would regulate so that insurers would not be allowed to cancel or refuse to renew contracts with individuals. Under this scheme, a 'core' of services would not be defined, and premiums would vary depending on broad risk categories such as age, occupation, location, gender and lifestyle, and according to the size of the family. Insurers would not, however, be able to take account of a particular family's medical status or claims history in setting premiums.

In addition to this, all individuals would have to purchase a second health insurance contract designed to ensure that, when people reach retirement at the age of 65, they will have saved enough to meet the cost of their health care premiums for the rest of their lives. The entire cost of cover would be met by individuals privately as the result of compulsory saving from the age of 18 achieved through this insurance contract. (This contract has significant similarities to Roger Douglas's retirement savings scheme, and also to the New Zealand First–National coalition government's retirement savings scheme that was rejected at a referendum in September 1997.) Douglas also supports the transformation of public hospitals into privatised and profit-making commercial ventures.

Green makes two comments on the Douglas scheme. First, he suggests that hospitals need not be forced into profit-making roles. Second, he leaves little doubt that he does not accept the need for compulsion as proposed by Douglas. Green states "the important question is whether compulsion is better than a safety net level of provision funded out of taxes, given that compulsion invariably has the drawback of requiring regulation of minimum levels of cover, registration of providers and the like" (p 162).

The second proposal – put forward by the government in the 1993 New Zealand health reform package – permits health care plans to compete with the previously existing four regional health authorities for consumers' health care premiums. This proposal also included regulation to ensure that all health care plans offered the same basic package of services and did not engage in cream skimming (Upton, 1991).

The third proposal of managed competition defines a comprehensive care package which consists of a contract covering the activities of both insurance and provision. Under Enthoven's scheme, a basic package of core services would be costed, but as with the second proposal individuals would be able to purchase insurance in a way which reflected their preferences and so have additional cover should they wish at an additional premium (Enthoven and Kronick, 1989). By defining the core, however, it is easier for individuals to make price comparisons across insurers – something which would not be easy under Douglas's proposals given his unwillingness to define a basic core.

We are concerned that Green does not propose an adequate regulatory framework within which to define a basic core entitlement. Green is so worried about the losses which arise from the state regulating health care that he seems unconvinced of the benefit of insisting that all individuals purchase a minimum level of insurance cover. The high priority afforded by Green to the policy goal of freedom of the individual is reflected in his unwillingness to impose collective choices over individuals. There is little doubt that Green's approach, which would provide neither a regulated entitlement to service nor a guarantee that minimum levels of care would be available to all, carries substantial risk of failing to provide adequate health care. As well, there is substantial risk that insurers would be discouraged from providing more efficient coverage and service delivery, instead engaging in cream skimming through the definition of packages of care and the availability of a safety-net level of insurance or provision of health services.

This lack of rigour in Green's discussion of roles and responsibilities is a major limitation of his analysis, and it again raises concerns over the interfaces between private and public funders, purchasers, providers and regulators. If Green is to convince the reader that these reforms will deliver some minimum acceptable level of health care to all, he must demonstrate that all individuals will have access to at least a minimum level of services. The New Zealand health reforms of 1993 were modelled on reform proposals in the Netherlands where the state defines a universal package of core services but makes provision for individuals to purchase supplementary insurance (van de Ven, 1991). In New Zealand, attempts to define a public entitlement to core services have proven to be difficult, in both the technical and the political sense (Cumming, 1994; 1997). Green's proposals are particularly weak on this point, as he is reluctant to offer a minimum insurance package to all. Although he notes that "the real challenge is to define the 'civilised' or 'decent' standard of care to which everyone should have access" and that "so long as the minimum available to the poorest is morally acceptable ..." (p 157), he appears to be unwilling to define a state-mandated minimum universal core package for fear of restricting the growth of consumer-driven insurance markets.

Insofar as Green provides any indication of the basis on which some access to care would be financed by the government and some not, he suggests: "some health care services are an undoubted necessity to which everyone should enjoy access. However, the same cannot be said for all medical interventions, some of which are more like luxury goods" (p 155). His concerns about the way in which demand for non-essential care can grow substantially beyond any government's ability to pay for it from taxes leaves the reader with the idea that the government would need to determine 'necessary' care. Green's attempts to distinguish the public from the private sector role requires some definition of 'necessity', and raises the issue about whether 'necessity' is an absolute or relative concept. At other points in the book there are passages which suggest that, to Green, 'necessity' may refer to urgent (meaning life-threatening) care.

Often, Green's recommendations are not clearly specified. Green does not explain the nature of coverage available through privately organised insurance. Also, Green is unclear as to the particular point at which an individual might qualify for care delivered through the state. In several places, he supports alternative proposals. For example, Green suggests that the government might provide a residual health care service for those unable to afford private insurance, but, at another point, he promotes government responsibility in the area of urgent critical care, leaving individuals with the responsibility of looking after their primary care expenditure (pp xiii and 162). At other points Green suggests that the dividing line between individual and state responsibility is linked to the concept of 'urgent and expensive care' as opposed to the financing of a basic safety net. Green's analysis lacks detail, and as a result his views on health reform in New Zealand appear to derive more from his views on civil society than from considered attention to the particular state of development of the country's health care system.

Similarly, Green fails to consider the flaws in Douglas's proposals, of which he seems so fond. Douglas claims that his scheme does not require a definition of 'core' health services. He also claims that insurance will apply once people spend more than 5 percent in 'annual health costs', but both he and Green fail to see that this requires a definition of what constitutes 'health costs'. Green also claims that a simple risk-rating approach based on average spending per head and adjusted for age would suffice. Yet in the United States it is exactly the lack of more precise risk adjustment which is blamed for cream skimming by insurance providers. Similarly, Green bases his estimates of costs on current average spending figures, which may bear little resemblance to the costs which individuals and families will face if moves to greater private insurance are implemented.

Nor does Green deal adequately with issues relating to choice. Although increasing choice is clearly a key goal for Green, he confuses individual choices between insurers and providers of health services. New Zealanders currently have good choices in relation to primary care providers, and they can choose to supplement government-funded care with private insurers, which compete for clients. It is only in relation to secondary care providers and government-owned purchasing agents that New Zealanders have limited choice. Although under Green's proposals individuals may have increased choice of purchasing agent or insurer, Green fails to recognise that for some groups choice of providers may not necessarily improve and may in fact deteriorate. In particular, providers of secondary care services are increasingly specialising and grouping in large centres, and in a small country like New Zealand choosing between secondary care service providers may be limited to larger cities. Choice may also deteriorate if purchasing agents or insurers selectively contract with particular providers, so that consumers making decisions on which insurance package to purchase are at the same time making decisions about the delivery mechanisms and the providers with whom they can obtain care. Douglas is more explicit on this point, if not on its implications. He notes that the "insurer can set up lists of approved health providers", and once families have spent 5 percent of their income on health "insurers will be allowed to approve health providers and to require members wanting treatment to be examined by health professionals appointed by them" (1993, p 129).

REFORMING NEW ZEALAND HEALTH CARE: IMPLEMENTATION AND IMPLICATIONS

Empirical evidence from the United States, a country with a high level of reliance on private insurance, suggests that the profitability of insurers is driven by their capacities to shift risk rather than to deliver more efficient insurance services. However, Green is keen to persuade the reader that the problems arising from high levels of spending and growing numbers of uninsured individuals within the US health care system arise not from the inability of insurance markets to deliver but rather from residual government intervention and regulation. Even assuming either to be the case, it suggests that any transition to more competitive markets in insurance and health service delivery requires the utmost attention to the sequencing of reforms and to defining the appropriate kind of regulatory environment to stimulate insurance markets. New Zealand's attempts in 1993 to implement similar reforms (Cumming and Salmond, 1998), attempts to reform the Netherlands health care system (van de Ven, 1997) and the failure of reform in the United States (Kirkman-Liff, 1997) suggest that it may be extremely difficult to develop policy proposals to support the private insurance markets so desired by Green and to obtain the political support necessary to implement them.

More specifically, Green's reforms may have significant implications for the overall costs of health care in New Zealand and the ability of the government to control expenditure on health care and to determine the services which are to be insured. First, there are important issues to address regarding the introduction of competition in service delivery and the equalisation of prices in the public and private sectors. Currently, unit costs are higher in the private sector for many surgical and medical services, and any reforms encouraging competition will result in increased unit costs for services currently provided publicly. Second, under Douglas's scheme it is argued that waiting times for elective treatment will be virtually abolished. Both of these points imply significantly increased expenditures in the health sector. At the same time, even if the government shifts responsibility to individuals and families for insuring for their health care, the government itself is likely to have to continue to fund and/or provide for those unable to afford or qualify for insurance. Often, the result of such arrangements is that low-income people obtain care while those on middle incomes miss out. Many higher-income people will continue to pay twice: once for their own insurance and once through taxation for those for whom the government has taken responsibility. Although this occurs now, the possibility of much higher expenditures makes this more burdensome.

International evidence suggests that government control over premiums and purchasing allows lower expenditures overall, with little evidence of significantly reduced access to care, poorer quality care or reduced health status. The government's purchasing role also allows it to pay increased attention to the cost effectiveness of services in promoting health, to measures for promoting access to care and to providing health-promoting services for those on lower incomes or for those with particular needs, those who incur higher costs or those for whom health care is a priority (such as for Maori and lower-income people living in rural areas). In the absence of regulation, will insurers take over this role? Probably not, as insurers are less likely to promote cost effectiveness and equity than governments.

CONCLUSIONS

Green's simplistic approach to reform of the New Zealand health care system is worrying and severely compromises his analysis. He gives limited attention to the regulatory environment in which a health care system would be largely driven by private insurers and providers and there is little clarity of the regulatory regime which would be required to ensure that some of the well-known market failures in the areas of insurance and provision can be addressed.

At various points, Green discusses reform proposals by drawing on the experiences of other countries. But his examples are chosen as ways of explaining his own position or anticipating possible criticisms. Green is particularly keen to explain that some of the perceived problems with the US health care system arise because markets have not really been allowed to operate effectively in that country. Thus, he tends to explain problems of access and cost as resulting, in part, from restrictions on consumer choice and, in particular, from government attempts to regulate monopoly power in the health insurance market. In the same way that the New Zealand health reforms are not discussed in detail, so Green refers to the US health care system without drawing on the recent experiences of that country in reforming the funding and insurance arrangements for health care. In this sense, Green's views on reform amount more to personal beliefs about, and the principles which might underpin, welfare and health reforms (regardless of the particular country and context within which they occur), rather than a set of prescriptions for the New Zealand system specific to this particular stage of its development.

As the public sector's role continues to decline both in absolute and relative terms compared with the role played by a wide variety of private for-profit and not-for-profit organisations, the interfaces between public and private agencies will become more important and more complex. In this environment the writings of those who argue that private is always superior to public seem polemical, simplistic and lacking in the analytical rigour which is required to add value to the current debates about the future of the New Zealand health care system. Green's attention to particular features of markets and health care systems in other countries, coupled with his differing views of possible options for the New Zealand system, leaves the reader unclear about his intentions for the government's limited role and regulations for the system. In this sense, Douglas's book offers greater detail about possible reforms and the role of government in funding and/or providing health care for those who fail to access private insurance markets. But, as we have discussed, Douglas's proposals may raise problems of their own. In our view, any moves to increase the role of private insurance markets in New Zealand must have arrangements which clearly define a core, clarify interfaces between public funding of the core and supplementary insurance, offer a minimum package of care for those who are unable to obtain insurance, and consider in greater depth the implications for cost control and inequities in access to care.

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Civil Society or the Corporate State in Health Care?

David Stewart

When I first received a copy of David Green's monograph, the title *From Welfare State to Civil Society* seemed to me to suggest that he was describing the almost revolutionary economic changes that had occurred in New Zealand since 1984. But the subtitle *Towards Welfare that Works in New Zealand* was a warning, and the initial paragraphs of the introduction made clear Green's view that, in the area of social policy, the economic reforms in New Zealand have had little impact upon the fundamentals of the corporate state. The book is mostly about what Green believes ought to be done and how it could be done, rather than what has already been achieved. Its message is stark: despite the enormous economic gains over the previous decade, New Zealand still has a command economy in the area of social welfare.

Inadequacies of New Zealand's Health Reforms

There may be debate whether Green's view is a fair one in respect of the health system. New Zealand's health reforms have received so much political and media attention, both domestically and internationally, that an outside observer might be forgiven for concluding that fundamental changes have occurred. But Green argues that this is not so. As he sees it, New Zealand's health system following the reforms is not based on personal responsibility, instead, it remains paternalistic. In addition, although it continues to provide a safety net of essential medical care for those too poor to pay, Green believes that this arrangement goes far beyond what is necessary. He also claims that retaining a public sector monopoly in both the payment for and provision of core health services far exceeds the proper role of government. In these three ways, Green argues that the new health system, like the old one, has failed to address the 'three inseparables' which in his terms are essential requirements for civil society: personal responsibility to provide for oneself, one's family and dependants, and those in need; voluntary association to achieve common objectives; and the role of government confined to the maintenance of the conditions for liberty.

What is the reason for this failure? Green states it bluntly: as far as possible, health care should be privately financed, and hospitals should be privately owned and managed. Unless these two fundamental changes are made, health care must necessarily remain under a bureaucratic command system, thus depriving consumers of personal choice. Whatever else has happened or is happening in the New Zealand health system, there remains a single payer (the government), funded through taxes, and government agencies continue to own and operate the regional and metropolitan hospitals. As a result, although there have been some significant gains from the reforms and more are in the offing, these gains are necessarily constrained by the controls imposed by the government to prevent costs from escalating – an inevitable and serious problem in all taxpayer-funded health systems.

Like all systems in a command economy, the transfer of the power of choice from the consumer to a third-party payer removes the signals which drive both payers and suppliers to reduce costs and improve quality. Green reminds us that these economic signals depend upon the creation of prices in a market. In order for prices to be meaningful, there must be at least an element of effective consumer choice and the presence of actual or potential alternative suppliers. But neither exists for hospital services in New Zealand for the majority of residents who do not possess private health insurance. True prices, personally borne by the consumer, are essential to create informed demand and to avoid externally imposed rationing. No centrally controlled health system has achieved either of these objectives, although, in one form or another, both are usually presented as justification for any proposed reforms. As Green points out, neither the limited tendering offered by the Regional Health Authorities to the providers in the present system nor user part-charges have resulted in any noticeable change in consumption patterns or competition between suppliers.

THE EVOLUTION OF HEALTH POLICY UNDER THE COALITION GOVERNMENT

After Green completed his book, the general election of October 1996 (the first under the new mixed-member proportional representation electoral system) resulted in a National–New Zealand First coalition government. The Coalition Agreement (1996), with respect to health policy, has since been extended by the publication of the report of a steering group established by the two ministers representing the coalition partners (Poutasi *et al*, 1997). These two documents represent the published intentions of the present government with respect to health. They clearly signal a number of structural, functional and philosophical changes, some of which are or have been implemented. The structural changes involve the amalgamation of the four Regional Health Authorities into a single agency to be known as the Health Funding Authority, and a review of the number of Crown Health Enterprises, which are to be named Regional Hospital and Health Services. The functional changes will include additional funding for priority services (mental health, Maori health, children's health), removal of hospital part-charges and asset testing of the elderly, and the introduction of guaranteed maximum waiting times for elective procedures. The philosophical changes, which are probably the most significant, include: removing any market oriented terminology in describing the roles of providers (such as 'cooperation' rather than 'competition', 'business-like' rather than 'for-profit'); renaming purchasers as 'funders' with an emphasis upon the contractual relationship between funder and provider; and subjecting any new private sector involvement in services usually provided by the public sector to criteria set by the government.

The Coalition Agreement lists the following six non-negotiable principles of health policy:

1 retaining separation of the funder (purchaser) from providers;
2 limiting bureaucracy;
3 removing the 'for profit' focus from public hospitals;
4 placing greater emphasis upon health gain;
5 implementing contractual funding agreements between the government funding body and providers; and
6 requiring the funder to undertake monitoring, auditing and reporting to enhance health gain and financial accountability.

Only time will reveal if these six principles will be advanced by the new arrangements, but both the Coalition Agreement and the report of the steering group make statements which must give cause for some doubt. For example, the proposed arrangements for contracts between the funder and providers would result in a substantial lessening of the separation of their roles, and in order to enhance accountability and in attempts to make rationing acceptable bureaucracy is more likely to increase than otherwise.

When the Coalition Agreement was announced, it was reported by media and commentators either as business as usual or as a fundamental rejection of the 1993 reforms. For the moment, we cannot be certain which of these assessments will prove closer to the truth. In essence, the Coalition Agreement pragmatically accepts both the changes which have been achieved and the reality that it is pointless to pretend that New Zealand has adopted a market model of health care provision. The proposed philosophical changes are really based on the use of more politically acceptable terminology, appropriate for the kind of system which is in place. The David Greens of this world will be disappointed that the document gives no indication of likely progress towards the conditions for civil society, but equally there is to be no return to the *status quo ante* 1993.

The clause in the Coalition Agreement which over time may prove the most significant, and which has already generated controversy, is that relating to private sector involvement. New private sector involvement in publicly funded health services is permitted provided it can be shown to result in improved health outcomes and to pose no medium-term financial risk to the Crown. Any such proposal must be submitted to the minister, who shall consult the coalition partner. Clearly, this clause was inserted by New Zealand First, and was dear to the heart of Neil Kirton, the then associate minister of health who in August 1997 was forced to resign his appointment, possibly largely because of his opposition to private sector involvement in cardiothoracic surgery services for Christchurch.

The reality is that the Health Funding Authority is actively exploring joint-venture arrangements with Independent Practitioners Associations (IPA), community trusts and voluntary and welfare groups to establish integrated care models for primary care, obstetrics services, health care of the elderly and rural hospital services among others. Regional Hospital and Health Services are looking to partnerships in the private sector to increase their throughput and reduce their costs. All the indicators suggest that these kinds of arrangement will increase, and if the 1993 health reforms do have a lasting impact it will come from the opportunities for innovation that they have created. Innovation of this kind is more likely to be driven by private sector involvement, and there is no reason to believe that the National Party is unwilling to allow this to happen, despite the reservations of New Zealand First. Thus, the likely scenario for the period until the next election is increasing innovation and some evolution of the model established in 1993, without fundamental change to the principle of universal access to core health services funded by the taxpayer.

The other significant change taking place in the health sector was not even signalled in the Coalition Agreement or explicitly noted in the report of the steering group. This is a major rationalisation of the provision of secondary and tertiary services, and, as a result, a possible reconfiguration of the ownership of the regional public hospitals. The contracting policy of the Health Funding Authority will be informed by the report of the tertiary services review (Ministry of Health, 1995), and specialised secondary services will increasingly be provided only out of larger base hospitals (McKean, 1997). Rural community hospitals will progressively lose their inpatient surgical services, but facilities for dealing with emergencies and visiting specialist clinics will be upgraded. The number of Regional Hospital and Health Services is likely to decrease over time. These changes reflect an increasing ease of travel between centres and an increasing specialisation and dependence on technology in medical and surgical practice.

These likely developments are entirely rational, given a dominant taxpayer-funded public health system, and are likely to result in some improvements in quality and a lowering of costs. But they do not address the fundamental structure of the sector and cannot be expected to make much impact upon the corporate state in New Zealand. We cannot be certain whether the gains will be captured by the taxpayer and the consumer. Indeed, the moves to rationalisation and any increase in private sector provision are likely to be interpreted as 'loss of services' and 'profit-making out of misfortune' by the opponents of reform, who will not acknowledge that the absence of consumer power and choice is not the fault of the reforms, but of the system itself.

This brings us back to Green's call for a return to the principles of civil society in the provision of health care services. In the chapter on 'Health Care in a Free Society', Green develops a set of proposals for New Zealand after analysing the special features of the health care market and the status and shortcomings of this market in the United States. Green concentrates on payment for services, apparently treating the privatisation of public sector hospitals as straightforward should private financing be accepted, which of course it would be. Green suggests that his objectives for the private financing of health care could be achieved in one of three ways: universal compulsory health insurance (Roger Douglas's scheme), alternative health care plans as proposed in the National Government's green and white paper in 1991, and managed competition.

GREEN'S REFORM PROPOSALS

The scheme for universal compulsory health insurance proposed by Roger Douglas (1993) has, with some modifications, been adopted as policy by ACT New Zealand. When assessed against Green's three 'inseparables', the scheme meets the expectations of civil society in two respects, but fails in the third. This is its nemesis. The two inseparables which are honoured are those of personal responsibility and the acceptance of conditions which ensure the welfare of all. These would be achieved by establishing the individual's obligation to provide for his or her own insurance, and a safety net of insurance for those without the means of buying it themselves. On the other hand, the third inseparable, that of maintaining the conditions for liberty, would be fatally breached by the compulsory provisions in the scheme.

Green generally endorses the features of Roger Douglas's proposals except with respect to compulsion, which he regards as both undesirable and unnecessary. He suggests that the non-insured are likely to be either people who cannot afford the premium, and accordingly would be supported by the safety net anyway, or people who can afford the premium but choose not to insure. Persons in this latter category could be subject to post-treatment recovery of all or some of their health care costs, just as they would were they to experience any other kind of insurable catastrophe. The additional financial and social costs imposed by the bureaucracy required for a compulsory scheme are likely to outweigh those of a voluntary scheme that promotes personal responsibility and provides a taxpayer-funded safety net.

The health care plans proposed in the government's 1991 green and white paper (Upton, 1991) and the concept of managed competition promoted by Alain Enthoven (1988) are both variations of private insurance which allow taxpayer support for those who cannot afford their own insurance. They have a number of other features in common. Green prefers the former, mainly because there is already legislative provision for it in New Zealand, and the transition from the present arrangements could be made more easily without major structural change.

Green does not directly compare the merits of alternative health care plans or managed competition on the one hand with private personal health insurance on the other, and it is not possible to know his preference. He does make clear his view that any of these alternatives would represent a considerable improvement upon the present arrangements. Personal insurance, providing it were not compulsory, would more closely align with his 'three inseparables', but alternative health care plans might prove politically more acceptable.

CAN REFORM BE ACHIEVED?

Green's proposals are radical, and as there is a continuing and in many cases an increasing role for the corporate state in funding health care in Western societies, we must question whether the proposals are achievable, at least on the funding side. To date, no government of a developed economy has successfully withdrawn from the responsibility for funding personal health care services, and notably in the United States the role of the state as funder is still increasing (OECD, 1997). In comparison with other like economies, New Zealand has been no more and no less successful in this area.

Why should this be so? Unfortunately, Green does not directly address this question, which is fundamental precisely because only by answering it can further progress be made. Failure to radically reform the funding of health care cannot be because the arrangements proposed are impossible to implement in structural terms. Like systems work entirely adequately in other markets, and the special features of the health care market, which Green analyses in detail, do not sufficiently explain why private financing in this sector is not applicable.

A more likely explanation of the persistence of the role of the state in health care lies in the very strong perception held by the public of the risk to which individual persons and families could be exposed under privatisation. Consequently, there is political pressure to reduce or avoid this risk. But is this perception of risk is a valid one? It has at least three components. The first is the degree to which health care is regarded as a necessity of life, in the same category as food, clothing or shelter. There would be general agreement that some health care, such as emergency care and effective early intervention in potentially lethal conditions, should be so regarded. But, as Green points out, much of the care currently dispensed by health services resembles a luxury good, in the sense of being desired rather than essential. With respect to the latter, and in the matter of determining what health care is essential and what is not, Green suggests that consumption of health care services is more likely to be rational under a 'consumer sovereignty' model, within which a paying customer chooses his or her options from a range of suppliers.

The second factor contributing to the public's perception of risk is concern about the willingness of providers to give care to the indigent or uninsured in an emergency. The ethos of service is already very strong among health professionals in New Zealand, but some consider that this ethos would not necessarily be shared by managers of hospitals, particularly those in privately owned hospitals. Primary health care is mostly delivered by private providers and access for those who cannot afford it is, for the most part, managed in an appropriate manner. Like arrangements could also apply in secondary and tertiary care with a condition that providers be required to give necessary and emergency care to all, irrespective of insurance status.

A third factor is the probability of greater need for health care on the part of the elderly, whose ability to pay is often limited. Alternative insurance approaches to this problem include a lifetime premium and policies for the retired funded from lifetime savings.

When Green is discussing the doctrine of equality of access to health care services, he does consider this perception of risk relating to privatisation. He notes that, in order to ensure equality of access, New Zealanders have surrendered their buying power for health care services by handing over taxes to the government rather than remaining free to choose personal insurance or pay out of pocket. Apart from considering this poor value for the investment, Green says that responsibility for rationing has been transferred from the individual and family to the bureaucracy, and consumers have been deprived of their power as purchasers.

Perhaps a question more relevant than whether Green's suggested approach is achievable is whether it would be politically acceptable. At present in New Zealand, the answer to this question undoubtedly would have to be 'no'. The public position of all parties currently represented in Parliament (except ACT New Zealand) is an unequivocal commitment to public (taxpayer) funding of core health services and public ownership of regional and metropolitan hospitals. This stance, enunciated explicitly even by the National Party, reflects the present clear preferences of the electorate. For a majority party, as National aspires to be, moving away from this position might seem to be electoral suicide.

But do the grass roots of that party really believe that the people are best served by the present arrangements? Already a substantial proportion of New Zealanders are purchasing private health insurance to supplement the services available through the public system, and most of those will be National Party supporters. The concept of personal responsibility for health care costs is already accepted, at least in part, by these persons, who by purchasing private health insurance are acknowledging that rationing and denial of choice are inevitable features of the present taxpayer-funded system. The premium for their health insurance policies would be higher were universal access to taxpayer-funded services no longer available, but this increase could be more than offset by a reduction in taxes. As debate about the increasing costs of providing universal health care benefits becomes better informed, and the public becomes more aware of the level of rationing which is required to control these costs, the advantages of a private alternative are likely to become increasingly attractive to those with the means to purchase the appropriate insurance. The valid concerns of those without such means could be met by a guarantee of government funding, perhaps through vouchers or tax credits, of the premium for a basic package granting cover at least to the level of services provided in the present system.

Thus, although political support for the continuation of taxpayer funding of health care services may appear strongly entrenched, increasing public debate about the shortcomings of the present system, particularly the impact of rationing, and increasing public dislike of command solutions for social policy issues, could lead to a reappraisal of this position rather earlier than most commentators would currently predict. In order to retain its majority position as the party of the centre-right, National must continue to represent the values of its core supporters, and if those supporters were to become even more disenchanted with the health system, National would have to consider a more radical approach to reform.

In a recent speech on the topic of the role of government, Simon Upton (1997), a former minister of health and the architect of the 1993 health reforms, suggested that it may no longer make sense to attempt to provide universal and comprehensive health care from taxpayer funds. Comments by Jim Bolger, until recently the prime minister, confirmed that the senior coalition partner was seeking more informed public debate on the respective roles of the private and public sectors in health care funding and provision (Bolger, 1997). Since the change of leadership of the National Party in late 1997 and the confirmation of Jenny Shipley as prime minister, there seems to have been less public discussion of these issues. However, Hospital and Health Services have continued to be encouraged to enter into partnerships with the private sector for the delivery of those services where this approach could add value.

One senses that National Party support for public (state) ownership of regional hospitals is not securely entrenched. The principal issue for its strong rural membership is retaining health care services delivered locally. In the perception of the electorate, this issue is linked to the existence of the community hospital – that is, without a hospital, local services could be cut, and the doctor may leave the district. However, in many rural localities the local hospital has been or is being transferred to community ownership, with contracts that provide for visiting specialists and continuing primary care services. When these transfers are completed, and provided the rural communities in general are satisfied with the outcomes, party members may accept an arms-length relationship of the larger regional hospitals with the government, and even begin to appreciate the benefits of privatisation, whatever its guise.

CONCLUDING COMMENTS

Privatising New Zealand's hospitals, while necessary, would not be sufficient to restore the conditions of civil society in health care. It is not hospital ownership as such which infringes personal liberty, but the natural monopoly inevitably associated with state ownership. Privatisation with protection of this natural monopoly would be equally unsatisfactory. It would be more of a problem in New Zealand, with its dispersed population, than in Britain, but unfortunately, Green does not address this issue. Experience of deregulation of other natural monopolies could give some insights into possible approaches, but I am not aware of any successful deregulation of hospitals providing emergency and acute care for relatively dispersed populations, which could provide a suitable model for this country.

In any case, restoring the power of purchase to the consumer is a necessary prerequisite. While the state retains a monopoly on purchasing power, it is largely irrelevant who owns the hospital. This disempowerment of the individual is the key to the maintenance of the corporate state. While it continues, it will be impossible for New Zealanders to realise Green's 'three inseparables'. This is Green's message, and it is this message which must be debated in the public arena. The impact of Green's book is most likely to come from the contribution it will make to informing this debate, rather than through any direct implementation of his proposals.

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Civil Society: Organisational Alternatives or Victorian Values? David Green's Proposals for Education

Roger Dale

Concepts like 'civil society' and 'community' have become much more prominent in both academic and political debate in the last decade. The context for this development is discussion about the decline of the welfare state and especially the reappraisal of the proper role of the state.

Over the past decade, the see-saw from state to market in the coordination of a range of what were previously public services has often been presented as offering an exclusive either–or choice. 'Civil society' and 'community' represent the major alternative to the options of state and market, by invoking various forms of a 'third way'. The version of a third way espoused by David Green essentially regards 'third sector-like' approaches as always and necessarily ethically superior, especially to the state, but also to the for-profit sector. Green promotes civil society as the preferred means of coordinating the funding, delivery and regulation of all public services.

Beyond this, Green is strongly opposed to state involvement. His ranking of the three main sets of institutions of social coordination would be civil society (or community) first, the market second and the state a very distant third. However, my main argument will be that he is prevented from working through the consequences of this position for education because of his unsatisfactory elaborations of key concepts such as family, community and association, and because of the rather narrow conceptions of education (and the very partial view of New Zealand education) that he puts forward. This means that Green is eventually unable to provide a convincing account of what "an educational system fit for a society of civil associates" (p 167) would look like. Essentially, I shall argue that what he means by civil society does not refer to an *institutional form*, that is, a means of coordinating the funding, delivery and regulation of education that is distinct from the institutional logics of both the state and the market; rather, it connotes a *particular set of values* that are not necessarily unique to civil society and that for him clearly take priority over community as an institutional form.

Consequently, in the absence of any developed arguments about what the institutional form of community would look like in education, Green's policy proposals for the sector tend largely to fall back on his second preference, market solutions. However, I shall suggest that the institutional logic of the market already flourishes in the New Zealand education system and that it undermines rather than embeds Green's preferred 'society of civil associates', substituting 'a society of corporate associates'. While the latter is "comprised of persons united in pursuit of a common interest or objective", in the former:

> people are united not because they share a concrete goal, or are engaged together in a substantive task, but because they acknowledge the authority of the rules under which they live ... In both types of association people are subject to rules of conduct, but in a corporate association the rules are instrumental to the pursuit of a common aim. In the pure form of civil association, the laws are moral stipulations, not instrumental commands. (p 5)

COMMUNITY AND THE FAMILY

I will now briefly consider Green's use of the concepts of the 'community' and the 'family'. The family (and the associated concept of the 'parent') is absolutely central to his arguments about education. "The family", he says, "is the foremost educational institution. Schools should reinforce the family". In respect of instilling more rigour into education, Green writes: "the process of formulating the national curriculum has been captured by groups hostile to its purpose. ... This experience suggests that we should not look to governments through the imposition of a curriculum to save the day, but rather to a restoration of parental responsibility" (p 167). Setting aside its rather opaque logic (how does the particular experience suggest the proposed solution?), this argument sheds considerable light on Green's notions of both family and community.

Green's argument places the family and parents right in the centre of the educational enterprise, but the conception of the family it places there is a normatively exclusive one. It is not inappropriate (nor, I imagine, unwelcome to Green) to refer to the values on which this conception is based as 'Victorian values'. The family form he assumes is the traditional patriarchal one, and most of his examples of how education might be organised draw (somewhat selectively) on nineteenth-century England, with an emphasis on the importance of philanthropy. This family and these parents do not include those who happen also to be members of "groups hostile to" a particular conception of the national curriculum. Neither, presumably, do they include the feckless members of the 'lone parent' category that Green tells us (p 85) had risen rapidly to comprise, by 1991, 24 percent of all New Zealand families with children. (Recent figures indicate that over 40 percent of babies born in the year to June 1997 were born out of wedlock [*New Zealand Herald*, 16 August 1997] and while this obviously includes many mothers who are in stable relationships it does little to suggest widespread attachment to the traditional family form.) Far from being a solid bastion of society, then, and one which should play the central part in education, the contemporary family is almost as likely to be characterised by what Green, following Charles Murray, sees as the two main threats to society: divorce and illegitimacy. This is not, of course, either to welcome or to approve of these trends. It is quite possible to share Green's hopes and aspirations for the family and the role it might play in education without sharing his assumptions that such a hope is realistic, given the facts of contemporary society (which include how the state regards and treats lone parents).

Green's argument also either ignores the fact that everyone is a member of several communities or assumes implicitly that one – unstated – set of values is necessarily or consensually accepted as the most important. Even if the latter were true, it is insufficient to save the argument, since the same values carry quite different meanings in different communities. For instance, competition is quite appropriate between the members of a badminton club, but competition to be the 'holiest' member of a church is not. Also, some aspects of education follow the badminton club norms on competition and some the church norms, which renders the blanket assertion of the absolute superiority of such a set of values in education nugatory.

COMMUNITY AND ASSOCIATION

It is useful at this point to compare the concepts of community and association, as I will suggest below that, with the 'marketisation' of education, a particular conception of *association* has not only excluded but undermined the possibility of a narrower notion of *community* playing a significant part in the education system. "Communities", write

Aquina and Bekke, "can be seen as primary groups, for example, the classical family, but also fraternities and modern phenomena like self-help groups. Their basis is spontaneous solidarity. You are a member by ascription. Communities allocate respect, mutual affection, trust and all kinds of immaterial values that can be labelled 'solidaristic'". By contrast:

> Associations are functionally defined groups, based on cooperation. They have a well-defined legal status, such as foundations, churches and trade unions. They allocate so-called categoric values; collective goods and services that are important to a group and its members. In many cases associations have been created deliberately to perform such a task. Members cooperate and you become a member because of the kinds of values you can obtain by membership. (Aquina and Bekke, 1993, p 160)

The problem is that, when it comes to setting out prescriptions for education, Green's 'community' is implicitly singular. As I have noted, there is a strong normative element in what counts as a community (or a family or a parent). Further, Green's policy prescriptions do not seem to be based on the idea of fitting education to community needs. On the one hand, he strongly supports the system of vouchers, an individualistic form of education finance; on the other, he makes little reference to the fact that freeing schools from state control has not led to any significant increase in the diversity of provision, though he does complain about the difficulty of popular schools being allowed to take in even more students. There is a very strong sense here that first, only those conforming to certain standards and practices count as communities, and second, the principle of 'anything but the state' is stronger in Green's work than commitment to community self-development.

I will return to the second point later, but at this stage I want to illustrate the first point through what seems to me a major and very significant lacuna in Green's work on New Zealand education. This is his total lack of recognition of a system of schooling that most closely conforms to his notion of a self-conscious community seeking to pull itself up by its own bootstraps through the establishment, outside the state, of its own distinctive form of education. I refer to the development by the Maori community of Kohanga Reo (pre-school language nests) and Kura Kaupapa Maori (schools based on Maori language and philosophy). The concept of Kohanga Reo was first proposed at a hui (meeting) of Maori leaders in 1980, and the first Kohanga Reo was established at Pukeatua in 1982. Since then the growth of these pre-schools has been spectacular. Within two years almost 250 had been set up, that number had doubled within another four years, and by 1994 there were 814 Kohanga Reo. The children, who range from six months to six years old, are immersed in a range of cultural and language learning activities assisted by adult facilitators, helpers, nannies and sometimes elders from the community. Kura Kaupapa Maori were essentially a response at the stage of compulsory education to the success of Te Kohanga Reo, emerging largely as a result of the inability of state schooling to cater for the language needs of the Kohanga Reo graduates. They continue the same principles and philosophy and provide a schooling option not available through conventional state schooling structures. (This information draws on Smith, 1997.)

Green's silence on these initiatives is all the more puzzling given, on the one hand, his extensive references to Maori unemployment statistics and rate of family breakdown, and, on the other, the fact that the Kura Kaupapa Maori initiative is singled out for approving comment in the OECD volume on school choice from which he draws most of his international examples. Te Kohanga Reo may be unique in the world as an example of an indigenous community setting out to save its language and culture from slow death by creating community-funded (from the outset, and for a prolonged period, though they now receive some state funding) and community-run educational organisations designed to preserve that language and culture.

Te Kohanga Reo and Kura Kaupapa Maori, whose development and demonstration of the validity of an education system funded, provided and controlled by the community rather than the state or the market, appear to exemplify everything Green is seeking in the organisation of education. Consequently, Green's neglect of these initiatives cannot be accidental. It reinforces my view that notwithstanding the implications of the title of his book, it is the particular set of values that 'community' connotes for him, rather than community as a living organisational form, that is at the centre of his concerns.

EDUCATION: THE DEMAND SIDE

When it comes to his conception of education, Green is no more precise or consistent than he is in respect of community. His policy prescriptions amount to little more than libertarian shibboleths, whose consequences for education are worked through in only the sketchiest and most cavalier manner and whose policy implications amount to rather cursory rehashings of voucher proposals. His discussion of these principles also reveals serious shortcomings in his understanding of the New Zealand education system.

Green's "first principle of a public policy for education" states that such policy should "restore parental responsibility by reducing taxes to allow parents to spend their money on education their children" (p 176), since "a policy of allowing people to keep more of their own money assumes that they are responsible for educating their own children; in contrast, a policy which requires the payment of taxes rests on the assumption that the government is responsible" (p 180).

This raises a number of problems. First, a considerable proportion of parents pay no income tax anyway. This problem becomes more acute because education is compulsory. Will the children of poor parents be subsidised by the state to ensure that they receive the existing level of provision or will they be given an inferior education based on the reduced level of state funding? Either way, major problems of equity arise. Green's preferred solution is that the gap should be met by charitable institutions (pp 179–180), though he recognises that this might be impractical in the short term and proposes awarding vouchers as tax credits.

There are two further difficulties with this 'user pays' approach, where the 'user' of education is limited to parents, on whom, it is implied, the total cost of education would fall. First, cutting taxes to restore parents' responsibility for their children's education would have the paradoxical consequence of either increasing the overall cost of the education system for the state or rationing opportunities within compulsory education on the basis of the ability to pay for them. The cost to the state would rise and its ability to pay for that cost would fall because, in Green's scheme, "for people on low incomes a credit payment would be made, whereas others whose tax liability exceeded the voucher value would pay less tax" (p 180). To maintain education at its existing level would mean tax increases for non-parents or considerably enhanced contributions from other sources. Given that even Green recognises that charity is an improbable source of further funding, parental fees are the likely alternative –leading to rationing by ability to pay.

The second issue for the user pays approach concerns the underlying assumption that education is largely a private good as well as a private responsibility. Unless we assume that everyone will discharge that responsibility as Green wishes they would (and all he can do is wish, since he offers no reason to believe that people do behave in that way), believing that the benefits of education are a private good will result in an atrophied production of public goods such as growing up in a society of well educated people. Green argues that "we cannot hope to mend the fabric of civil society without restoring schools to their proper place – out of the reach of government" (p 183), but it is not at all clear how removing the state from the responsibility for public goods – like a safe society – will improve society's chances of attaining those goods. Nor does he offer any reason to expect that people whose values and behaviour conflict with his own would be likely to opt for schools that support his value preferences.

The final issue arising from Green's first principle of public policy for education concerns the use of the word 'allow'. Merely 'allowing' parents to spend their tax savings on education may both bypass the difficult issue of compulsion and sort out the responsible sheep from the feckless goats among parents, but one of the justifications for compulsory education is the serious risk that the consequences of parental fecklessness will be visited on innocent children. There is a real dilemma here for the 'anything but the state' position on education: when (if at all) should the state step in to save a child from the consequences of its parents' actions (or inactions)? Green does accept that there is a role for government in these cases, but he neither elaborates the nature of that role, apart from stating that it should be 'minimal', nor mentions the enormous administrative and ethical issues that even a minimal level of government intervention entails. It is true that such issues exist under a state-controlled system – indeed, they occur despite legislative efforts to curb that fecklessness, and one wonders what the outcome might be if those efforts were relaxed.

EDUCATION: THE SUPPLY SIDE

Green's second aim of public policy for education is that it should "deregulate the supply side to encourage the expansion and contraction of existing schools and the founding of new schools, and to stimulate existing schools to innovate" (p 176). Here again, there is a highly significant lacuna in Green's chapter on education. His account of 'New Zealand since Picot' is totally silent on the major and very well publicised public policy innovations that have created an effective quasi-market in secondary schooling, and that have led to the expansion and contraction – to the point of extinction – of existing schools. Four government initiatives have brought about this increased level of competition between schools. Making schools separate crown agencies run by an elected board of trustees (whose role and relation to the school principal are conceived of as paralleling that of the board of directors to the managing director), abolishing home zones, permitting schools to set up their own enrolment schemes (subject only to human rights legislation) and major elements of per capita funding have created a system rather similar to that in England, which was described by its initiator, Kenneth Baker, as a "voucher system in all but name" (quoted in Barber, 1996, p 49). This is quite distinct from the increased funding for private schools, which Green does mention. What these initiatives demonstrate, most importantly, is that it has been possible for the state to install the institutional logic of the market in the New Zealand education system without any significant contribution from the private sector at all.

That the system does operate as a market is quite evident from the major piece of research carried out by Hugh Lauder and David Hughes and their colleagues under the title of the Smithfield Project (see Lauder *et al*, 1994; Waslander and Thrupp, 1995). This research demonstrates very clearly a propensity among parents to move their children to schools that they thought would give them better opportunities. It came up with findings that are very relevant to Green's arguments (and that have been corroborated in numerous studies of parental choice and educational markets in many different countries; see Dale, 1997).

Four of these findings are of particular relevance. First, the research shows that one clear effect of the marketisation of education is substantial polarisation of schools on social class lines. This occurs in spite of the absence of any fees that could act as deterrents to poorer parents.

Second, successful schools select parents (and their children) rather than vice versa. This is also closely linked to the polarisation phenomenon. The Smithfield evidence shows that working-class parents are as ambitious for their children as are middle-class parents, but that they lack the information to make the optimum choice of school (and if they do manage to obtain the information, they are less likely to possess the cultural capital to convert it into a successful choice).

Third, the state does set limits to the expansion of popular schools. However, while this may be interpreted as inhibiting the development of a mature market in education, it is equally likely that schools themselves would resist any such expansion, on the grounds that their attractiveness to parents and students is largely a function of their size, and hence the schools would lose a competitive advantage if they were required to expand. After all, Eton College would be able to expand its roll many, many times over, but chooses not to do so since that would extinguish the very qualities that have made it so popular. And it is worth noting that Central Park East School in the East Harlem district of New York, celebrated by Green, among others, for its demonstration of the effectiveness of parental choice in lifting achievement in a depressed area, attributes its success to the fact that it limits class size to 20 and the number of classes to 20. These conditions, of course, are possible only because of the very large amounts of public funding put into those schools.

Finally, the research points to the near-total absence of the diversity that some commentators predicted would follow expanded parental choice of schools. This finding sheds considerable light on the fundamental nature of education and its allocation in contemporary society – something that has to be taken into account in putting forward any proposals for the radical reform of education, but that is quite neglected by Green. It indicates that the main, or at least what is perceived as the most important, product of education is educational credentials – parents want their children to maximise their chances of obtaining certification. This is an entirely rational desire if we recognise that educational credentials are effectively the currency of the education market.

This research finding has a number of major consequences for public policy and education and I want to complete this review by considering three of them briefly. First, it explains the absence of the diversity that was expected to follow the opening up of competition between schools. Rather than seeking to provide alternatives to successful schools, their competitors are very much more likely to seek to emulate their proven recipe for success. The pattern of parental choice of schools points to a preference for tradition over experiment, and this preference is reflected in schools' reactions to those preferences, most visibly in the return to school uniforms.

Second, it undermines one of Green's key propositions, that of the solidarity of community. Recognising that educational credentials provide the basis for competition for scarce resources like jobs, means that, willy-nilly, all parents and their children are in competition with all other parents and their children. The effect of this has been very well captured by Ruth Jonathan. She argues that since educational credentials are the basis of competition for jobs, and since "the rights of parents qua parents are grounded on their duties of trusteeship or agency in serving children's actual or future interests" (1990, p 122), whether they like it or not:

> … having (in an education market) the opportunity only to try and secure an advantage for those whose interests they hold in trust, they are under pressure to adopt a conservative and prudential social stance. In a game structured like a prisoner's dilemma, trustees, far from having free choices, have no reasonable option but to make individualistic, competitive moves, even though this *must* entail a worse outcome for some of the young – and may arguably entail a worse outcome for all of them than would have resulted from a less competitive framework for decisions. (1990, pp 123–124, emphasis in original)

And though parents may be loath to exercise the rights they have been given to seek advantages for their own children, any such reluctance is likely to be severely tested by the recognition that the bestowing of those rights, will, as Jonathan puts it, "simultaneously expose our children to the consequences which follow from the similar exercise of those powers by others" (1990, p 122). Essentially, the message is that parents do not form a natural community because, when educational credentials are the basis of competition for scarce opportunities, the natural duty of the parent to do his or her best on behalf of his or her own children comes into conflict with, and overrides, his or her commitment or obligation to the community.

Almost paradoxically, however, this same phenomenon may be driving parents towards a form of corporate rather than civil association – the third likely outcome of Green's policy proposals. The process of parents choosing schools and vice versa, together with its consequent polarisation of schools on social class lines, unites groups of parents in ways suggested by the 'economic theory of clubs' (see Buchanan, 1965; Sandler and Tschirhart, 1980). Sandler and Tschirhart state that "Club theory provides the theoretical foundation for the study of the allocation of impure public goods". Impure public goods are similar to positional goods (see Hirsch, 1976 where the idea that educational credentials are positional goods is fully outlined; see also Jonathan, 1990; Marginson, 1997; and Dale, 1994, for similar arguments) in that they are partially rival in consumption, that is to say, "one person's consumption of a unit of the good detracts, to some extent, from the consumption opportunities of another person" (Sandler and Tschirhart, 1980, p 1482, n2). Sandler and Tschirhart define a club as "a voluntary group deriving mutual benefit from sharing one or more of the following: production costs, the members' characteristics, or a good characterised by excludable benefits" (1980, p 1482). The evidence of the studies of school choice, including the Smithfield Project, provides some support for using club theory to understand the consequences for community and association of an educational market; these consequences fatally challenge the views and prescriptions put forward by Green. An education market puts parents under increasing pressure to choose schools for their children not on the basis of community, or 'civil association' (where they are "united not because they share a common goal, or are engaged together in a substantive task, but because they acknowledge the authority of the rules under which they live"), but on the basis of 'corporate association', where they are "united in pursuit of a common interest or objective" (p 5).

Thus, the market, the institutional solution preferred by Green, at least pending the renaissance of Victorian charitable organisations, actually has the effect of undermining the very values he associates with community. Most interestingly, Green does indicate some understanding of this possibility when he argues that "there is more to a free society than a free market in the narrow sense. Champions of liberty did not fight for the right to maximise the financial return on every investment" (p 182). Yet that is precisely where the opening up the delivery of education seems to be leading. Introducing the institutional logic of the market to the education sector does not encourage mutual self-help but the war of all against all.

EDUCATION: THE ROLE OF THE STATE

Green's third principle of public policy for education is "to end the dominance of central government (in education)". This does not mean removing the state completely from the education sector; he acknowledges that there will always be a number of problems that only the state can deal with, such as "maintaining the legal framework, subsidy of the poor and requiring negligent parents to educate their children" (p 176).

However, these are by no means small and residual problems. It is far from self-evident what should constitute the legal framework for schools. For instance, in discussing how to encourage new schools to enter into a voucher scheme, Green puts forward two suggestions. One is that "a rule might be enforced giving a school that is able to attract a minimum number of pupils (perhaps 20) a right to receive voucher finance" (p 177). Here again he exposes his ignorance of the New Zealand education system. Just such a scheme, enabling groups of at least 21 parents to receive state funding for a school of 'special character', was included in the Tomorrow's Schools legislation (1989) (and was indeed seriously considered by supporters of Kura Kaupapa Maori).

The other suggestion is to "lay down only minimal conditions, covering relatively few matters such as health and safety standards", while "teachers should not be required to undergo lengthy training ... . A bachelors degree or its equivalent for secondary schools might be sufficient, and for primary teaching a demonstrated sense of vocation should be adequate" (p 177). The (frighteningly) casual way in which Green makes such suggestions, totally lacking evidence, elaboration or discussion of their possible consequences, succeeds only in highlighting the importance of the state maintaining more than a residual legal framework for education.

In terms of "subsidy of the poor", the problem is far from negligible. Definitions of poverty vary, but even if we are sceptical about an authoritative, though hotly debated, recent estimate made by the New Zealand Poverty Measurement Project, that 32.6 percent of New Zealand children are below the poverty line (calculated as 60 percent of median equivalent household disposable income, which was a major issue in the debates), it provides some indication of the extent of the problem. (For material on the debate, see, for instance, the articles by Rosemary McLeod in *The Dominion*, 25 and 26 July 1997 and the reply by the authors of the study in *The Dominion*, 21 August.) It seems clear then, on Green's own grounds, that the state will have to retain a very substantial presence in education for the foreseeable future.

The alternatives that Green advances are based on the voucher. Again, he fails to convince. His discussion of vouchers is seriously lacking in either rigour or empirical evidence. Instead we are presented with a typical list of totally unsupported assertions, for instance, "[a voucher scheme] would only require a few teachers and activists of goodwill to transform radically the life chances of low-income families" (p 178). Green presents no evidence in support of this assertion, and does not indicate the processes by which such a transformation would take place; nor does he explain why, if the transformation is so easy to achieve, nothing like it has ever been attempted. Such shoddy argument is hardly likely to convince any reader who does not already share Green's ideological position.

CONCLUDING COMMENTS

In conclusion, I found the chapter on education in *From Welfare State to Civil Society* both unconvincing and disappointing. The work is unconvincing because far too often Green substitutes assertion and wishful thinking for argument and evidence. Also, he tends to ignore inconvenient evidence, such as the success of Maori education initiatives and the existence of a quasi-market in education. Finally, in terms of the substance of his case, I have suggested that his preferred solution, installing (or, rather, further extending) the institutional logic of the market in education, is more likely to undermine than to reinforce the values that his solution is supposed to promote.

My disappointment arises from the complete absence of what the book's title led me to expect: an examination of original ways of coordinating education that seek to apply the burgeoning literature on a 'third way'. Outstanding examples include the work of such impeccable political centrists as Fukuyama (1995), Etzioni (1996) and Dahrendorf (1996). Central to these works – even if the emphases differ – is the recognition that shared values are a necessary but not a sufficient condition of community growth, that the 'sharedness' of the values is more important by far than their content and that some basis of institution building is crucial. In particular, as Etzioni makes clear, one role of community is to act as a centripetal force offsetting the centrifugal forces of individualism. 'Civil society', or community, will not be a factor in educational regeneration unless and until it incorporates these ideas in education systems that recognise the need for public accountability (broadly defined) and responsibility to all their stakeholders. There is a desperate need for such thinking, but unfortunately Green's book does not even attempt to meet that need. Instead, it rehearses yet again arguments that polarise state and market, asserts the superiority of Victorian values and deplores the fecklessness of large parts of the population.

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Savings and Pensions: Freedom versus Compulsion in Civil Society

Michael James

In his chapter 'Pensions and Savings in a Free Society', David Green proposes to reduce government involvement in retirement income arrangements to a single instrument: providing a welfare payment for retired people who have inadequate means to provide for themselves. He opposes government intervention to compel people to save in private pension funds or to induce them to save by providing tax breaks. He advocates gradually reducing the benefits available from the existing pay-as-you-go tax-financed New Zealand Superannuation (NZS), and eventually merging that scheme with a means-tested welfare safety net available to citizens of any age who meet the specified criteria. The tax cuts made possible by reforming the age pension and other government services would enhance individuals' ability to save for their own retirement and to make donations to the voluntary associations that provide assistance to people in need, including those who have reached retirement age.

In some respects, over the last decade or so, New Zealand has moved in the direction that Green recommends. The tax reforms of 1986 increased the incentive to save by introducing a broad-based consumption tax and reducing income tax rates. The income tax cuts of 1996 and 1998 would have had a similar effect for those in the lower-income brackets to which they applied. As Green points out (p 186), the tax regime for private pensions was reformed between 1987 and 1990: taxability was restored to contributions to, and earnings of, pension funds, while the benefits they paid were freed from tax liabilities. In a referendum in September 1997, New Zealanders rejected a proposal to replace, over time, NZS with a Retirement Saving Scheme (RSS). Under the RSS, all persons with earnings in excess of $5,000 a year would have been required to save in private pension funds an amount sufficient to fund an annuity equivalent to 33 percent of the after-tax wage. The politics of the scheme proved extremely unpopular – only 8.2 percent of the voters (in a turnout of 80.3 percent of eligible voters) favoured it.

But although New Zealand has repudiated tax incentives and compulsory saving in private pension funds, it has yet to reform NZS.

Steps have been taken to contain its fiscal costs, including a gradual raising of the eligibility age to 65 by 2001. But the tax surcharge imposed on higher-income retirees in 1985 was abolished in April 1998. By eliminating the only existing mechanism for targeting lower-income retirees, this move has reinforced the already widely held view that NZS is an 'entitlement' rather than a safety net financed by the general public in recognition of its duty to ensure last-resort relief of poverty.

The principles of Green's civil society imply that each generation should be self-supporting and not burden those following it. But New Zealand's policy largely reflects what Green calls "integrationism", or the belief that "welfare should be universal as a badge of citizenship" (p 56). This means that individuals are assumed to have property rights to portions of the fruit of one another's labour. In the case of retirement pensions, it means that today's retirees have the right to be supported by taxes levied on today's workers. This 'right' is often defended by reference to the taxes that today's retirees paid yesterday in order to support yesterday's retirees, as if each generation inherited obligations and rights flowing from some contract of mutual support between the generations. But, as Norman Barry points out, "It is difficult to see how relations of obligation can be ascribed at all to what must be completely unknown generations" (1985, p 468). Indeed, the entitlement argument for NZS is undermined by the lack of any actuarial link between the burdens and claims involved. Where people are tending to live longer and the birth rate is falling, and especially where pensions have some linkage to wages, as they do in New Zealand, the claims of retirees will increase relative to the tax base available for financing them.

In such conditions, what Green calls the "weakness of citizenship theory" – namely, "the corruption of vote-buying and middle-class welfare" (p 57) – becomes increasingly apparent. For example, the legislation to abolish the NZS surcharge was passed without parliamentary dissent (Periodic Report Group, 1997b, p 48). David Thomson (1991) argues that the present generation of retirees has used the state pension to effect a major but unjustifiable redistribution of income in its own favour. Clearly, any reform of pensions in the direction that Green advocates will be politically difficult. But, with the cost of NZS benefits expected to rise from around 4.5 percent of gross domestic product (GDP) today to around 10 percent by 2040 (Periodic Report Group, 1997a, p 121), pressure to reform the system is likely to grow.

Nevertheless, even if New Zealanders were to decide to move away from their present pay-as-you-go system, they may not necessarily want to reform NZS along the lines that Green recommends. After all, compulsory private saving is designed to make each generation self-sufficient in its old age, and it is not inconceivable that a future government will try to restore it to the political agenda, especially if it appears to be working in countries that have adopted it (such as Chile and Australia).

In the remainder of this review, I evaluate compulsory private saving and Green's proposed reforms as alternative embodiments of the principle that individuals should provide for their retirement needs and avoid burdening working people. By and large, this means comparing the relative efficiency of the two schemes, although Green's conception of civil society may imply that other factors should be considered as well.

CAN COMPULSORY PRIVATE SAVING WORK?

Private pension funds are clearly superior as savings mechanisms to pay-as-you-go tax-financed schemes like NZS. Martin Feldstein (1997, p 29), an advocate of compulsion, claims that, in the United States, the state pension earns an implicit rate of return of only 1.5 percent, compared with more than 9 percent for funded schemes. But compulsion gives rise to various problems that may reduce this advantage, possibly substantially. These problems are: distortions of saving preferences; moral hazard; complexity; and offsetting behaviour.

Distortions of saving preferences

Green gives some examples of how compulsory private saving can reduce efficiency by distorting natural saving preferences: low-income earners may rationally prefer to save in ways other than contributing to pension funds, such as paying off mortgages; some people may prefer to carry on working past retirement age; Maori may be accustomed to meeting retirement needs in communal ways; and self-employed people may prefer to invest in businesses (p 190). Even if compulsion increased total saving for retirement, it could reduce welfare by distorting people's preferred distributions of lifetime income between consumption and saving. For example, it is not irrational to save little during one's working life on the grounds that one is less able to enjoy consumption in retirement. (Of course, later in life, such a decision could be regretted, but that does not affect its rationality, even if it poses problems of income support, and is quite a different matter from the 'myopia' about retirement income needs that is said by some to be widespread and to justify compulsion.)

Moral hazard

A central problem that faces any retirement income regime is *moral hazard*, or the chance that the regime generates perverse incentives that discourage people from saving. But, as Green notes, "Probably the most compelling argument for compulsion is that if the state maintains a safety net, then some individuals will rely on it rather than provide for themselves" (p 190) (he means here compulsory *private* saving rather than high taxation to fund generous state benefits). In other words, compulsory private saving is itself a possible solution to the moral hazard that could arise under Green's own preferred regime. Yet compulsory saving in private funds can itself give rise to moral hazards that affect not only individual savers but governments and pension funds too.

Compulsion may induce individuals to save less than they otherwise would by creating the belief that the compulsory level of savings is adequate for retirement and that no further saving is necessary. In Australia, the government has stressed that the proposed maximum level of compulsory superannuation contributions of 9 percent of earnings by 2002 will provide only a modest income for most present savers. Yet household saving continues to fall, and is now only 3 percent of income. This is in the context of a means-tested state pension indexed to only 25 percent of average weekly male earnings. Like taxpayers under pay-as-you-go schemes, people who make compulsory payments into pension funds may have only a weak sense of the actuarial link between contributions and benefits.

Obviously, the seriousness of this type of moral hazard would vary with the amount of saving required and the overall design of compulsory saving schemes. But all such schemes must specify either a total amount of savings or a rate of saving, and where compulsion exists, governments have chosen to back their systems by financing contributions to the saving accounts of people who for various reasons are unable to save enough themselves. This was true of the New Zealand's proposed RSS, under which individuals were required to save no more than a capital sum of $120,000, with the government making up any shortfall. Lewis Evans and Neil Quigley have identified the moral hazard that would have arisen from that system, had it been implemented:

> There are … incentives to choose investments that have a very high rate of return. This is because:
>
> - Individuals will want to reach the $120,000 target as quickly as possible so as to regain the freedom to allocate all of their savings to whatever assets they choose, and

- The government guarantee of income on retirement insulates individuals from the risks that are associated with high risk investments which may be chosen to minimise the time taken to reach the $120,000 limit.

> There are also disincentives for people on low incomes, who do not expect to attain the $120,000 limit, to identify fund managers who will invest their savings in a prudent manner. A lower rate of return increases the top-up they would receive from the Government. (1997, p 23)

Pension funds also face moral hazards under compulsion. Green notes that pension funds "would have a reduced incentive to perform well because they would not have to attract funds purely on the basis of their performance" (p 190). In Australia, the complying superannuation funds have performed relatively poorly, and so contributed to falling popular support for compulsory superannuation – though there are many possible causes for this (including complexity, an unavoidable concomitant of compulsion), and it should not be attributed solely to the cause that Green suggests. But, over time, guaranteed contributions are likely to reduce funds' performance.

Pension funds face a further, possibly greater, moral hazard stemming from the government guarantee (implicit or explicit) that compulsion generates. A government that requires people to save privately creates irresistible expectations that their savings will bear fruit, and it must stand ready to bail out any fund that faces bankruptcy. In Chile "the government explicitly guarantees the profitability of pension funds in addition to the implicit guarantees that arise through the regulation of … investments and their supervision" (Jacobsen, 1997, p vii). Such guarantees impair the incentives on pension funds to perform competitively. For example, Michael Littlewood attributes the savings and loans debacle in the United States to the deposit insurance that the government provided for small savers: "The insurance encouraged the managers of savings and loans institutions to take unacceptable risks because they knew small savers couldn't lose in the end" (1997, p 160).

Finally, governments face moral hazard in the form of the permanent temptation to try to reduce the cost of their guarantees to the pension funds by interfering with the latter's investment decisions, for example by encouraging investments that are relatively safe but may therefore deliver low returns. Even if governments refrain from using the pension funds as a source of cheap finance, they could be tempted to use them for political ends, citing their guarantee as sufficient justification. For example, a government elected in a climate of hostility to foreign investment could direct funds to make their investment decisions in 'the national interest' (say, by investing exclusively in the domestic economy), so reducing their returns. Compulsory saving schemes can be insulated by regulation from political interference of this kind, but such regulation is open to erosion over time.

Complexity

As noted above, compulsory private saving brings with it regulations that make the system complicated, and probably increasingly so, over time. Australia's compulsory superannuation system is notoriously complicated. For example, since contributions are largely invested in the superannuation funds nominated by central awards, employees often have to start investing in new funds when they change jobs. Many employees therefore have a large number of small investments whose returns are largely consumed by administrative fees. The present federal government is trying to deal with this (and other) problems, but it has also recently reinforced the pattern of complicated, frequently changing and therefore widely distrusted regulation by raising the concessional tax rate paid by higher-income earners on their superannuation contributions.

Compulsory systems do not have to be as complicated as Australia's. But all such systems are likely to contain the seeds of growing regulatory complexity stemming from the distortions they impose on natural saving preferences. For example, as saving accounts grow, so will pressure to enable savers to use their accounts for home purchase or educational investments. Such changes and the uncertainty they generate are likely to harm the performance of pension funds and reduce public confidence in the system.

Offsetting behaviour

Even if all these problems were solved, compulsory private saving may fail to ensure that people increase their savings levels because they may react by reducing their savings in other, non-compulsory vehicles. (Of course, the likely degree of offsetting behaviour depends on how much saving is required relative to individuals' preferred amounts.) Advocates of compulsion are fully aware of this problem, but argue that the offset is sufficiently less than 100 percent to make compulsion worthwhile. Yet even Vince FitzGerald, one of the architects of Australia's compulsory superannuation system, admits that the offset, which he believes is well under 100 percent at present, "is likely to rise significantly over the long term as people's superannuation balances rise" (1996, p 12). Compulsion may make poorer people save who might otherwise have saved nothing at all, but as their incomes rise they may well respond by saving less than otherwise. Moreover, as the finance industry becomes ever more sophisticated and the use of instruments like credit cards and home equity loans more widespread, people will find it easier to restore their preferred levels of net savings by borrowing back any compulsory excess, and regulations prohibiting lending institutions from treating compulsory savings accounts as collateral are likely to prove hard to enforce. Littlewood (1997, p 171n) cites evidence that as at March 1996, Australians were borrowing 90 percent of their after-tax income, up from 70 percent in 1986. Littlewood concludes:

> All these are legitimate ways of compensating for being forced to do something that doesn't fit in with your plans. The final, and less subtle, way is to evade the forced savings altogether by joining the black economy. If a country were already having problems with the size of the black economy, the compulsory regime can be expected to worsen things, not improve them. (1997, p 172)

These arguments may not amount to a conclusive case against compulsory private saving. If such schemes continue to be adopted in different countries, experience should show which types work best. But the foregoing discussion suggests that the performance of any compulsory scheme is likely to be disappointing. The less efficient compulsion is, the more reliant a society is on tax-financed government contributions to individual saving accounts and on the basic state pension. This undermines the goal of ensuring that individuals by and large provide for their own retirement income needs and avoid burdening their children and grandchildren.

REFORMING NEW ZEALAND SUPERANNUATION

Green's preferred retirement income regime would involve cutting taxes and leaving individuals free to decide how much of their lifetime after-tax incomes to save, and where to invest their savings. It would therefore suffer far less than compulsory schemes do from regulatory complexity, distortions to saving preferences and offsetting behaviour. It would also leave individuals, pension funds and governments free from the moral hazards that compulsion creates for them. However, it would itself create certain moral hazards.

As noted, Green admits that the existence of a safety net could discourage people from providing for their own retirement needs. But the size of that moral hazard would depend on how large the safety net is and how tightly it is targeted. Green's own proposals for raising the age of eligibility to 70 by stages from 2001, severing the link between the pension and wages, reducing benefits to the current level of the invalids benefit, and targeting the pension through an assets test as well as an income test would strongly encourage people to prepare for their own retirement needs.

Nevertheless, even Green's recommended level of benefits would generate some moral hazard and attract claimants who, for whatever reasons, had failed to accumulate any appreciable amount of savings. This effect is unavoidable. Even a complete abolition of state benefits would not eliminate moral hazard, since people who reach retirement age with no private income or assets at all are almost certain to receive assistance from charities. The case for converting NZS into a modest safety net is therefore based on the reasonable assumption that most people do want a comfortable retirement and will take steps to ensure one by their own efforts if that is the only possible way.

The more serious problem is that people will try to qualify for state benefits by rearranging their income and assets so that they pass the means tests. This itself is an argument for keeping the benefit modest so as to minimise the gains from passing the tests. As well, means tests can be designed to reduce the incentive to rearrange one's affairs in an anti-social way. For example, Littlewood (1997, pp 199–200) suggests a 'free zone' of income that is ignored for the purposes of the means test. This would save the administrative costs for what are likely to be very small savings and would also encourage even relatively poor retirees to acquire some private income. As well, or instead, private income could offset the benefit by less than 100 percent. This too would encourage people to have some private income and not to rearrange their affairs in inefficient ways. (Both these mechanisms have been adopted in Australia.)

Green argues that claimants should be subjected to an assets test as well as an income test and required to dispose of property other than their own home and car. Since 1985 Australia has imposed on retirees an assets test that, because it treats housing favourably, encourages people to spend more on their homes than they would otherwise, thus distorting the pattern of saving. This and other problems have persuaded Littlewood (1997, pp 204–206) that assets tests have more disadvantages than advantages, and he recommends instead an extended income test that applies to the underlying returns of a wide range of assets.

A third problem with a reformed NZS stems from the incentives that operate in the political system. Imagine that NZS has been reformed along the lines that Green advocates. At some stage in the twenty-first century, it will become absorbed into the welfare safety net, and taxes will be correspondingly reduced to help people of working age to prepare privately for their retirement. Then, whether before or after the reforms are fully implemented, a political party decides to steal an electoral advantage on its rivals by promising to scrap the reforms and return to a generous, pay-as-you-go tax-financed pension. A political party could calculate that, with the average age rising and longevity steadily increasing, it could gain a decisive advantage by appealing to present retirees and middle-aged working people at the expense of younger voters. This would be grossly irresponsible and risk triggering serious intergenerational conflict. But that need not prevent it from happening – the present state pension system was introduced by the Muldoon government in 1977 in fulfilment of an election promise to replace the previous Labour government's planned compulsory private saving system. Moral hazard, acting to reduce private saving, arises from the mere possibility that a political party could adopt such a strategy. It is the obverse of the (benign) incentive to save that is said to exist in the United States among young people who have become convinced that the American state pension (Social Security) will be bankrupt long before they reach retirement.

In response to this kind of political risk, the main New Zealand political parties agreed in 1993 to an Accord on retirement income policies, in order to depoliticise retirement saving policy and provide private savers with some stability and certainty. The Periodic Report Group (1997b, p 45) argues that the Accord needs to be rethought in the wake of the 1997 referendum on the RSS and in the light of the impact of the mixed-member proportional electoral system. It states that a new multi-party agreement would ideally maintain the abolition of tax incentives for retirement income saving, accept the outcome of the 1997 referendum and aim for a system of retirement income provision that provides financial security and meets the tests of adequacy, efficiency, equity and sustainability (1997b, p 29). The report sets out five options for "integrating public and private provision", the last of which is very close to Green's proposals for reforming NZS (1997b, pp 30–31).

Agreements like the Accord help to create the climate of confidence that people need when making long-term saving decisions. Yet if the government completely removes savings policy from debate, it may create uncertainty by indefinitely delaying necessary changes and cause the public to experience a growing sense of crisis (this may start to happen following the recent undebated and uncontested abolition of the surcharge). The Periodic Report Group is aware of the need the make the Accord more flexible. It suggests that parties agree on principles and broad policy parameters, and that a government that wishes to legislate any policy position within those parameters that cannot be negotiated through the agreement must observe a 'sunrise' clause delaying its implementation for a period of (say) three years. It also proposes that substantial reports reviewing retirement income policy be published every six years with an interim report provided half-way through that period (Periodic Report Group, 1997b, pp 50–53).

Littlewood (whose proposed reforms to NZS resemble Green's) suggests a different approach: delegating responsibility for monitoring the state pension to a statutory body known as the 'Retirement Trustees'. This idea, as Littlewood notes, is similar to the role assigned to the Reserve Bank of New Zealand Act 1989 for insulating an area of policy from short-term political pressures while ensuring the responsibility and accountability of the policy-makers. But whereas the policy idea behind the Reserve Bank of New Zealand Act 1989 is the clear and simple one of keeping inflation low, Littlewood envisages charging the Trustees with:

> … a mandate to ensure the scheme's objectives are met. It would also act as the focus for studies on possible changes and the short and long run cost implications of change … . Information gathering to ensure the scheme is meeting its objectives and to allow appropriate modification through informed, reasoned debate would be a vital role of the Trustees. (Littlewood, 1997, p 218)

Such a broad commission would not rule out the Trustees becoming advocates for the interests of current retirees and recommending the gradual restoration of generous pensions. The same kind of risk would apply if the Trustees were charged with overseeing income support policy generally and monitoring the safety net. Only if the mandate of such a body were appropriately narrow and 'the scheme's objectives' strictly specified could it be a reliable barrier to political opportunism. Constitutionally, of course, a government resolved on rapid and radical change could legislate to override or abolish any such body. But the costs of doing so in terms of a loss of confidence in the system would be high.

Ultimately, there can be no absolute institutional guarantee against a government dismantling a reformed state pension system. But the economic and political costs involved in returning to the system that prevails today would be considerable. The necessary substantial increase in taxation would affect older working people (the clearest alleged beneficiaries of such a move) as well as younger working people and even (to some extent) present retirees. It would also reduce New Zealand's international competitiveness, risking a fall in foreign investment and encouraging the emigration of skilled and entrepreneurial young people. The best security against such a reaction must be, in addition to the mechanisms of the kind discussed above, widespread public support for the reforms and an understanding of what would be at stake in reversing them: an understanding that could be expected to grow as the financial industry expanded and learned to improve its management of people's private savings.

CONCLUSIONS

Of the two systems discussed here – compulsory private saving and Green's proposed reforms – for restoring responsibility to individuals for their own retirement provision, it is impossible to determine conclusively that one is superior to the other in terms of efficiency. Existing compulsory schemes suffer from observable difficulties, but their performance could improve. No government has reformed its savings policy regime along the lines that Green (and others) recommend, so discussion of the long-term sustainability of such reform must remain speculative. Nevertheless, there are some grounds for preferring Green's proposals. Complexity and distortions may well be an unavoidable feature of compulsory schemes, and these features tend to worsen over time as governments respond to them with further counterproductive interventions. As well, compulsory schemes would, like taxes, impose some deadweight costs. In Green's favour, the political risks involved in converting NZS into a genuine safety net may be manageable through a combination of public support and quasi-constitutional institutions that could become entrenched over time.

Green's proposed scheme is more consistent with the spirit of his conception of civil society than compulsory private saving would be. It involves a genuine and substantial withdrawal of state intervention, not simply the privatisation of NZS by converting part of the tax burden into compulsory contributions to private funds. As such, the reform Green advances expands the range of potential voluntary relationships of mutual benefit between people. We should recall that, alongside the state pension and its means tests, Green envisages a vigorous voluntary sector, in which associations devoted to assisting the needy are free to apply whatever tests they choose, or none at all. Thus Green answers his critics among the advocates of 'citizenship theory' who argue that means tests humiliate and stigmatise recipients. In Green's civil society, taxpayers agree to finance a safety net on the understanding that its benefits are available only to those who truly need them, while people who prefer to help the needy on more liberal terms have higher post-tax incomes with which to set up or support voluntary associations that reflect those preferences.

A society made freer and more prosperous by lower taxation could go further – it could realise citizenship theory's ideal of mutual assistance between the generations, but in more ways than just tax-financed transfers from the young to the old. Bequests of private property from the old to the young would be likely to be of greater value than under compulsory saving schemes, and middle-aged working people would have the discretion to give or lend their savings to younger people when they chose to rather than having to wait until their retirement. In turn, this would encourage younger people voluntarily to take more responsibility for caring for the old. Spontaneous arrangements like this could only strengthen the bonds between the generations, whereas the present unreformed NZS can only weaken them.

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Getting from Here to There: The Transition from Corporate to Civil Association

John Savage

In an earlier review of *From Welfare State to Civil Society* (Savage, 1997a), I noted that the strength of David Green's contribution to the debate on welfare reform lay in taking it back to basic principles of political philosophy. I expressed two reservations about Green's approach. The first related to Green's lack of any account of how and why we made the shift from civil association to corporate association in the first place. Answering this question would tell us something about the dynamics of change and might offer some clues to implementing future reform. My second reservation related to Green's treatment of specific areas of social policy: his analysis is grounded in the ideal of civil association based on values such as liberty and freedom of choice. It would have been useful to extend the analysis beyond these high-level normative principles to some practical principles of policy-making.

In this review, I address these two concerns by approaching welfare reform as a standard public policy problem, and apply to it some standard tools of economic analysis. My aim is to test whether the current system and Green's policy alternatives survive against a checklist of practical policy objectives and criteria. I also explore the lessons that can be learned from past attempts at policy reform.

Any policy-maker needs to ask a standard set of questions when contemplating reform, whether in welfare or any other aspect of policy:

- Does the current approach deliver the specific outcomes that were intended?
- How does the current approach match up against standard efficiency and equity criteria?
- Given that all policy structures evolve over time, are there pressures for change, and, if so, are these sufficient to facilitate the transition to a new system?
- How do the policy alternatives measure up?
- Given the above analysis (and the lessons of the past), how can reform be implemented?

In the following sections I address each of these questions. I conclude that, in general, the current welfare state performs poorly in delivering specific outcomes and does not measure up well against efficiency and equity criteria. Moreover, while there are pressures for change, some inherent characteristics of the welfare state inhibit adaptation. In principle, Green's alternatives generally look better. The dynamics of change and the lessons of the past suggest an evolutionary approach to reform that emphasises multiple pressures, contestability and adaptation.

DOES THE WELFARE STATE DELIVER THE DESIRED OUTCOMES?

Attempting to answer this question – does the welfare state deliver the desired outcomes? – highlights a number of salient points. First, defining what outcomes are sought is often, in practice, difficult. Original objectives are lost sight of over time or become undermined by pressure from special interests. Second, outcomes may be in conflict with one another (within and between areas of policy) or poorly defined. Third, there may not be a consensus on what the objectives are. New Zealand's experience of reforming monetary policy in the 1980s is an apt illustration of these problems: monetary policy had multiple objectives which were ill-defined and incompatible, and, over time, different objectives were emphasised at the expense of the others.

These problems are also evident when one attempts to define the objectives of the welfare state. At best it is possible to sketch only some very broad goals. Nevertheless, even at this general level it is not difficult to conclude that the current welfare state fails to deliver on many of its objectives. For example, the social welfare benefit regime has a mix of objectives to do with providing a basic safety net for those who fall on hard times and, more generally, assisting low-income families. However, the system can hardly be regarded as a safety net when around one in four working age adults is in receipt of a benefit. Furthermore, disadvantage tends to be persistent rather than transitory. Similarly, the health system attempts to minimise public health risks and to provide a 'reasonable' standard of care for all who need it. But waiting lists and poor service are a continuing source of complaint. The public education system is presumably, in part, designed to ensure that students attain certain minimum standards of education, so that they have equal opportunities to earn an income and participate in society. Despite this, those who benefit most are predominantly middle class, and there is a widespread view that the education system does not deliver an appropriate range of skills. Finally, the objective of the current superannuation scheme is to provide a modest standard of living for all retirees. But tension exists over the level of the benefit, and many taxpayers remain sceptical about the scheme's sustainability.

One practical indication of whether a system is delivering on its objectives is the extent to which it minimises pressures on other related institutions. For example, a poorly performing welfare state will generate pressure on the criminal justice system. Trends in crime and imprisonment statistics (Triggs, 1995; 1997) tend to support the view that, in general terms, the welfare state is failing.

DOES THE WELFARE STATE PROMOTE EFFICIENCY?

The most general objectives that all institutional arrangements need to deliver are efficiency and equity. From a policy-maker's perspective, efficiency has at least three interrelated dimensions (see Savage, 1997b; Barker, 1996). First, a particular arrangement might be viewed as enhancing efficiency if it creates incentives for behaviour consistent with maximising the long-term economic welfare of society as a whole (for example, by promoting sustainable economic growth and minimising rent-seeking behaviour). In the case of social policy, getting incentives right is about dealing with several fundamental policy design problems:

- If there is free access to services, demand will always outstrip supply. (This is an aspect of the 'free-rider' problem.) This means that either expenditure by the state on those services will rise continuously or some form of rationing must take place. In the latter case, by definition, the services will always be perceived by consumers to be 'underfunded'. A classic example of this problem exists in the health sector where waiting lists and claims of underfunding are persistent features of the debate on reform.
- If the price of services is not differentiated on the basis of those characteristics that determine costs, then the highest demand will come from those who are most costly to service. Services tend to become designed around the needs of those groups and costs increase (the 'adverse selection' problem). These sorts of problems exist, for example, in the education system where the needs of students with lesser abilities may dominate those who are more able.

- If there is no link between the price of services and the actions that determine the cost of providing them, the system encourages behaviour that increases the demand for services and the cost of provision (the 'moral hazard' problem). Examples of this are evident in the health and accident compensation systems where the state carries the costs of individuals taking health risks (like smoking and drink-driving). Consequently a significant proportion of health resources are devoted to the treatment of preventable illness and injury.
- Individuals are often able to acquire bargaining power or leverage once they become part of a particular institutional arrangement (for instance, through the acquisition of institution-specific skills and knowledge). This potentially obstructs reform (the 'hold-up' problem) and, more generally, leads to provider capture. These difficulties are evident both in health and education where sector professionals are frequently the most resistant to change.

Second, to be efficient, institutional arrangements should minimise the costs of achieving the particular outcomes that are sought. They should economise on administration and compliance costs as well as minimise the costs of doing business generally (for example, by reducing uncertainty about future policy).

Finally, institutional design should encourage the system to adapt rapidly to changed circumstances. This dynamic aspect is often missing from definitions of efficiency. However, in a world of uncertainty and change is it essential that institutional arrangements are not only flexible enough to accommodate changed circumstances, but actually promote adaptation (see Williamson, 1985).

How then does the welfare state measure up when assessed against these efficiency criteria? Although there are some constraints on access to it, the current welfare system tends to engender incentive problems: there are weak links between the people who pay for the costs of the system and those who benefit from it, and between actions and consequences. Given its universal coverage and funding through general taxes, the welfare state probably does generate some economies of scale and scope. But whether, overall, it minimises costs is unclear, since it can encourage forms of behaviour that raise the costs of doing business. Provision of services on such a large scale also limits the choice of those who use the system, and it tends to be inflexible.

DOES THE WELFARE STATE PROMOTE EQUITY?

Equity is a highly subjective concept and is particularly difficult to apply in a practical way. But this task cannot be avoided, for two reasons. First, equity is a highly pervasive objective of policy (it informs the rationales for most forms of labour market regulation, for example). Second, although economists tend to focus on the trade-off between efficiency and equity, to some extent they are complementary criteria. For instance, institutional arrangements that are widely perceived as 'unfair' are unlikely to deliver sustainable efficiency gains (for example, industrial relations systems that do not address concerns about bargaining power may give rise to costly disputes). Conversely, inefficient arrangements are likely to lead to inequitable outcomes (for example, poor fiscal management will invariably lead to an accumulation of debt that runs counter to intergenerational equity objectives).

Notwithstanding the difficulty of defining the term 'equity', the equity effects of alternative institutional arrangements can be assessed by using some practical policy benchmarks, as listed below:

- Are individuals treated 'equally' in terms of access, opportunities and the processes generated by institutional arrangements? (This is sometimes referred to as equity of access and process.)
- Are outcomes 'equal' across individuals? (Equity of outcomes is one of the most pervasive objectives of the welfare state.)
- Do 'insiders' have a disproportionate influence on the operation of a system in terms of either 'provider capture' or 'consumer capture' (insider–outsider effects)?
- Do current (voting) generations have incentives (and opportunities) to pursue outcomes that enhance their own opportunities at the expense of younger and future generations (intergenerational equity)?

Tested against these equity criteria, the welfare state's performance is mixed. Universal benefits promote equity of access and process, but only in homogeneous populations. As communities become increasingly heterogeneous, demands to treat 'different' groups differently grow, and equity of access and process becomes harder to attain.

In general, given its focus on egalitarianism, the welfare system tends to promote equity of outcomes, at least in principle. However, the pursuit of this objective tends to be at the expense of intergenerational equity, and insider capture is common (especially in health and education).

PRESSURES FOR CHANGE

The discussion so far suggests that there is a *prima facie* case for arguing that the welfare system is performing poorly both in delivering specific outcomes and when measured against general efficiency and equity criteria. If this were the case, we would expect the current system to be experiencing pressures for change, just as it did in the past.

Four factors tend to drive institutional change:

- Individual and social preferences: Over time, individual and social preferences for outcomes vary. Moreover, preferences for the *characteristics* of the institutions that deliver these outcomes will vary.
- Income: As with other goods and services, the level and distribution of income will be a factor determining the demand for outcomes and institutional characteristics.
- Competition: Over time, the costs and benefits of existing institutions will vary in comparison with alternative arrangements.
- Bargaining power: The political influence of different interest groups will vary over time as political systems change and their economic power alters.

An examination of these four factors can offer some clues about why the shift from civil association to the welfare state took place, why there is current pressure for change and how a move towards new systems might be accomplished.

Historically, it is possible to envisage shifts in several of these factors creating pressure for the transition from civil association to the welfare state. These probably included improved economies of scope and scale associated with nationwide provision of social services, the rise in bargaining power of some groups (such as trade union members), shifts in the level and distribution of income, and, perhaps associated with this, a shift in preferences towards institutional characteristics such as universality and egalitarianism (Ashford, 1996). The Great Depression of the 1930s may be viewed as a form of 'demand' shock that reinforced (or perhaps initiated) some of these trends.

What then are the pressures on the current system? Commentators have focused mainly on the fiscal costs of the system. But there are other, less obvious pressures. The first of these is the gradual shift in preferences for greater choice in service provision, including more specific, tailored services. The current system, with its 'one-size-fits-all' approach, cannot meet these demands (as highlighted by the health sector). As well, certain aspects of equity have come to be viewed as more important than others: in particular, a greater awareness of the intergenerational effects of social policy is emerging (Thomson, 1991). Second, some commentators have argued that the welfare state is the one industry that has been immune to the pressures of global competition (Melloan, 1996). However, as Davidson and Rees-Mogg (1997) have recently pointed out, technological developments and more open national borders are reducing the importance of geographic boundaries and offering more opportunities for individuals to opt out of 'the state'. This is indirectly bringing competitive pressure on to the welfare state. In addition, the speed of technological change suggests that the adaptability of systems is being given higher priority than in the past.

Nevertheless, I believe that the pressures outlined above will be insufficient to generate any fundamental changes to the current system, for two reasons. First, it is only very rarely that any of the factors listed above is sufficiently strong or sudden to constitute a 'shock'. In particular, preference shifts are usually, by nature, gradual. A fiscal 'crisis' is probably the best candidate, but moves towards greater fiscal responsibility in recent years have greatly minimised the risk of sudden pressures emerging. Second, some characteristics of the welfare state make it inherently difficult to change. The most important of these is the creation of 'rights' to welfare support that are politically very difficult to alter. This creates a ratchet effect whereby entitlements can easily increase but are difficult to reduce. In addition, it has become very difficult to disentangle the mix of entitlements that the welfare state provides: any change to one aspect of policy is viewed as a threat to the whole structure.

In summary then, it is possible to see the development of the welfare state in New Zealand as a predictable institutional adaptation to changed circumstances. Although there are pressures for change, and there may be better alternatives, certain features of the system tend to promote its persistence.

ASSESSING GREEN'S ALTERNATIVES

In principle, there are reasons to believe that Green's proposals would, in general, be more consistent with both efficiency and equity criteria. In particular, institutional arrangements built around an element of private insurance and targeted assistance are likely to create better incentive structures. Allowing private providers to compete with public providers and permitting consumers to opt out of the state system promote diversity and adaptability on the part of the institution. Encouraging competition in the provision of services and providing consumers with the choice of opting out also reduce opportunities for producer capture.

Given the largely untried nature of Green's proposals, it is unknown whether they would necessarily reduce transaction costs. Certainly one of the risks of a system based on greater variety and targeted assistance is that it has higher compliance and administration costs than a 'one-size-fits-all' universal system.

Green's approach embodies the principle of equality of opportunity, but does not attempt to deliver on equality of outcomes. However, equality of outcomes is only one measure of equity, and attempts to achieve it may well undermine other aspects of 'fairness'. If the public is giving increasing weight to the claims of intergenerational equity and of 'outsiders' generally, then Green's proposals measure up reasonably well against equity criteria.

IMPLEMENTING REFORM: LESSONS FROM THE PAST

What can be said about the dynamics of welfare reform and, in particular, the transition from one set of institutional arrangements to another?

A starting point for thinking about approaches to welfare reform is to examine the lessons from other areas of policy reform, such as monetary and fiscal policy and labour and product market regulation (see Bollard, 1993; Evans *et al*, 1996; Savage, 1996). Like welfare, all these areas of policy were either not delivering on their original objectives or had conflicting objectives, they were having adverse effects on both efficiency and equity, and there were pressures to change them. Experience in these areas suggests the following guidelines for successful reform.

Change political incentives

First, change the incentives facing politicians. One of the main lessons of macro-policy reform is the importance of shifting political incentives towards a focus on outcomes consistent with *long-term* efficiency and equity objectives. To achieve this, the policy approach must display the three characteristics of transparency, accountability and irreversibility. Transparency requires that the long-term costs and benefits of the system (their size and the identities of the 'winners and losers') should be explicit and reported regularly. In the case of social support, this might be achieved, for example, by the use of intergenerational accounts (Auerbach *et al*, 1994). More generally, some move towards the social policy equivalent of a 'regulatory budget' would help. Although the costs and benefits of social policy are often difficult to identify, a requirement to set them out, at least formally, at a qualitative level would enhance transparency and promote debate.

Accountability is closely related to transparency and is about linking government action to outcomes. This is difficult in social policy since the links between expenditure and outcomes are complex. However, at an aggregate level there is some scope for regularly publishing basic outcome and expenditure data. Greater transparency and accountability are likely to reinforce shifts in preferences and create a constituency of support for reform.

Macro-policy reform, labour market deregulation and tariff reform all illustrate the 'commitment' value of initiating changes that are difficult to reverse. This creates incentives on both politicians and voters to move forward on the basis of the new regime rather than to put resources into returning to the old one. In social policy, one way of making change difficult to reverse is to eliminate the state's monopoly on the provision of services (as many of Green's proposals would do). Significantly, irreversibility does not necessarily imply inflexibility: it should be easy to move forward and respond to new circumstances but difficult to go backwards.

Change private incentives

The second lesson of successful reform is to change private incentives. This is best done by providing benefits to those who voluntarily shift to an alternative system. This creates momentum for further change. In the labour market, the wage gains to those moving from collective to individual contracts are an example of this. In social policy, an example is tax cuts for those moving to private superannuation. These incentive effects can be enhanced by imposing higher non-financial costs on those who remain in the old system (for example, shifting the burden of proof for benefit eligibility and imposing greater responsibilities on welfare recipients – again, as Green proposes).

Change preferences

One of the beneficial side-effects of making the costs and benefits of different policy approaches transparent is that it can help shift preferences for services and the characteristics of the institutions that deliver them (for example, a shift in preference from equality of outcomes to equality of opportunity). This creates a constituency of support for change. Again, labour market reform offers some insights: in general, both employers and employees have come to prefer greater choice and flexibility. Likewise, the extent to which farmers and manufacturers appear to have changed their preferences towards less protection is remarkable.

Create supporting pressures

Reform is most likely to succeed when there are multiple supporting pressures for change. The experience of product and labour market reform suggests that change in one area of policy is much more likely to be effective and sustainable if it is supported by reform elsewhere. For example, fiscal policy reform was reinforced by open capital markets that placed strong disciplines on debt management. In addition, Maloney and Savage's (1996) study of labour market deregulation concluded that reduced border protection was essential in creating pressures to change wage-setting and other industrial relations practices that then promoted and supported radical labour market reform.

Likewise, social policy reform is unlikely to succeed if it is piecemeal. For example, tightening eligibility for benefits may simply produce adverse pressures elsewhere (for example, in criminal offending) if it is not supported by an education system that promotes self-reliance and innovation. A broad-based programme of reform is most likely to be effective.

Promote adaptability

New institutional arrangements need to be sufficiently flexible for the reforms to adapt over time, for two reasons. First, it is rarely the case that a new policy will be ideal. Structures need to accommodate a process of learning by policy-makers and private sector agents. Monetary policy is a good example of this: the Reserve Bank of New Zealand Act 1989 provides scope for the inflation target and the operational implementation of policy to change over time. Second, as discussed above, circumstances inevitably change and institutions and policies need to be able to adapt. The Fiscal Responsibility Act 1994 recognises this by providing a fiscal policy framework that commits the government to a set of 'principles of sound fiscal management' rather than rigid fiscal targets.

In social policy, encouraging diversity, provider competition and opportunities to opt out are the best guarantee of adaptability.

Change the focus of policy from vulnerability to responsiveness

The focus of policy should shift away from reducing New Zealand's vulnerability to economic crisis and towards increasing responsiveness to changing social and global circumstances. Historically, much of the focus of economic policy in New Zealand has been to insulate the economy from adverse shocks (border protection and price controls are prime examples). Similarly, in social policy the focus was on providing a safety net and redistributing income by means of benefits and on providing basic health and education services.

New Zealand's economy is highly exposed to economic shocks, but there is little that policy can do to reduce the country's vulnerability. However, accepting that shocks are inevitable, policy can promote responsiveness. Examples of this are an education system that places a high value on skill adaptability and innovation and a benefit system that rewards those that accept responsibility for improving their situation.

A gradualist approach is feasible

Some commentators have argued that the best approach to reform is a 'revolutionary' one, involving radical reform and rapid implementation (Douglas, 1993). New Zealand examples include recent macro-policy and labour market reform. This approach has the benefits of minimising the influence of interest group capture and sending a strong signal to private sector agents that the 'rules of the game' have changed.

Some welfare commentators favour this approach (Tanner, 1996). However, it may not be suited to welfare reform. The New Zealand experience suggests that this approach may be most effective in areas of reform that involve changing broad policy frameworks (like the Reserve Bank of New Zealand Act 1989 or the Fiscal Responsibility Act 1994). It is less likely to be successful in policy areas that require detailed rule changes and large shifts in the public's preferences and attitudes (like health sector reform), where the costs of adjusting to the new policy may be high (like reductions in border protection), where the alternatives are relatively untried, and where policy has multiple objectives.

Social policy reform has potentially all of these characteristics. Instead, an evolutionary approach to reform is likely to be more effective. This approach emphasises contestability, decentralisation and experimentation. In particular, it suggests that retaining elements of the old system alongside a diverse range of alternatives may be more effective than attempting to create a 'new' system. Importantly, an evolutionary or experimental approach needs to be supported by monitoring and evaluation procedures that allow alternatives to be tested against each other over time.

Promote growth

Finally, equity and efficiency can be supporting objectives: the costs of transition from one institutional arrangement to another can be minimised by maintaining a focus on promoting economic growth (for example, by maintaining low taxes and high levels of immigration). One of the best ways of mitigating the costs of change and resistance to change is to initiate reform in a climate of rising real incomes and increasing job and investment opportunities.

CONCLUDING COMMENTS

David Green's critique of the welfare state is essentially normative, focusing as it does on political and moral issues. While agreeing with many of Green's conclusions, my concern is that his approach is not grounded in a practical analytical framework. Therefore, it may miss some of the important dynamic forces that shape the choice of institutional arrangements for delivering social policy 'outputs'.

Using a more standard policy-making framework, I have argued that, in principle, civil association generally has better institutional design characteristics than the corporate welfare state. In particular, civil association deals directly with the standard efficiency problems of moral hazard, adverse selection and interest group capture. Green's proposals are more consistent with institutional diversity and adaptability than is the welfare state. However, they may score less well against equity criteria. One of the reasons for the persistence of the welfare state as an institutional form is that it may be better at delivering on some dimensions of equity (universality, equality of outcomes) than civil association (which emphasises equality of opportunity and minimising insider–outsider effects). But as preferences change, a broader definition of equity is likely to emerge that sanctions some shift away from the current model.

A successful approach to welfare reform recognises what drives changes in institutional arrangements and incorporates the lessons of past attempts at policy reform. In particular, I have argued that welfare reform should take an evolutionary approach that changes both political and private incentives as well as preferences, creates broad-based supporting pressures for change, provides flexibility for the system to adapt over time, and focuses on increasing responsiveness to change rather than simply reducing vulnerability to adverse shocks. In tandem with policies that promote growth, this approach has the potential to deliver welfare outcomes that are both more efficient and more equitable than outcomes generated by the current welfare system.

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A Rejoinder to My Commentators

David G Green

First of all, may I record my thanks to the commentators for their endeavours. I will devote most of my attention to the essays that disagree with the arguments of *From Welfare State to Civil Society*, but I will begin with a brief response to the more supportive commentators.

Wira Gardiner's essay is a thoughtful contribution which provides an example of how the Maori people can flourish when welfare dependency is replaced by the Maori sense of the individual as an integral part of a community. In particular, it shows what can be accomplished if governments refrain from infiltrating civil society.

Jim Datson shows how sub-contracting to government has damaged the fabric of the voluntary sector. He provides a balanced and well-informed discussion of the issues and substantially improves upon the arguments advanced in *From Welfare State to Civil Society*. **John Savage** brings the analytical tools of the economist to bear on my proposals for reform and substantially strengthens and deepens the analysis.

In similar vein, **David Stewart** provides a very useful discussion of some practicalities and potential pitfalls of reform of health care. And **Michael James** has provided a masterly summary of the issues raised by the choice between compulsory private provision of retirement income and the voluntary arrangements advocated in *From Welfare State to Civil Society*.

Brian Davis shows courage in challenging Christians to question their attachment to the state as the main agent of change and highlights the spiritual and moral costs of misguided welfare policies. He may have a point when he says that the secular moral ethos I defended was rooted in Christianity and that it may not be possible "to have an effective Christian ethic without Christian belief".

There is much to be learnt from the commentators mentioned so far, and I can only regret that I did not have their thoughts to hand before the book was finished!

Claudia Scott and **Jacqueline Cumming** disagree fundamentally with my main thesis and prefer to define the objectives of a health care system in inherently collectivist terms. They are particularly attached to 'equity', but also use the term 'efficiency' as if it were the 'system objective' of a single corporate decision-maker pursuing a goal, rather than the outcome of many people competing to raise standards. They emphasise the 'public' character of health care but fail to see that it constitutes 'overkill' to deal with legitimate public health issues by imposing a public sector monopoly.

Their discussion of equity confuses two objectives. The first is that 'everyone, rich and poor alike, should have access to care'. That is, no one should fall below a certain standard. The second is that 'no one should ever get more than anyone else'. This principle confuses envy with a legitimate concern for the less fortunate and mixes up enforced equalisation with solidarity.

There are three main points to make. The first has to do with practicalities. A government can deliver universal access by providing a guarantee, but it cannot eradicate all differences in provision, either between individuals or between localities. Health care has always varied from area to area. Second, differences in standards, quality and practice style are useful. Competition creates the ability to make comparisons. Moreover, the advantages that result are not private and exclusive, as Scott and Cumming imply. There are significant common benefits. Competition produces rebound effects which ricochet through the system, encouraging the least successful doctors or hospitals to raise their standards. Third, differences in health provision reflect legitimate, personal preferences for a variety of styles of coverage and treatment. The egalitarian tends to assume that all differences are the improper fruit of riches. Therefore, they can be suppressed. But people with the same income might well have different preferences. Are these also to be suppressed?

In order to ensure that 'no one should ever get more than anyone else', New Zealand's governments have for several decades enforced a public sector monopoly in health services, eradicated competition and rationed care by withholding or delaying life-saving and pain-relieving treatments. Change is long overdue.

Roger Dale's standpoint is also egalitarian. First, let me dispose of a minor criticism. He assumes that there is significance in the absence of any mention of Maori schools in *From Welfare State to Civil Society*, and implies that I must be opposed to them. However, such alternative systems are exactly what I had in mind. My visit to one such Maori school was one of the high points of the period when I was researching for the book. My hosts showed me the achievements of the school with great pride, and after speaking to the organisers I was left with nothing but admiration. The schools are examples of what can be accomplished when people with relatively few advantages take command of their own circumstances.

Professor Dale's objection to wider parental responsibility is rooted in his hard-line egalitarianism. For instance, he treats all parents who seek the best for their own children as if they were improperly securing private and exclusive gains, necessarily at the expense of others. He appears not to see that it is in the common good to develop talent. A flourishing society will take pride in the achievement of any member who develops or uses his or her gifts. Professor Dale, however, seems to feel not pride but envy at the sight of fellow New Zealanders developing their abilities, especially if their success has been the result of conscientious and diligent parents.

David Preston's essay is a defensive list of why nothing works except, of course, what public officials are already doing.

Two commentators advanced criticisms from a 'liberal' standpoint. I will concentrate on Norman Barry because his argument is, by far, the more sophisticated. **Charles Richardson**'s essay is shallow by comparison and occasionally abusive. For instance, he asserts that "Green evidently fancies himself as a philosopher" and soon afterwards makes a unilateral declaration that he, Charles Richardson, is a philosopher. His evident irritation at the invasion of his private territory by an outsider suggests an elitism not compatible with his professed libertarianism. If we all had to wait until we had formal educational qualifications in a subject before speaking out, the result would be rule by experts. Usually in a free and democratic society we permit everyone to speak their mind without any presumption that, by venturing an opinion, they 'fancy themselves'. They simply exercise freedom of speech.

Richardson's philosophical insight leads him to various other errors, but I will save my ammunition for Norman Barry's more competent critique and deal only with Richardson's criticism of my proposals for the reform of public policies affecting the family.

The role of the state on matters of personal morality and lifestyle is fraught with difficulty, and the recent growth of lone parenthood provides an example. In a free society individuals should be free to choose their lifestyle and to defy convention. Among the advantages of experimentation with lifestyles is the discovery of those which are viable, economically or otherwise. If a lifestyle proves not to be self-sustaining, that lesson is worth learning. Compulsory public subsidies, however, conceal the discovery of non-viable lifestyles and diminish our capacity to learn from experience.

The growth of lone parenthood has been possible only because of compulsory subsidies from taxpayers. Without these subsidies there would have been far fewer experimenters. Indeed, lifestyle experimentation is generally self-contradictory unless the practitioners are self-sufficient because, if everyone in the society demanded the right to live a lifestyle that required a compulsory subsidy from others, then there would be no economically viable families to pay the subsidies.

The issue is not whether the government should promote any particular lifestyle. In a free society the government should show toleration for lifestyle experimentation which individuals undertake at their own risk and expense, but it can legitimately refuse to use its powers to sustain lifestyles which are made possible only by compulsory transfers of income. Those who wish to defy established patterns of conduct cannot, with any logical consistency, demand that their defiance be compulsorily paid for by the people whose values they reject. In such cases, the people who are required to pay are not being treated as equally entitled to live their preferred lifestyle; rather, they are expected to pay for their own way of life as well as that of people who disagree with them and who may well hold them in contempt. Despite his philosophical training, these distinctions appear to have escaped Dr Richardson's attention.

Finally, I turn to **Norman Barry**. Perhaps initially I should correct three misunderstandings. First, Barry's essay incorrectly claims that I regard the market as "amoral". However, in *From Welfare State to Civil Society* I argue that it is consistent with a "workaday" morality:

> … within a framework of law, a market economy tends to encourage openness and to encourage certain workaday values, such as 'honesty is the best policy'. Compared with a political system in which unfettered power is exercised, or contrasted with monopoly, competition increases the chances of unethical practices being discovered and punished, and to that extent encourages good conduct. Its educational value should not, therefore, be diminished. (p 14)

Second, Barry argues that I prefer "a kind of moral education through which citizens will acquire a certain public spirit and a sense of duty without the aid of an incentive structure derived from orthodox economics". I argue no such thing. To take crime as an example, it is always desirable if 'crime does not pay', but it is better still if people do not steal even if crime does pay (pp 25–26). We cannot understand human behaviour by treating people as if they were nothing but the rational utility maximisers celebrated by some (but not all) economic theorists.

The latter approach yields many useful insights, but it is not the whole story.

Third, Barry says that I wish to sideline orthodox economic liberalism in policy and that I show "a disaffection for the familiar market methods, particularly insurance and profit, in the supply of welfare goods and services". This claim is simply wrong, as any plain reading of *From Welfare State to Civil Society* would reveal. I expect insurance to play a major role. I do argue against assuming that the *only* private alternatives to the welfare state are commercial services. There are also mutual, provident and charitable organisations, but I am not against, or reluctant about, the supply of goods and services by persons who are guided by the ordinary business motive of making a living from meeting the needs of others. It is, after all, what the vast majority of us must do.

Norman Barry's most significant assertion is that the market is morally self-sufficient. Moreover, he claims that his argument is supported by David Hume. I will argue that Hume did not defend morality as the unaided outcome of calculations of mutual advantage. Nor did he consider moral education unnecessary or superfluous, as Barry implies.

According to Norman Barry, Hume saw morals as "conventions that develop over time through a series of interactions that advance the well-being of the agent". As people "play the market game", Barry says, "they learn the benefits of keeping promises, honouring property rights and following all the other basic ethical rules that make civilised life possible". So far, we are in agreement, but Barry implies that Hume has nothing else to say on the subject.

This is how Hume argues his point in *A Treatise of Human Nature*, the book quoted by Barry. Hume deploys a style of reasoning based on a postulated state of nature, which he fully realises is a device not to be taken literally. In isolation, he says, people are weak. We depend on each other and it is "by society alone" that we supply our defects (Hume, 1911, p 191).

The "first and original principle of human society", says Hume, is "no other than that natural appetite betwixt the sexes, which unites them together, and preserves their union, till a new tie takes place in their concern for the common offspring" (p 192). But, though "lust" and the "natural affection" of parents for their children encourage society, other aspects of our "natural temper" and "outward circumstances" discourage cooperation. The "most considerable" of our natural inclinations is selfishness, of which he says:

> …generally speaking, the representations of this quality have been carried much too far; and that the descriptions which certain philosophers delight so much to form of mankind in this particular, are as wide of nature as any accounts of monsters which we meet with in fables and romances. So far from thinking that men have no affection for anything beyond themselves, I am of [the] opinion that, though it be rare to meet with one who loves any single person better than himself, yet it is as rare to meet with one in whom all the kind affections, taken together, do not overbalance all the selfish. (pp 192–193)

In addition, our inclination to love those closest to us, which initially brings us together in the family, can work against wider social cooperation because of the scarcity of "such possessions as we have acquired by our industry and good fortune". The improvement of these goods is, on the one hand "the chief advantage of society" but their vulnerability to the violence of others is also, "along with their scarcity" the chief impediment (p 193).

People discovered by experience, says Hume, "that their selfishness and confined generosity, acting at their liberty, totally incapacitate them for society". Consequently, they came to see that they had a mutual interest in stability of possession. It was fundamental that the rules thus accepted should apply equally to all: "I observe, that it will be for my interest to leave another in the possession of his goods, provided he will act in the same manner with regard to me" (p 193). Hume puts a similar argument about contracts, arguing that we keep promises initially because it is to our mutual advantage (p 193).

So far – and in keeping with Barry's argument – Hume has rested his case on the perception of our mutual interest in impartial law. However, he then considers the difficulties that arise in large societies, such as tribes or nations. Because our interest in the observance of rules is more remote than in a face-to-face society, it could undermine our willingness to live under the same rules as strangers. Hume's reply is to argue that we have a natural capacity to put ourselves in other people's shoes and to feel *as if* our own interests are touched:

> …when the injustice is so distant from us as no way to affect our interest, it still displeases us; because we consider it as prejudicial to human society and pernicious to every one that approaches the person guilty of it. We partake of their uneasiness by *sympathy*; and as everything which gives uneasiness in human actions, upon the general survey, is called Vice, and whatever produces satisfaction, in the same manner, is denominated Virtue, this is the reason why the sense of moral good and evil follows upon justice and injustice. (pp 203–204; see also p 275)

When Hume is summing up his argument, he does not rest his case on human 'interests' alone. He says that there are *two* foundations for the distinction between justice and injustice. The first is: "*interest*, when men observe that it is impossible to live in society without restraining themselves by certain rules". The second is:

> … *morality,* when this interest is once observed, and men receive a pleasure from the view of such actions as tend to the peace of society, and an uneasiness from such as are contrary to it. It is the voluntary convention and artifice of men which makes the first interest take place; and therefore those laws of justice are so far to be considered as *artificial*. After that interest is once established and acknowledged, the sense of morality in the observance of these rules follows *naturally*, and of itself. (pp 234–235)

Hume is clearly making the 'rule utilitarian' case that we have a common advantage in observing law, but he also believes that this mutual interest is working with the grain of human nature.

How does this explanation square with Norman Barry's claim that Hume believed there was "no special moral sense"? Hume certainly disagreed with writers who argued that our moral judgments rest *entirely* on an innate moral sense, but he did not argue that we were devoid of any natural moral sentiments:

> … nothing can be more evident than that the matter has been carried too far by certain writers on morals, who seem to have employed their utmost efforts to extirpate all sense of virtue from among mankind. Any artifice of politicians may assist nature in the producing of those sentiments, which she suggests to us, and may even, on some occasions, produce alone an approbation or esteem for any particular action; but it is impossible it should be the sole cause of the distinction we make betwixt vice and virtue … . The utmost politicians can perform, is to extend the natural sentiments beyond their original bounds; but still nature must furnish the materials, and give us some notion of moral distinctions. (p 204)

Here Hume is disagreeing with contemporaries who believed that morality was based purely on reason and teaching. He is again warning against over-simplicity. The next passage, however, shows that he does not dismiss the importance of public debate and education:

> As public praise and blame increase our esteem for justice, so private education and instruction contribute to the same effect. For as parents easily observe, that a man is the more useful, both to himself and others, the greater degree of probity and honour he is endowed with, and that those principles have greater force when custom and education assist interest and reflection:

> for these reasons they are induced to inculcate on their children, from their earliest infancy, the principles of probity, and teach them to regard the observance of those rules by which society is maintained, as worthy and honourable, and their violation as base and infamous. By this means the sentiments of honour may take root in their tender minds, and acquire such firmness and solidity, that they may fall little short of those principles which are the most essential to our natures, and the most deeply radicated in our internal constitution. (pp 204–205)

In the light of these remarks, Barry's conclusion that classical-liberal economists were moral 'subjectivists' is misleading. Hume opposed morality "as the crow flies" in Oakeshott's phrase, but believed that at any given moment human progress and happiness depended upon members of the society upholding the values that make cooperation possible. Hume did not defend subjectivism, if by that name Barry means to imply moral relativism – the idea that there is no way of judging between ethical opinions.

Above all, Hume does not rest his case on 'interests' alone. He continually emphasises the destructive potential of selfishness and neither said nor implied that a market economy (as opposed to a command economy) was morally self-sufficient. I interpret Hume to be making the same point that Matt Ridley succinctly argues in *The Origins of Virtue*:

> Human beings have some instincts that foster the greater good and others that foster self-interested and anti-social behaviour. We must design a society that encourages the former and discourages the latter. (1996, p 260)

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